

Engaging the culture, changing the world®



Seattle Pacific
UNIVERSITY

AUDITED FINANCIAL STATEMENTS
Year Ending June 30, 2010



About Seattle Pacific University

Founded in 1891, Seattle Pacific University is a premier Christian university that equips people to engage the culture and change the world. Its comprehensive academic program serves 4,000 undergraduate and graduate students at its main Seattle campus, as well as an average of 2,500 students per quarter online and in continuing education centers across Washington State. Known for both their competence and character, SPU graduates are bringing about positive change in communities around the globe.

Academically, Seattle Pacific University offers 61 undergraduate majors and 53 minors. The University's curriculum is carried out through the College of Arts and Sciences and the schools of Business and Economics; Education; Health Sciences; Theology; and Psychology, Family, and Community. Graduate studies include 14 master's degrees and five doctoral programs: education (both EDD and Ph.D), clinical family psychology, organizational psychology, and counselor education.

The University's physical plant includes a 43-acre main campus near the heart of downtown Seattle; a 965-acre wilderness campus on Blakely Island in the San Juan Islands; and the 301-acre Camp Casey campus on Whidbey Island.

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Independent Auditors' Report

*To the Board of Trustees
Seattle Pacific University
Seattle, Washington*

We have audited the accompanying consolidated statements of financial position of Seattle Pacific University and affiliate (the University) as of June 30, 2010 and 2009, and the related consolidated statements of activities, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University and affiliate as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Clark Nuber P S

Certified Public Accountants
November 10, 2010

Consolidated Statements of Financial Position

For the Years Ended June 30, 2010 and 2009
(in thousands)

	June 30,	
	2010	2009
Assets		
Cash and cash equivalents	\$ 15,065	\$ 15,290
Investments	41,013	40,889
Student accounts receivable, net	2,988	2,489
Inventories and prepaid expenses	1,522	1,260
Grants and other receivables	1,273	1,366
Student loans	1,045	967
Total current assets	<u>62,906</u>	<u>62,261</u>
Student loans, net of allowance of \$273 in 2010 and \$232 in 2009	7,477	7,602
Other receivables and prepaid expenses	2,042	2,045
Investments	43,967	38,821
Investments — split interest agreements held by others	6,068	5,788
Land, buildings and equipment, net	110,675	113,371
Total assets	<u>\$ 233,135</u>	<u>\$ 229,888</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 10,277	\$ 11,168
Bonds payable	3,500	3,485
Trust and annuity obligations	1,447	1,361
Student deposits and prepaid fees	1,602	1,596
Deferred revenue	4,347	3,827
Total current liabilities	<u>21,173</u>	<u>21,437</u>
Bonds payable	71,800	75,295
Trust and annuity obligations	9,799	9,728
Investments managed on behalf of charities	6,777	6,335
Fair value of interest rate swaps	8,739	7,199
Governmental student loan programs	6,883	6,808
Other liabilities	2,702	2,780
Total liabilities	<u>127,873</u>	<u>129,582</u>
Net Assets		
Unrestricted		
Available for operational activities	26,010	21,537
Funds held for long-term investment as endowment	8,347	10,480
Net investment in land, buildings and equipment	23,465	27,879
Total unrestricted net assets	<u>57,822</u>	<u>59,896</u>
Temporarily restricted		
Unexpended funds received for educational purposes	1,847	1,775
Un-appropriated gains on endowments	5,512	-
Split interest agreement funds	7,220	7,024
Total temporarily restricted net assets	<u>14,579</u>	<u>8,799</u>
Permanently restricted		
Endowment funds	25,534	24,700
Split interest agreement funds restricted for endowment	7,327	6,911
Total permanently restricted net assets	<u>32,861</u>	<u>31,611</u>
Total net assets	<u>105,262</u>	<u>100,306</u>
Total liabilities and net assets	<u>\$ 233,135</u>	<u>\$ 229,888</u>

See accompanying notes to consolidated financial statements

Consolidated Statements of Activities

For the Years Ended June 30, 2010 and 2009

(in thousands)

	June 30,	
	2010	2009
Operating Unrestricted Net Assets Activity		
Revenues and other support		
Student charges:		
Tuition and fees	\$ 97,587	\$ 93,401
Less: grants and scholarships	(35,078)	(31,757)
Net tuition and fees	62,509	61,644
Student housing and dining fees	12,476	12,637
Net student charges	74,985	74,281
Private gifts and grants	2,189	2,256
Public service activities	1,913	2,235
Government grants, primarily for student aid	2,876	2,323
Distributions from endowment to support operations, programs and scholarships	1,694	2,046
Other revenue and support	2,941	2,923
Net assets released from restrictions	1,647	444
Total operating revenues and other support	88,245	86,508
Expenses		
Instruction	37,595	36,526
Student housing and dining expenses	12,752	12,792
Student services	14,829	14,585
Institutional support	16,214	14,855
Academic support	4,457	4,369
Public service	1,758	1,940
Total operating expenses	87,605	85,067
Excess of revenues and other support over expenses from operating activities	640	1,441
Nonoperating Unrestricted Net Assets Activity		
Investment income, realized and unrealized gains (losses)	1,873	(11,252)
Endowment distributions for operations, grants and scholarships	(398)	(2,046)
Other, principally unrealized loss on interest rate swaps related to bonds	(1,540)	(2,817)
Change in value of split interest agreements	340	(893)
Cumulative effect of change in accounting principle (Note E)	(2,989)	-
Decrease in unrestricted net assets from nonoperating activities	(2,714)	(17,008)
Net change in unrestricted net assets	(2,074)	(15,567)
Temporarily Restricted Net Assets Activity		
Private gifts and grants	901	394
Investment income, realized and unrealized gains	3,809	-
Endowment distributions appropriated for operations, grants and scholarships	(1,296)	-
Change in value of split interest agreements	1,040	(1,636)
Cumulative effect of change in accounting principle (Note E)	2,989	-
Net assets released from restrictions	(1,663)	(444)
Net change in temporarily restricted net assets	5,780	(1,686)
Permanently Restricted Net Assets Activity		
Private gifts and grants	839	726
Change in value of split interest agreements	395	(1,967)
Net assets reclassified	16	-
Net change in permanently restricted net assets	1,250	(1,241)
Increase (decrease) in net total assets	4,956	(18,494)
Total net assets, beginning of year	100,306	118,800
Total net assets, end of year	\$ 105,262	\$ 100,306

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

(in thousands)

	June 30,	
	2010	2009
Cash Flows From Operating Activities		
Fees from students, net of financial aid	\$ 74,933	\$ 74,355
Gifts and grants	5,955	5,184
Investment income	702	725
Public service income	1,913	2,235
Other revenue	3,564	1,509
Payments for interest on debt	(4,268)	(3,365)
Payments to employees and suppliers	(72,597)	(77,277)
Net cash provided by operating activities	<u>10,202</u>	<u>3,366</u>
Investing Activities		
Loans issued to students	(238)	(1,063)
Collections on loans issued to students	319	1,061
Proceeds from sale of investments	30,438	18,567
Purchase of investments	(31,083)	(12,809)
Proceeds from collections of notes receivable	91	179
Issuance of notes receivable	(345)	(6)
Purchase of land, buildings and equipment	(6,666)	(6,003)
Net cash used by investing activities	<u>(7,484)</u>	<u>(74)</u>
Financing Activities		
Payments on long-term debt	(3,480)	(2,610)
Contributions of temporarily restricted and permanently restricted net assets	933	751
Annuity payments and other	(396)	(383)
Net cash used by financing activities	<u>(2,943)</u>	<u>(2,242)</u>
Net increase (decrease) in cash and cash equivalents	<u>(225)</u>	<u>1,050</u>
Cash and Cash Equivalents		
Beginning of year	15,290	14,240
End of year	<u>\$ 15,065</u>	<u>\$ 15,290</u>
<i>Supplemental disclosure of cash flow information —</i>		
<i>Acquisition of property, plant and equipment through accounts payable</i>	\$ 946	\$ 602

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years Ended June 30, 2010 and 2009
(in thousands)

NOTE A – Summary of Significant Accounting Policies:

General

Seattle Pacific University is a Christian private nonprofit institution of higher education based in Seattle, Washington, that has a vision to “engage the culture and change the world”. The University offers degree programs for undergraduate and graduate students through the College of Arts and Sciences and the schools of Business and Economics; Education; Health Sciences; Theology; and Psychology, Family and Community. The University offers degrees in 61 undergraduate major programs and 53 minor areas of study, 14 master’s programs and five doctoral programs.

Basis of Presentation

The accompanying financial statements are the consolidated statements of Seattle Pacific University (the University) and Seattle Pacific Foundation (the Foundation). The University has a controlling financial interest in the Foundation through direct control of the majority voting interest in the Foundation. The University’s Board of Trustees appoints Foundation directors.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and the Foundation. All significant inter-entity transactions and balances have been eliminated.

Resources received by the University are classified into three net asset categories according to the presence or absence of donor-imposed restrictions. A description of the three net asset categories follows.

Unrestricted net assets

Unrestricted net assets include amounts not subject to donor-imposed restrictions and amounts received during the year that were subject to temporary donor-imposed restrictions satisfied during the same year.

Temporarily restricted net assets

Temporarily restricted net assets include amounts that are subject to donor-imposed time or use restrictions that have not been met. Temporarily restricted net assets related to time are primarily related to net assets held in irrevocable trusts and net assets related to use are primarily related to endowment earnings.

Permanently restricted net assets

Permanently restricted net assets include amounts subject to donor-imposed restrictions where the corpus is invested in perpetuity and only the income is made available for program operations and scholarships in accordance with donor restrictions. Included in the balances, are irrevocable trusts restricted for endowment use at maturity. Generally only the original gift value of an endowment that has donor restrictions is considered permanently restricted, unless otherwise expressly stipulated in the agreement with the donor.

Revenue and Expense Recognition

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions, including unconditional promises to give, are recognized as revenue in the period received and reported as increases in the appropriate category of net assets based on the presence or absence of donor-imposed restrictions. Contributions other than cash are recorded at their fair value at the date of gift or at net realizable value if the assets are intended for sale. Contributions that the donor restricts where the restrictions are met within the same fiscal year as the contribution is received are recorded as increases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. All expenses are reported as decreases in unrestricted net assets. Except as restricted by donors or law, gains and losses on investments are reported as increases or decreases in unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period the assets are acquired or placed into service.

Operating Revenue and Expenses

The University reports operating revenue and expenses in the unrestricted net assets section of the consolidated Statement of Activities. Operations are those activities which support the educational mission of the University.

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

Operating revenues include charges for tuition, room and board, net of financial aid, gifts and grants, public service activities, distribution from endowment to support operations, special programs and scholarships, releases of temporarily restricted net assets for operations and other revenue. Student tuition and fees are recognized as revenue in the year during which the related academic services are rendered.

Operating expense (for which the operating revenues are used) include salaries and benefits, departmental expenses, depreciation, amortization and interest. These expenses are classified into six cost centers called: Instruction, Student Housing and Dining, Student Services, Institutional Support, Academic Support, and Public Service.

Cash and Cash Equivalents

Cash and cash equivalents consist of all cash balances and short-term, highly liquid investments with original maturities at the date of purchase of three months or less.

Investments

Most investments are stated at fair value. The fair values of all debt and equity securities with readily determinable fair values are based on quotations obtained from national securities exchanges. Real estate contracts are reported at balances representing outstanding principal plus accrued interest rates of 6.0% to 7.5%. Real estate held for investment or sale is reported based on historical cost value.

Alternative investments are investments for which there is no readily determinable published value. They include institutional funds, private equity funds, notes receivable, real estate, and limited liability companies. Institutional funds are commingled funds of equity and bond securities. Private equity funds are primarily comprised of investments in limited partnerships. The partnerships generally represent restricted investment securities whose values have been estimated by the managing partner of the partnership in the absence of readily ascertainable market values. The limited liability companies are primarily invested in real estate. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Because of the inherent uncertainty of the valuation of nonmarketable and restricted investments, the estimated fair values of these investments may differ significantly from the values that would have been used had a ready market for the securities existed.

On September 29, 2008, the University's short term fund's trustee made a decision to discontinue as trustee of the Fund, which resulted in a liquidity restriction. At June 30, 2010, 100% of the funds invested at September 29, 2008 had been returned to the University.

Credit Risk and Fair Value of Financial Instruments

The University grants credit primarily to student borrowers in the Pacific Northwest in the normal course of operations. The credit risk with respect to these receivables is generally considered minimal due to the wide dispersion of receivables. The carrying amount of cash and cash equivalents, student loans and accounts receivable, governmental grants and other receivables, and accounts payable approximates fair value due to the short-term maturities of these instruments. The carrying amount of the University's notes receivable and notes payable approximates fair value as they bear interest at variable interest rates or fixed rates which approximate current market rates for notes with similar maturities and credit quality. The University's cash balances exceed FDIC and SIPC insured amounts at times.

Bond Issuance Costs

Bond issuance costs include amounts paid by the University in connection with the issuance of the Series 2008 WHEFA Bonds. Amortization of issuance costs is calculated using the straight-line method over the 23-year term of the 2008 bonds. Amortization expense related to bond issuance costs for the years ended June 30, 2010 and 2009 was \$77 and \$163, respectively.

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost or, if donated, at the fair value on the date of donation. The University uses the straight-line method of depreciation to allocate the cost of assets over the estimated useful lives. Estimated useful lives range from three years for computers to 50 years for buildings.

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

Deferred Revenues

Deferred revenues consist of payments of tuition and fees related to future academic terms.

Investments Managed on Behalf of Charities

The Foundation manages the assets of an unrelated foundation and is trustee for several special needs trusts. Those assets and a corresponding liability are included in the accompanying consolidated financial statements.

Government Student Loans

Student loans receivable consist primarily of loans made to students under U.S. government loan programs. The loans are stated at net realizable value in the accompanying consolidated Statement of Financial Position. The majority of federal loan funds are furnished by agencies of the United States government and the remaining balance of the loan funds is furnished by the University. The portion of these loans that is refundable to the U.S. government is reflected as U.S. government student loan programs liability on the consolidated Statement of Financial Position.

Taxes

The University and the Foundation are exempt from federal income taxes pursuant to Section 501(c)(3) and of the Internal Revenue Code except for unrelated business taxable income as defined in sections 511 through 515 of the Internal Revenue Code. Accordingly, the financial statements do not include a provision for federal income tax. In addition, the University presently is exempt from Washington State real and personal property taxes pursuant to WAC 458-16-270 on the majority of its educational and other noncommercial properties of the University and the Foundation. The University does file income tax returns with the U.S. government and is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

Reclassifications

Certain reclassifications have been made to the 2009 consolidated financial statements to conform to the 2010 presentation. The reclassifications had no effect on the change in net assets or net asset balances as previously reported.

Use of Estimates

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

Subsequent Events

The University has evaluated events through November 10, 2010, the date on which the financial statements were issued.

NOTE B – Student Accounts Receivable:

Student accounts receivable consists of amounts due from students for tuition, room, board and other enrollment-related charges. At June 30, 2010 and 2009, student accounts receivable consists of the following balances:

	June 30,	
	2010	2009
Amounts due from student accounts receivable	\$ 3,678	\$ 3,167
Allowance for doubtful accounts	(690)	(678)
Net student accounts receivable	<u>\$ 2,988</u>	<u>\$ 2,489</u>

The University determines the adequacy of the allowance based on length of time past due, historical experience and consideration of the economic conditions. Balances are written off once a year after all means of collection have been exhausted and collection is considered remote.

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

NOTE C – Investments:

Investments are composed of pooled investment funds, marketable securities and real estate. The University's pooled investments are composed of five investment pools maintained by the Foundation for various trusts, annuities, pooled income and endowment funds. The investment pools are managed by the Foundation through an investment committee of its directors.

	June 30,	
	2010	2009
Pooled investments:		
Cash and short-term investments	\$ 5,599	\$ 6,819
Equity institutional funds	34,172	35,784
Bond institutional funds	11,045	5,903
Private equities	12,073	10,321
Real estate contracts receivable	3,245	2,956
Real estate	11,304	9,920
Total pooled investments	<u>77,438</u>	<u>71,703</u>
Equity securities	447	531
Debt securities	-	58
Real estate held for investment or sale	7,095	7,418
Total investments	<u>\$ 84,980</u>	<u>\$ 79,710</u>

The following schedule summarizes investment return and its classification on the consolidated Statement of Activities at June 30:

	2010		
	Unrestricted	Temporarily Restricted	Total
Investment income	\$ 571	\$ 131	\$ 702
Net realized and unrealized gains on investments	1,302	3,678	4,980
Investment income, realized and unrealized gains	<u>\$ 1,873</u>	<u>\$ 3,809</u>	<u>\$ 5,682</u>
Operating:			
Endowment distributions for operations, programs and scholarships	\$ 398	\$ 1,296	\$ 1,694
Nonoperating:			
Net gains on endowments, net of distributions	103	2,513	2,616
Net gains on other investments	1,372	-	1,372
Investment income, realized and unrealized gains	<u>\$ 1,873</u>	<u>\$ 3,809</u>	<u>\$ 5,682</u>
	2009		
	Unrestricted	Temporarily Restricted	Total
Investment income	\$ 725	\$ -	\$ 725
Net realized and unrealized losses on investments	(11,977)	-	(11,977)
Investment income, realized and unrealized losses	<u>\$ (11,252)</u>	<u>\$ -</u>	<u>\$ (11,252)</u>
Operating:			
Endowment distributions for operations, grants and scholarships	\$ 2,046	\$ -	\$ 2,046
Nonoperating:			
Net losses on endowments, net of distributions	(13,059)	-	(13,059)
Net gains on other investments	(239)	-	(239)
Investment income, realized and unrealized losses	<u>\$ (11,252)</u>	<u>\$ -</u>	<u>\$ (11,252)</u>

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

NOTE D – Fair Value Measurements:

Fair Value Measurements — Generally accepted accounting principles (GAAP) define fair value, establish a framework for measuring fair value, and require disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2010 and 2009.

Cash and Short-term Investments — Valued at cost plus accrued interest, which approximates fair value.

Equity and Bond Institutional Funds — Valued by the fund's manager based on quoted market prices of specific securities held in active markets, which aggregate to the net asset value (NAV) of shares held by the fund at the valuation date. All holdings of the funds are publicly traded securities.

Relative Value Fund — Valued using the NAV provided by the fund's manager. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding at the valuation date. The fund is traded on a private market that is not active; however, the unit price is based on observable market data of the fund's underlying assets.

Private Capital — Valued using the NAV provided by the investment's manager. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding at the valuation date. The investment is traded on a private market that is not active.

Real Estate — Based on appraised values using observable inputs for similar assets.

Beneficial Interest in Trusts Held by Others — Valued at the University's share of the present value of estimated future cash flows based on the fair value of trust assets.

Interest Rate Swap Agreements — Valued using inputs observed from proprietary pricing models.

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

Fair values of assets and liabilities measured on a recurring basis at June 30, 2010 were as follows:

	Fair Value Measurements at June 30,			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and short-term investments	\$ 5,599	\$ -	\$ -	\$ 5,599
Bond institutional funds:				
Bond securities	-	3,142	-	3,142
Marketable alternatives	-	7,903	-	7,903
Equity institutional funds:				
US equity securities	-	15,700	-	15,700
Commodities	-	2,295	-	2,295
Non-US equity securities	-	9,219	-	9,219
Marketable alternatives	-	6,624	-	6,624
Relative value fund	-	-	334	334
Private capital:				
Private equity partnership interests	-	-	9,410	9,410
Natural resource partnership interests	-	-	1,282	1,282
Distressed debt partnership interests	-	-	1,381	1,381
Real estate	-	-	11,751	11,751
Beneficial interest in trusts held by others	-	-	6,068	6,068
Interest rate swap agreements	-	-	(8,739)	(8,739)
Total	\$ 5,599	\$ 44,883	\$ 21,487	\$ 71,969

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs follows:

	Level 3 Fair Value Measurements at June 30,			
	Investments at fair value	Beneficial interest in trusts held by others	Interest rate swap agreements	Total Level 3
Beginning balance, July 1, 2009	\$ 60,705	\$ 5,788	\$ (7,199)	\$ 59,294
Total realized/unrealized gains (losses)	445	280	(1,540)	(815)
Total net sales and purchases	304	-	-	304
Total transfers in/out of level 3	(37,296)	-	-	(37,296)
Ending balance, June 30, 2010	\$ 24,158	\$ 6,068	\$ (8,739)	\$ 21,487

Total gains or losses are included in the consolidated Statement of Activities for the year ended June 30, 2010. Based on new guidance from the FASB the University transferred certain investment assets that were listed as Level 3 as of June 30, 2009. All equity institutional funds and a portion of bond institutional funds are classified as Level 2 as of June 30, 2010 utilizing the NAV shares.

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

Fair values of assets and liabilities measured on a recurring basis at June 30, 2009 were as follows:

	Fair Value Measurements at June 30,			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and short-term investments	\$ 6,819	\$ -	\$ -	\$ 6,819
Bond institutional funds:				
Bond securities	-	1,670	-	1,670
Marketable alternatives	-	-	4,233	4,233
Other debt securities	13	-	-	13
Equity Institutional funds:				
US equity securities	129	-	16,535	16,664
Commodities	-	-	1,519	1,519
Non-US equity securities	-	-	7,807	7,807
Marketable alternatives	-	-	9,923	9,923
Private equities:				
Private equity partnership interests	-	-	8,427	8,427
Natural resource partnership interests	-	-	925	925
Distressed debt partnership interests	-	-	969	969
Real estate	-	-	10,367	10,367
Beneficial interest in trusts held by others	-	-	5,788	5,788
Interest rate swap agreements	-	-	(7,199)	(7,199)
Total	\$ 6,961	\$ 1,670	\$ 59,294	\$ 67,925

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs follows:

	Level 3 Fair Value Measurements at June 30,			Total Level 3
	Investments at fair value	Beneficial interest in trusts held by others	Interest rate swap agreements	
Beginning balance, July 1, 2008	\$ 78,486	\$ 7,568	\$ (4,382)	\$ 81,672
Total realized/unrealized losses	(18,266)	(1,780)	(2,817)	(22,863)
Total net sales and purchases	485	-	-	485
Ending Balance, June 30, 2009	\$ 60,705	\$ 5,788	\$ (7,199)	\$ 59,294

NOTE E – Endowment:

The University's endowment consists of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowments). As required by accounting principles generally accepted in the United States of America (U.S. GAAP), net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

Interpretation of Relevant Law

In accordance with U.S. GAAP, the Board of Trustees of the University has adopted a policy, in interpretation of newly adopted law, to classify a portion of donor restricted endowment funds as permanently restricted net assets. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) investment accumulations made in accordance with explicit donor stipulations. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets 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 the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment:

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; and
7. The investment policy of the University.

Endowment net assets consisted of the following at June 30:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ -	\$ 25,534	\$ 25,534
Accumulated gains (losses) on endowment	(189)	5,512	-	5,323
Board designated quasi-endowment	8,536	-	-	8,536
Endowment Net Assets, June 30, 2010	\$ 8,347	\$ 5,512	\$ 25,534	\$ 39,393

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ -	\$ 24,700	\$ 24,700
Accumulated gains on endowment	3,073	-	-	3,073
Board designated quasi-endowment	7,407	-	-	7,407
Endowment Net Assets, June 30, 2009	\$ 10,480	\$ -	\$ 24,700	\$ 35,180

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

Changes to endowment net assets are as follows for the years ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2008	\$ 22,914	\$ -	\$ 24,190	\$ 47,104
Endowment investment return				
Investment return	10	-	-	10
Realized and unrealized (losses)	(11,194)	-	-	(11,194)
Total endowment investment loss	(11,184)	-	-	(11,184)
Contributions	41	-	510	551
Distribution to operations, programs and scholarships	(1,875)	-	-	(1,875)
Transfer to quasi-endowments	584	-	-	584
Endowment Net Assets, June 30, 2009	10,480	-	24,700	35,180
Cumulative effect of change in accounting principle	(2,989)	2,989	-	-
Endowment net assets after reclassification	7,491	2,989	24,700	35,180
Endowment investment return				
Investment return	18	-	-	18
Realized and unrealized gains	468	3,672	-	4,140
Total endowment investment return	486	3,672	-	4,158
Contributions	200	-	818	1,018
Distribution to operations, programs and scholarships	(398)	(1,159)	-	(1,557)
Transfer to quasi-endowments	594	-	-	594
Net assets reclassified	(26)	10	16	-
Endowment Net Assets, June 30, 2010	\$ 8,347	\$ 5,512	\$ 25,534	\$ 39,393

Funds With Deficiencies

From time to time declines in the market value of the investment pool have created a situation where the fair values of certain endowments are less than the historical value of the original gift(s). Deficiencies of this nature have been recorded as decreases in unrestricted net assets and were approximately \$189 and \$1,174 at June 30, 2010 and 2009, respectively.

Return Objectives, Risk Parameters and Spending Policies

The goal of the University's investment and spending policies for endowment assets is to provide a predictable and stable stream of funding to programs supported by its endowments while maintaining the real value of the endowment assets over long-term time periods.

The investment objective of the endowment funds emphasizes long-term growth of capital within acceptable levels of risk. Investments are managed within a total return concept using a diversified portfolio of asset classes including, but not limited to, publically traded and private equities, fixed income securities, real estate, and cash equivalents. Long-term investment return objectives for this pool of financial assets is to generate a minimum average annual return sufficient to provide a real return after adjustments for payouts and inflation.

The University has a 5% distribution policy which is applied against a 10-year rolling average of the market value of endowment investments at December 31 each year. In addition to maintaining the real value of the endowment over time, investment returns are compared against similar sized endowments reported in the annual NACUBO Endowment Study with the target goal of exceeding the median return for this grouping and measured against an external benchmark comprised of 70% of the return earned by the S&P 500 Index plus 30% of the return earned by the Barclays Aggregate Index. The Foundation Investment Committee and Board meet regularly to review investment performance and reports are also presented to the University administration and Board of Trustees.

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

NOTE F – Contributions Receivable:

Contributions receivable in current and non-current other receivables, include pledges that have been discounted at a rate of 0.2-0.5%, based on the risk-free rate of return and are due to be collected as follows:

	June 30,	
	2010	2009
Contributions expected to be collected:		
Within one year	\$ 249	\$ 306
One to five years	189	309
More than five years	5	8
	<u>443</u>	<u>623</u>
Less discount to present value	(7)	(20)
Less allowance for uncollectible contributions receivable	(8)	(11)
Total contributions receivable	<u>\$ 428</u>	<u>\$ 592</u>

NOTE G – Land, Buildings and Equipment:

Land, buildings and equipment consist of the following:

	June 30,	
	2010	2009
Land	\$ 17,365	\$ 17,486
Buildings and improvements	136,854	137,815
Equipment	12,963	14,046
Library books	8,446	7,939
Construction in progress	6,471	3,403
	<u>182,099</u>	<u>180,689</u>
Less accumulated depreciation	(71,424)	(67,318)
Land, buildings and equipment, net	<u>\$ 110,675</u>	<u>\$ 113,371</u>

Generally accepted accounting principles require an organization to recognize a liability for the fair value of a conditional asset retirement obligation if the liability can be reasonably estimated. For the University, these obligations are primarily for the disposal of asbestos, mercury, and certain other regulated materials found in the pre-1980 campus facilities. Though these materials do not currently pose a health hazard in any of these facilities, appropriate remediation procedures are required to remove these materials upon renovation or demolition. The University has recorded a liability of \$1,101 and \$1,097 at June 30, 2010 and 2009, respectively for conditional asset retirement obligations.

NOTE H – Notes and Bonds Payable:

As of June 30, 2010 and 2009, bonds payable issued through the Washington Higher Education Facilities Authority (WHEFA) consist of:

	Interest Rate Mode	Maturity Dates	June 30,	
			2010	2009
Series 2008 Bonds	Variable Rate Demand	2008-2030	\$ 75,300	\$ 78,780

The weekly variable demand rate in effect on June 30, 2010 and 2009 was 0.25% and 0.22%, respectively.

In June 2008, the University issued the Series 2008 bonds for the purposes of refinancing the Series 2005 bonds and move the interest rate mode of the bonds from auction rate securities to variable rate demand bonds. The Series 2008 bonds are supported by a letter of credit from US Bank through July 15, 2013. The underlying supporting documents for the 2008 series bonds contains restrictive defined financial ratios and measures as defined in the letter of credit. As of June 30, 2010 and 2009, the

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

University was in compliance with the ratios and measures required under the letter of credit. WHEFA is a financing conduit through the State of Washington for private higher education institutions in the State. The tax-exempt bonds are obligations of the University and are not guaranteed by the State.

Principal payment obligations are due as follows during the next five fiscal years and thereafter:

	Principal
2010-2011	\$ 3,500
2011-2012	3,500
2012-2013	3,510
2013-2014	3,510
2014-2015	3,515
Thereafter	57,765
Total	\$ 75,300

For the fiscal years ended June 30, 2010 and 2009, the University incurred \$3,831 and \$3,954, respectively, in total interest costs related to long-term debt.

The University maintains a \$20,000 revolving line of credit. Any borrowings on the line of credit accrue interest at a floating rate equal to 1.5% plus the one-month LIBOR rate. As of June 30, 2010, there were no draws outstanding against this line.

Short-term and other interest costs for the years ended June 30, 2010 and 2009, were \$19 and \$23, respectively.

NOTE I – Interest Rate Swaps:

The University uses variable-rate debt to finance the acquisition of property, plant and equipment as indicated in Note G and H. These debt obligations expose the University to variability in interest payments due to changes in interest rates. The University believes it is prudent to limit the variability of a portion of its interest payments and has entered into interest rate swaps to manage fluctuations in cash flows resulting from interest rate risk.

Under the interest rate swaps, the University receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. In September 2000, the University acquired a 20-year amortizing swap from Lehman Brothers Special Financing, Inc. with a June 30, 2010, notional amount of \$18,900 at a fixed rate of 4.85%. In November 2001, the University acquired 10-year and 7-year swaps from Bank of America with a notional amounts of \$40,000 at a fixed rate of 3.89% and of \$12,000 at a fixed rate of 3.58%, respectively. The 7-year swap valued at \$12,000 matured on November 1, 2008. In January 2006, the University acquired a 25-year accreting and amortizing swap from Bank of America at a fixed rate of 3.71%. The value of this swap will increase over time as the previous swaps expire and decrease as principal payments are made on the bonds to maintain a consistent level of overall variable rate exposure. The accreting and amortizing swap had a notional amount of \$6,590 at June 30, 2010 and 2009. There was no cash exchanged at the time of acquisition of these swaps due to the relationship between the variable rates and the swap rate at that time.

Changes in the fair value of the interest rate swap are reported as unrealized gains or losses on interest rate swaps related to bonds on the consolidated Statement of Activities. Providing that the University holds the swaps to maturity, the value of the derivatives will be zero. These swapping transactions can be terminated at market rates at any time during the term of the swap.

The University does not enter into derivative instruments for any purpose other than interest payment hedging purposes and does not speculate for investment purposes using derivative instruments.

On September 15, 2008, Lehman Brothers Holding Inc. (LBH) filed for Chapter 11 bankruptcy, and on October 3, 2008 Lehman Brothers Special financing Inc (LBSF) filed for bankruptcy. LBH serves as a credit guarantor for LBSF's interest rate swap with the University. While filing for bankruptcy by LBH or LBSF is an event of default under the swap documents, the event of default doesn't trigger a mandatory termination of the swap. Rather, it puts the option of the termination in the hands of the non-defaulting party (in this instance, the University). The University notified LBH of its intent to terminate the swap on

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

September 18, 2009 using the protocol established in the swap documents. LBH contested the University's ability to terminate the swap. On July 28, 2010, the University negotiated a settlement for the Lehman Brothers Special Financing, Inc. swap for an agreed upon termination amount that is included in "fair value of interest rate swaps" liability at June 30, 2010.

NOTE J – Split Interest Agreements:

The University and Foundation have entered into a variety of charitable remainder trusts (CRT) for which the Foundation is the trustee. These CRTs have annual payment obligations to donors or others for the life of the trust based on either a fixed percentage of the trust asset value updated annually or the lower of a fixed percentage or actual annual income received by the trust. A liability has been recorded for these payments at the net present value of expected annual cash flows to named beneficiaries, discounted from 4.6% to 11.4% as determined by published actuarial factors for ages of the respective beneficiaries discounted using Internal Revenue Service established rates at the time the trusts were established. In the year assets are transferred into the CRT the difference between the fair value of the assets received and the net present value of the payments to beneficiaries is recorded as contribution income to the University or Foundation. Annual adjustments to the net present value of the payment liability based on actuarial and income factors is recorded as changes in split interest agreements on the consolidated Statement of Activities. Investments related to these agreements are reflected as investments in the accompanying consolidated financial statements as \$23,286 and \$21,321 at June 30, 2010 and 2009, respectively. Gifts related to these trusts were \$22 and \$62 for the years ended June 30, 2010 and 2009, respectively.

Trusts in which either the University or the Foundation is named as irrevocable remainder beneficiary, but not as trustee, are recorded in the consolidated financial statements as contribution income when the trustee notifies the University and the ownership percentage and valuation are determined. The portions of these trusts that are restricted for endowment use at the time of trust maturity are classified as permanently restricted net assets. The University has trusts managed by others valued at \$3,080 and \$2,951 as of June 30, 2010 and 2009, respectively and include them as beneficial interest in trusts held by others. There were no new similar trusts received during the years ended June 30, 2010 and 2009.

Perpetual trusts in which the University is named as irrevocable remainder beneficiary, but not as trustee, are recorded in the consolidated financial statements as contribution income when the trustee notifies the University and the ownership percentage and valuation are determined. These perpetual trusts are restricted for endowment use and are classified as permanently restricted net assets. The University has perpetual trusts valued at \$2,988 and \$2,837 as of June 30, 2010, and 2009, respectively and included them in beneficial interests in trusts held by others. There are no new perpetual trusts received during the years ended June 30, 2010 and 2009.

NOTE K – Annuity Obligations:

The University and Foundation have entered into a variety of charitable gift annuities where the University agrees to pay a donor and named beneficiaries a fixed amount per year for the life of the annuitant(s), or a stated term. In exchange, the University receives assets valued in excess of the present value of the annuity. The charitable gift annuity payments are general obligations of the University, and the present value of these gift annuity obligations totaled \$2,977 and \$3,047 at June 30, 2010 and 2009, respectively. Investments related to the annuity obligations and Washington state reserve requirements totaled \$3,274 and \$3,351 at June 30, 2010 and 2009, respectively.

NOTE L – Retirement Plan:

The University participates in an Internal Revenue Code – (IRC) 401(a) defined contribution retirement plan. The plan provides for employer contributions that are directed by participants to investment funds of TIAA-CREF or Fidelity Investments. All faculty and staff at least 21 years of age with one year of full-time employment participate in the plan. Contributions to the plan are made by the University and are funded as the liability occurs. The University's contributions to the plan were \$3,052 and \$2,929 for the years ended June 30, 2010 and 2009, respectively. The University also provides a IRC 403(b)(7) supplemental retirement plan funded by individual employee contributions. These contributions are voluntary, and the plan is open to all employees. As of October 1, 2010, the University has added Diversified Investment Advisors as the primary third party administrator for the University's 401(a) retirement plans.

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

The University is a participant in Emeriti Retirement Health Solutions (EMERITI), a consortium of colleges and universities organized to provide retiree health care benefits through a Voluntary Employees Benefit Association (VEBA) recognized under IRC 501(c)(9). The Emeriti program is a defined contribution plan whose assets are restricted for use toward qualified medical expenses upon retirement. All faculty and staff over the age of 35 with one year of employment participate in the plan. The University funds its obligations on this plan currently and contributes a monthly fixed amount to a VEBA investment account with Fidelity Investments for all plan participants and the total annual contribution to EMERITI on June 30, 2010 and 2009 was \$378 and \$346, respectively.

NOTE M – Cash Flow Reconciliation:

The change in the University's net assets is reconciled to net cash provided by operations as follows:

	June 30,	
	2010	2009
Increase (decrease) in net assets	\$ 4,956	\$ (18,494)
Adjustments to total change in net assets to net cash provided by operating activities:		
Depreciation	8,008	8,210
Amortization of bond issuance costs and loss on debt extinguishment	77	163
Provision for doubtful student accounts and pledges	50	34
Net realized and unrealized (gain) loss on investments	(4,980)	11,977
Contributions to temporarily restricted and permanently restricted net assets	(933)	(751)
Contributions of remainder interest in trusts managed by others	–	175
Gain on disposal of plant assets	(89)	131
Change in value of split interest agreements	(1,775)	4,496
Unrealized loss on interest rate swaps	1,540	2,817
Changes in operating assets and liabilities:		
Student accounts receivable	(511)	(188)
Grants and other receivables	93	(207)
Inventories and prepaid expenses	(262)	460
Other receivables	115	388
Accounts payable, accrued liabilities and other liabilities	2,945	(4,267)
Student deposits and prepaid fees	6	(373)
Deferred revenue	520	232
Investments managed on behalf of charities	442	(1,437)
Net cash provided by operating activities	\$ 10,202	\$ 3,366

NOTE N – Fundraising Expense:

Institutional support expense reflected on the consolidated Statement of Activities includes approximately \$2,986 and \$2,557 of fundraising expenses for the years ended June 30, 2010 and 2009, respectively.

NOTE O – Related Party Transactions:

On December 21, 2004, the University issued a market-rate amortizing 20-year mortgage note in the amount of \$329 in connection with the sale of residential real estate on University land to a member of management. The current value of the note at June 30, 2010 is \$272. The sale was in conjunction with the University's housing assistance programs for employees and made under an equity sharing agreement based on the current fair market value of the property. The agreement provides the right to the University to purchase the property back at its option for price below market value.

Notes to Consolidated Financial Statements (cont.)

Years Ended June 30, 2010 and 2009
(in thousands)

NOTE P – Commitments and Contingencies:

Commitments

The investment pools managed by the Foundation participate in 23 venture and private equity investment programs through Commonfund Asset Management Company, Inc., a wholly owned subsidiary of The Common Fund for Nonprofit Organizations, and through Alexander Hutton Venture Partners. The University has committed to invest \$29,493 in these programs. At June 30, 2010, a cumulative total of \$22,063 has been invested. The remaining \$7,430 will be invested in installments, and in amounts and on dates specified by the private equity investment managers. In August 2010, the Foundation committed to invest an additional \$1,800 into two new programs.

Contingencies

The University is an equity owner of the College Liability Insurance Company (CLIC). For the fiscal year ending June 30, 2010, the University had a \$294 contingent liability for its portion of a \$2,000 letter of credit issued to CLIC by a bank. The University is a guarantor of this letter of credit and would be liable for its share of the contingency if CLIC were to fail to repay amounts borrowed under the letter of credit. The accumulated loss reserves and net assets of CLIC are substantially above historical claim losses and the University believes a call on the CLIC letter of credit is unlikely in the foreseeable future.

The University receives and expends monies under Federal grant programs and is subject to audits by cognizant governmental agencies. The University believes that any liabilities resulting from such audits would not have a material impact on the consolidated financial statements of the University.

The University provides a guarantee to Seattle Metropolitan Credit Union on loans they provide in support of the University's Housing Assistance Program (HAP) for faculty and staff. The HAP provides down-payment assistance loans on a need basis to faculty and staff moving into the Seattle area or purchasing a first home. These loans are supported with a secured deed of trust against the underlying property. There are currently 11 such loans outstanding that are due between 2012 and 2020. Since the inception of the HAP in 1991, no guarantees have been exercised by the credit union. As of June 30, 2010, the loan portfolio balance held by the credit union was \$446. The University's exposure under the loan guarantees is limited to the difference between the value of the secured deed of trust held by the credit union and the remaining principal balance of the related loan. The University believes the value of the secured deeds of trust held by the credit union exceeds the loan balances as of June 30, 2010.

The University is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the University, the changes in their net assets, and their cash flows in conformity with U.S. accounting principles generally accepted in the United States of America.

The University has not accrued any amounts for these commitments and contingencies.

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