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To the Board of Trustees
Whitworth University
Spokane, Washington

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the consolidated financial statements of Whitworth University and subsidiaries ("the University") for the year ended June 30, 2016, and have issued our report thereon dated October 12, 2016. This letter presents communications required by our professional standards.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards and *the Uniform Guidance*

The objective of a financial statement audit is the expression of an opinion on the consolidated financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* and the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the Board of Trustees of their responsibilities.

We considered the University's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. We also considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

As part of obtaining reasonable assurance about whether Whitworth University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about Whitworth University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the purpose of expressing an opinion on Whitworth University's compliance with those requirements. While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on Whitworth University's compliance with those requirements.

We have issued a separate document which contains the results of our audit procedures to comply with the Uniform Guidance.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on April 13, 2016.

Significant Audit Issues

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Whitworth University are described in Note 1 to the consolidated financial statements.

As described in Note 1 to the consolidated financial statements, the University adopted the following accounting standards in 2016:

- ASU 2015-03, *Interest - Imputation of interest (Subtopic 835-30): Simpliying the Presentation of Debt Issuance Costs*; and
- One provision of ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*.

These have been retrospectively applied to the prior period presented.

We noted no transactions entered into by the University during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

In addition to management's estimates of the allowance for uncollectible receivables, the net present value of long-term receivables, the net actuarial valuation for split interest agreements, the depreciable lives for fixed assets and the methodology for allocating expenses to functional areas, the following estimates also affected the consolidated financial statements:

- *Investments That Are Not Readily Marketable.* Management's policies for estimating the value of the University's investments that are not readily marketable are described in Note 2 to the financial statements.
- *Post-Retirement Benefit Plan Liabilities and Costs.* Management's estimate of the liability related to its post-retirement benefit plans were based on actuarial assumptions and methods provided by an independent third party actuary as described in Note 12 to the financial statements.
- *Asset Retirement Obligations.* Management's estimate of the liability related to asset retirement obligations (primarily related to asbestos removal costs) was based on the fair value of the liability in the period in which the obligation was incurred and then adjusted for changes due to the passage of time or revisions in timing or amount of expected future cash flows as described in Note 1 to the financial statements.

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the consolidated financial statements taken as a whole.

The disclosures in the consolidated financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the consolidated financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the University's consolidated financial statements, or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Management Representations

We have requested certain representations from management that are included in the management representation letter. A copy of management's written representations has been provided to you.

Significant Issues

Professional standards require us to communicate any significant issues that were discussed, or were the subject of correspondence with management. There were no additional communications or correspondence with management that has not been disclosed in this letter.

Independence

We are not aware of any relationships between Baker Tilly and the University that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the consolidated financial statements of Whitworth University for the year ended June 30, 2016, Baker Tilly hereby confirms that we are, in our professional judgment, independent with respect to the University in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the University other than audit services provided in connection with the audit of the current year's consolidated financial statements and nonaudit services which in our judgment do not impair our independence. During the year ended June 30, 2016, Baker Tilly provided the following nonaudit services to the University:

- Preparation of tax return(s)

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

Other Audit Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the University's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

We noted other matters that we believe warrant the attention of the University. These other matters are detailed in the attached document.

The Financial Accounting Standards Board ("FASB") has communicated recent accounting pronouncements that may affect the University. The pronouncements are detailed in the attached document.

At the conclusion of the audit, we discussed various other matters with management that we believe to be of potential benefit to the University, such as recommendations for improving internal controls or operational efficiencies. We would be pleased to discuss these comments with you at any time.

This information is intended solely for the use of the Board of Trustees and management of Whitworth University and is not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 12, 2016

Other Matters

Uniform Grant Guidance

In December 2013, the US Office of Management and Budget (OMB) issued comprehensive grant reform rules titled *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). The new requirements consolidated what was previously in eight separate OMB Circulars into a single new document, which resulted in various changes to the previous requirements. The new rules took effect with federal awards made on or after December 26, 2014, including additional funding increments to existing awards.

Included in the Uniform Guidance are changes to the audit requirements which raise the threshold for a single audit to $750,000 and include changes to program risk assessments, minimum percentage of audit coverage, and reporting of findings. In addition, under the Uniform Guidance rules, an unlocked searchable version of the financial statements must be submitted to the Federal Clearinghouse along with the Data Collection Form, and the entire reporting package will be available to the public. The updated audit requirements are effective for the University's 2016 fiscal year.

We encourage the University to review its procedures for administering its federal grants to ensure that the new Uniform Guidance is being followed for all federal grant awards made on or after December 26, 2014 (including additional funding increments to existing awards).

Revisions to Cash Management Rules

Colleges and universities that have arrangements with banks to provide accounts to students, or that use a third-party servicer to pay credit balances to students, face numerous additional requirements under the Department of Education's new cash management rules. In addition, several changes to the regulations apply more broadly to all institutions participating in Title IV federal student aid programs. These include the following, among other changes effective beginning July 1, 2016:

- The types of accounts in which schools may hold Title IV funds: Under existing cash management regulations, institutions can hold Title IV funds in insured bank accounts or an “investment account secured by collateral of value reasonably equivalent to the amount of those funds.” The revised rules require institutions to keep all Title IV funds in federally-insured, interest-bearing accounts. Other types of investment accounts are no longer an option, and the institution must ensure that Title IV funds are not included in nightly cash sweeps.
- Increase in the amount of interest that may be retained: The amount of interest earnings on Title IV funds that institutions may keep has been increased from $250 to $500 (excluding earnings on the Perkins Loan revolving fund which are added to the fund).

We encourage the University to review, and revise as necessary, its cash management procedures to ensure that they are in compliance with the new rules.

Cyber Security

Higher education has gotten the message that cybersecurity (or information security) is a significant issue – one that can reduce an institution’s ability to achieve its mission and objectives and put at risk a wide range of critical student, research, faculty, payment, and medical information. In 2015 alone, major institutions such as Harvard University, Johns Hopkins University, the University of Virginia, Pennsylvania State University, and Washington State University had damaging cyber-attacks. Information security is now the #1 issue in EDUCAUSE’s (the association of higher education information technology leaders) annual list of the Top 10 IT Issues.

The good news is that breaches (and the costs and operational issues associated with them) can be potentially mitigated through the following strategic preventative measures:

- **Training and communication** – Ensure that members of the institutional community (i.e., students, faculty, and staff) receive continuous information security education and training.

- **Governance and policies** – Develop and audit an effective cybersecurity / information security strategy and program that responds to your institutional organization and culture, and that elevates cybersecurity / information security concerns to institutional leadership.
- **Cybersecurity countermeasures** – Plan for, implement, and periodically assess next-generation security technologies to respond to evolving threats (e.g., two-factor authentication, mobile device management, endpoint encryption).

Leadership and the governing board should partner to assess the impact and likelihood of cyber risks and implement risk mitigation strategies across the entire institution.

Federal Perkins Loan Program

The Federal Perkins Loan Program was extended through September 30, 2017 by the Federal Perkins Loan Program Extension Act of 2015 ("Extension Act"). The Department of Education (ED) issued guidance in February 2016 (Dear Colleague Letter GEN-16-05) which addressed the extension and supersedes the previously issued guidance. According to the new guidance, under certain conditions, institutions may continue to make loans to undergraduate students through September 30, 2017 and to graduate students through September 30, 2016. However, an institution must provide additional disclosures under the Extension Act to each Perkins Loan borrower before it makes a first disbursement of a Perkins Loan. We encourage the University to review the new guidance to ensure the University is in compliance with it.

Recent Accounting Pronouncements

Revenue Recognition (Topic 606): Revenue from Contracts with Customers, ASU 2014-09

In May 2014, new accounting guidance was issued by the Financial Accounting Standards Board ("FASB") that outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. The standard proposes recognizing revenue following a five step process. The standard also includes additional quantitative and qualitative disclosure requirements.

The AICPA established a Not-for-Profit Revenue Recognition Task Force to review potential implementation issues of ASU 2014-09, which includes the following items:

- Tuition and housing revenue
- Contributions
- Government grants
- Subscriptions and membership dues
- Bifurcation of transactions between contributions and exchange components

For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019). For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early application is permitted for all entities for fiscal years beginning after December 15, 2016. The University should assess the impact this guidance will have on its financial statements, but at a minimum, the University should review its records as soon as possible to identify all contracts with customers that will be subject to the new guidance.

Leases (Topic 842): a revision of the 2010 proposed Accounting Standards Update, Leases (Topic 840), ASU 2016-02

In February 2016, the FASB issued new accounting guidance for leases that will 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.

For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Early application is permitted for all entities. 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 should assess the impact this guidance will have on its financial statements, but at a minimum, the University should review its records as soon as possible to identify all the leases that will be subject to this guidance.

Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, ASU 2015-03

In April 2015, FASB issued a new accounting standard that requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct reduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. The standard is effective for fiscal years beginning after December 15, 2015 (fiscal year 2017), with early adoption permitted. The University early adopted the standard in fiscal year 2016 and retrospectively applied to 2015.

Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2016-01

In January 2016, FASB issued a new standard to improve the recognition and measurement of financial instruments and also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities (e,g, the fair value of long-term debt). For non-public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020), 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 early adopted that portion of the standard in fiscal year 2016 and retrospectively applied to 2015.

Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, ASU 2016-14

In August 2016, FASB issued a new accounting standard that simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in its financial statements and notes about liquidity, financial performance and cash flows.

The main provisions of the ASU require a not-for-profit entity to:

- > Present on the face of the statement of financial position amounts for two classes of net assets, rather than the currently required three net asset classes, as well as the currently required amount for total net assets. The two classes net assets are *net assets with donor restrictions* and *net assets without donor restrictions*.
- > Present on the face of the statement of activities the amount of the change in each of the two classes of net assets, rather than the currently required three net asset classes, as well as the change in total net assets.
- > Continue to present on the face of the statement of cash flows the net amount of operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation of the indirect method (reconciliation) if using the direct method.
- > Provide enhanced disclosures about:
    - ♦ Amounts and purposes of governing board designations, appropriations and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions;
    - ♦ Composition of net assets with donor restrictions and how the restrictions affect the use of resources;
    - ♦ Qualitative information that communicates how a not-for-profit manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date;
    - ♦ Quantitative information, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes, as necessary, that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date;
    - ♦ Amounts of expenses by both their natural classification and their functional classification in one location;
    - ♦ Methods used to allocate costs among program and support functions; and
    - ♦ Underwater endowment funds, which include a required disclosures of (1) a not-for-profit's policy, and any actions taken during the period, concerning appropriation from underwater funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.
- > Report investment return net of external and direct internal investments expenses and no longer require disclosure of those netted expenses
- > Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

ASU 2016-14 is effective for fiscal year ends beginning after December 15, 2017 (fiscal year 2019). Early adoption will be permitted. Deliberations on the second phase is expected to begin in the near term.

We recommend that the University review the ASU to determine the potential implications this pronouncement may have on the University's financial reporting.