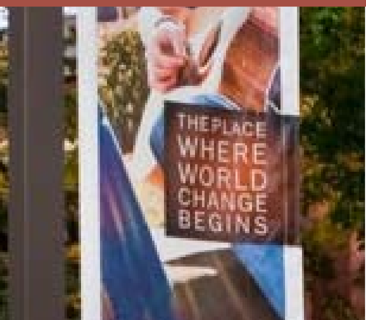
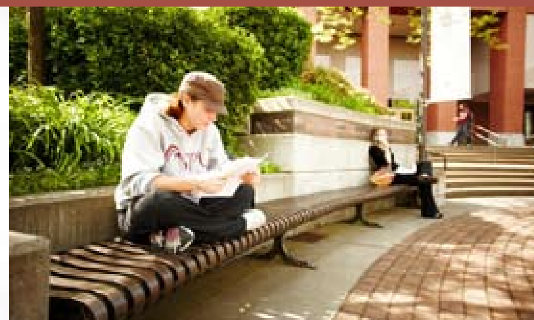
Engaging the culture, changing the world®

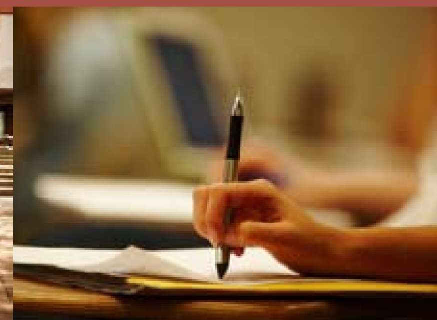
Seattle Pacific UNIVERSITY

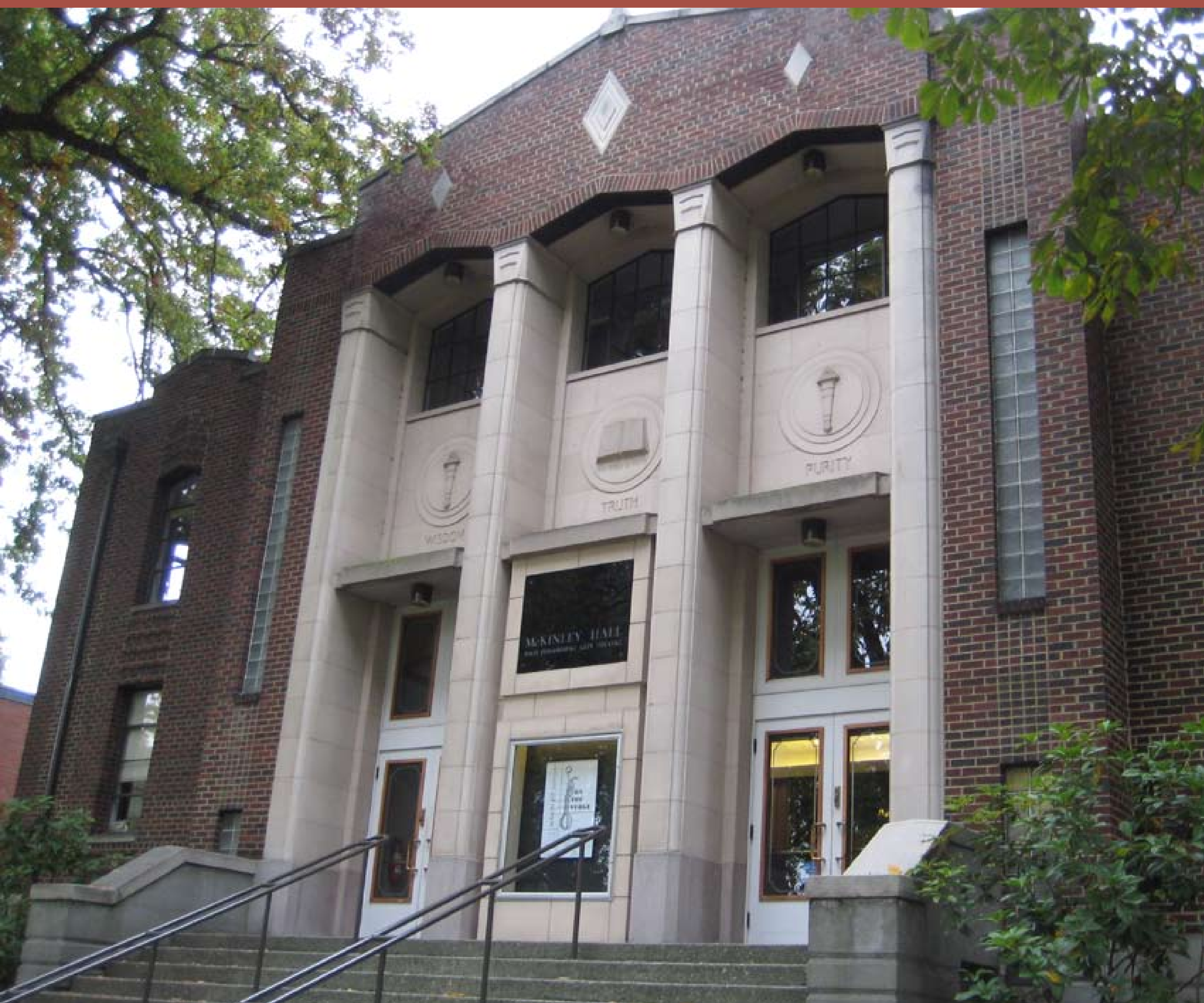
AUDITED FINANCIAL STATEMENTS

Year Ending June 30, 2009









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 more than 3,800 undergraduate and graduate students at its main Seattle campus, as well as an average of 2,600 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 60 undergraduate majors and 42 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 12 master's degrees and three doctoral programs: educational leadership, clinical psychology, and organizational psychology.

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 330-acre Camp Casey campus on Whidbey Island.

Contents

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Certified Public
Accountants
and Consultants

Independent Auditors' Report

To the Board of Trustees
Seattle Pacific University
Seattle, Washington

We have audited the accompanying consolidated statement of financial position of Seattle Pacific University and affiliate (the University) as of June 30, 2009, and the related consolidated statements of activities, and cash flows for the year 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 audit. The consolidated financial statements of the University as of June 30, 2008, were audited by other auditors whose report dated November 24, 2008, expressed an unqualified opinion on those consolidated statements.

We conducted our audit 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 audit provides 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, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Clark Nuber P S

Certified Public Accountants
October 15, 2009

Consolidated Statements of Financial Position

For the Years Ended June 30, 2009 and 2008
(in thousands)

	June 30, 2009	June 30, 2008
Assets		
Cash and cash equivalents	$ 15,290	$ 14,240
Investments	40,889	50,871
Student accounts receivable, net	2,489	2,329
Inventories and prepaid expenses	1,260	1,720
Grants and other receivables	1,366	1,162
Student loans	967	933
Total current assets	62,261	71,255
Student loans, net of allowance of $232 in 2009 and $198 in 2008	7,602	7,568
Other receivables and prepaid expenses	2,045	2,784
Investments	38,821	46,587
Beneficial interest in trusts held by others	5,788	7,568
Land, buildings and equipment, net	113,371	116,126
Total assets	$ 229,888	$ 251,888
Liabilities and Net Assets		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 11,168	$ 10,487
Bonds payable	3,485	2,610
Trust and annuity obligations	1,361	1,629
Student deposits and prepaid fees	1,596	1,969
Deferred revenue	3,827	3,595
Total current liabilities	21,437	20,290
Bonds payable	75,295	78,780
Trust and annuity obligations	9,728	11,835
Investments managed on behalf of charities	6,335	7,772
Fair value of interest rate swaps	7,199	4,382
Governmental student loan programs	6,808	6,709
Other liabilities	2,780	3,320
Total liabilities	129,582	133,088
Net Assets		
Unrestricted		
Available for operational activities	21,537	22,528
Funds held for long-term investment as endowment	10,480	22,914
Net investment in land, buildings and equipment	27,879	30,021
Total unrestricted net assets	59,896	75,463
Temporarily restricted		
Unexpended funds received for educational purposes	1,775	1,607
Split interest agreement funds	7,024	8,878
Total temporarily restricted net assets	8,799	10,485
Permanently restricted		
Endowment funds	24,700	24,190
Split interest agreement funds restricted for endowment	6,911	8,662
Total permanently restricted net assets	31,611	32,852
Total net assets	100,306	118,800
Total liabilities and net assets	$ 229,888	$ 251,888

See accompanying notes to consolidated financial statements

Consolidated Statements of Activities

For the Years Ended June 30, 2009 and 2008
(in thousands)

	June 30, 2009	June 30, 2008
Operating Unrestricted Net Assets Activity		
Revenues and other support		
Student charges:		
Tuition and fees	$ 93,401	$ 87,297
Less: grants and scholarships	(31,757)	(27,402)
Net tuition and fees	61,644	59,895
Student housing and dining fees	12,637	12,361
Net student charges	74,281	72,256
Private gifts and grants	2,256	1,751
Public service activities	2,235	2,271
Government grants	2,323	2,110
Distributions from endowment to support operations, special programs and scholarships	2,046	1,834
Other revenue and support	2,923	2,640
Net assets released from restrictions	444	927
Total operating revenues and other support	86,508	83,789
Expenses		
Instruction	36,526	36,222
Student housing and dining expenses	12,792	14,357
Student services	14,585	13,867
Institutional support	14,855	14,238
Academic support	4,369	4,527
Public service	1,940	1,744
Total operating expenses	85,067	84,955
Excess of revenues and other support over expenses from operating activities	1,441	(1,166)
Nonoperating Unrestricted Net Assets Activity		
Investment income, realized and unrealized gains (losses)	(11,252)	301
Endowment distributions for operations, grants and scholarships	(2,046)	(1,834)
Other, principally unrealized loss on interest rate swaps related to bonds	(2,817)	(3,425)
Change in value of split interest agreements	(893)	(354)
Loss on debt extinguishment	–	(2,817)
Net assets reclassified to permanently restricted	–	(56)
Decrease in unrestricted net assets from nonoperating activities	(17,008)	(8,185)
Net change in unrestricted net assets	(15,567)	(9,351)
Temporarily Restricted Net Assets Activity		
Private gifts and grants	394	1,476
Change in value of split interest agreements	(1,636)	4
Net assets reclassified to permanently restricted	–	(413)
Net assets released from restrictions	(444)	(927)
Net change in temporarily restricted net assets	(1,686)	140
Permanently Restricted Net Assets Activity		
Private gifts and grants	726	1,227
Change in value of split interest agreements	(1,967)	(310)
Net assets reclassified	–	469
Net change in permanently restricted net assets	(1,241)	1,386
Decrease in total net assets	(18,494)	(7,825)
Total net assets, beginning of year	118,800	126,625
Total net assets, end of year	$ 100,306	$ 118,800

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2009 and 2008
(in thousands)

	June 30, 2009	June 30, 2008
Cash Flows From Operating Activities		
Fees from students, net of financial aid	$ 74,355	$ 72,441
Gifts and grants	5,184	4,596
Investment income	725	1,045
Other revenue	3,744	5,059
Payments for interest on debt	(3,365)	(5,813)
Payments to employees and suppliers	(77,277)	(69,204)
Net cash provided by operating activities	3,366	8,124
Investing Activities		
Loans issued to students	(1,063)	(1,893)
Collections on loans issued to students	1,061	1,046
Proceeds from sale of investments	18,567	18,438
Purchase of investments	(12,809)	(5,704)
Proceeds from collections of notes receivable	179	19
Issuance of notes receivable	(6)	(133)
Purchase of land, buildings and equipment	(6,003)	(7,081)
Net cash provided (used) by investing activities	(74)	4,692
Financing Activities		
Payments on long-term debt	(2,610)	(86,600)
Proceeds from issuance of long-term debt	–	81,390
Bond issuance costs	–	(806)
Contributions to temporarily restricted and permanently restricted net assets	751	1,239
Annuity payments and other	(383)	(381)
Net cash used by financing activities	(2,242)	(5,158)
Net increase in cash and cash equivalents	1,050	7,658
Cash and Cash Equivalents		
Beginning of year	14,240	6,582
End of year	$ 15,290	$ 14,240
Supplemental disclosure of cash flow information —		
Acquisition of property, plant and equipment through accounts payable	$ 417	$ 602

See accompanying notes to consolidated financial statements

NOTE A – Summary of Significant Accounting Policies:

General

Seattle Pacific University is a Christian private nonprofit institution of higher education based in Seattle, Washington. 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 60 undergraduate major programs and 42 minor areas of study, 12 master's programs and three 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 ownership 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.

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, 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 Revenues 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 core activities of the University; "to engage the culture and change the world."

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.

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 value of all equity and debt securities with readily determinable fair values are based on quotations obtained from national securities exchanges. Real estate held for investment or sale is reported based on historical 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 multi-strategy, commingled equity and bond funds. 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.

The University pools some of its operating cash in short term investments that pay the greater of monthly income earned or the 90 day treasury bill rate. On September 29, 2008, this fund's trustee made a decision to discontinue as trustee of the Fund, which resulted in a liquidity restriction. At June 30, 2009, 89 percent of the $5,949 invested at September 29, 2008 had been returned to the University. The University has $665 invested in this fund at June 30, 2009 and expects to receive all of its investments in the future. The balance is included in short-term investments on the consolidated Statement of Financial Position.

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 and investment 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 in the years 2009 and 2008 was $163 and $127, 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.

(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 loan funds.

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 consolidated 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.

Reclassifications

Certain reclassifications have been made to the 2008 consolidated financial statements to conform to the 2009 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 balance sheet 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 October 15, 2009, the date on which the financial statements were available to be issued.

NOTE B – Student Accounts Receivable:

Student accounts receivable consisted of amounts due from students for tuition, room, board and other enrollment-related charges. At June 30, 2009 and 2008, student accounts receivable consisted of the following balances:

	June 30,	
	2009	2008
Amounts from student accounts receivable	$ 3,167	$ 2,979
Allowance for doubtful accounts	(678)	(650)
Net student accounts receivable	$ 2,489	$ 2,329

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.

(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, 2009	June 30, 2008
Pooled investments:		
Cash and short-term investments	$ 6,819	$ 6,572
Institutional funds, common stock	35,784	49,961
Institutional funds, bond mutual funds	5,903	6,651
Private equities	10,321	11,514
Notes receivable	2,956	2,989
Real estate	9,920	12,632
Total pooled investments	71,703	90,319
Equity securities	531	454
Debt securities	58	66
Real estate held for investment or sale	7,418	6,619
Total investments	$ 79,710	$ 97,458

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

	June 30, 2009	June 30, 2008
Investment income	$ 725	$ 1,045
Net realized and unrealized losses on investments	(11,977)	(744)
Investment income, realized and unrealized (losses) gains	$ (11,252)	$ 301
Operating:		
Endowment distributions for operations, grants and scholarships	$ 2,046	$ 1,834
Nonoperating:		
Net losses on endowments, net of distributions	(13,059)	(2,817)
Net (losses) gains on other investments	(239)	1,284
Investment income, realized and unrealized (losses) gains	$ (11,252)	$ 301

NOTE D – Fair Value Measurements:

Fair Value Measurements — In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement (SFAS) No. 157, *Fair Value Measurements*. SFAS 157 establishes a new framework for measuring fair value and expands related disclosures. To increase consistency and comparability in fair value measurements, the SFAS 157 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

SFAS 157 uses a three-level valuation hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect market assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

(in thousands)

Assets and liabilities classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-derived valuations whose inputs are observable. Assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

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

	Fair Value Measurements at June 30, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significiant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value	$ 6, 961	$ 1,670	$ 63,662	$ 72,293
Beneficial interest in trusts held by others	–	–	5,788	5,788
Interest rate swap agreements	–	–	(7,199)	(7,199)
Total	$ 6,961	$ 1,670	$ 62,251	$ 70,882

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 (Level 3) follows:

	Fair Value Measurements at June 30, 2009			
	Investments at fair value	Beneficial interest in trust held by others	Interest rate swap agreements	Total Level 3
Beginning balance	$ 81,475	$ 7,568	$ (4,382)	$ 84,661
Total realized and unrealized losses	(18,266)	(1,780)	(2,817)	(22,863)
Total purchases, settlements and income	453	–	–	453
Ending Balance	$ 63,662	$ 5,788	$ (7,199)	$ 62,251

Total realized and unrealized losses are included in the consolidated Statement of Activities for the year ended June 30, 2009.

NOTE E – Endowments:

The University's endowments consist of funds established for a variety of purposes. Its endowments include 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, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence of absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the University has interpreted the Washington State Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment.

(in thousands)

As of June 30, 2009, endowment net assets consisted of the following:

	Unrestricted	Permanently Unrestricted	Total
Donor restricted endowment funds	$ –	$ 24,700	$ 24,700
Earnings on endowment funds	3,073	–	3,073
Board designated quasi-endowment funds	7,407	–	7,407
Total	$ 10,480	$ 24,700	$ 35,180

Changes to endowment net assets for the year ended June 30, 2009 are as follows:

	Unrestricted	Permanently Unrestricted	Total
Beginning endowment net assets	$ 22,914	$ 24,190	$ 47,104
Endowment investment return			
Investment return losses	10	–	10
Realized and unrealized losses	(11,194)	–	(11,194)
Total endowment investment return	(11,184)	–	(11,184)
Contributions	41	510	551
Endowment related expenses	(6)	–	(6)
Distribution for operating programs	(1,875)	–	(1,875)
Transfer to/from quasi-endowments	590	–	590
Endowment net assets, June 30, 2009	$ 10,480	$ 24,700	$ 35,180

Funds with Deficiencies Use of Estimates

From time to time, the fair value of assets associated with donor restricted endowment funds may fall below the level of the original gift. In accordance with accounting principles accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. These deficiencies were included in the unrestricted column above, as a result of unfavorable market fluctuations and appropriation for programs that were deemed prudent by the Foundation's Board of Directors. At June 30, 2009 and 2008, these deficiencies were $1,174 and $0, respectively. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets until such time that they are fully restored; investment returns above that level will be classified as unrestricted net assets.

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 stream of funding to programs supported by its endowments while maintaining the purchasing power 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 ten-year rolling average of market value of endowment investments at December 31 each year. This distribution is approved by the Foundation Board of Directors for use in the next fiscal year of the University's operations. 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 quarterly to review investment performance reports which then are presented to the University administration and Board of Trustees.

(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 0.2-5%, based on the risk-adjusted rate of return and are due to be collected as follows:

	June 30, 2009	June 30, 2008
Contributions expected to be collected:		
Within one year	$ 306	$ 170
One to five years	309	713
More than five years	8	10
	623	893
Less discount to present value	(20)	(47)
Less allowance for uncollectible contributions receivable	(11)	(38)
Total contributions receivable	$ 592	$ 808

NOTE G – Land, Buildings and Equipment:

Land, buildings and equipment consist of the following:

	June 30, 2009	June 30, 2008
Land	$ 17,486	$ 17,486
Buildings and improvements	137,815	138,737
Equipment	14,046	14,510
Library books	7,939	7,449
Construction in progress	3,403	1,259
	180,689	179,441
Less accumulated depreciation	(67,318)	(63,315)
Land, buildings and equipment, net	$ 113,371	$ 116,126

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. At June 30, 2009 the University has recorded a liability of $1,097 for conditional asset retirement obligations.

NOTE H – Notes and Bonds Payable:

As of June 30, 2009 and 2008, bonds payable issued through the Washington Higher Education Facilities Authority (WHEFA) consist of:

	Interest Rate Mode	Maturity Dates	June 30, 2009	June 30, 2008
Series 2008 Bonds	Variable Rate Demand	2008-2030	$ 78,780	$ 81,390

The weekly variable demand rate in effect on June 30, 2009 and 2008 was 0.22% and 1.6%, respectively.

(in thousands)

In June 2008, the University issued the Series 2008 bonds for the purposes of refinancing the Series 2005 bonds and moving 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 June 26, 2011. The underlying supporting documents for the 2008 series bonds contains restrictive financial ratios and measures as defined in the letter of credit. As of June 30, 2009 and 2008, the 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
2009-2010	$	3,485
2010-2011		3,495
2011-2012		3,500
2012-2013		3,510
2013-2014		3,510
Thereafter		61,280
	$	78,780

For the fiscal years ended June 30, 2009 and 2008, the University incurred $3,430 and $5,408, respectively, in total interest costs related to long-term debt.

The University maintains a $10,000 revolving line of credit at a floating interest rate. As of June 30, 2009 and 2008, there were no draws outstanding against this line.

Short-term and other interest costs for the years ended June 30, 2009 and 2008, were $23 and $45, 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. These debt obligations expose the University to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. The University believes it is prudent to limit the variability of a portion of its interest payments. To meet this intent, the University entered into interest rate swaps to manage fluctuations in cash flows resulting from interest rate risk.

The University swapped its variable-rate cash flow exposure on its debt obligations for fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swaps. 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, 2009, value 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 for $40,000 at a fixed rate of 3.89% and $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. As of June 30, 2009 and 2008, the accreting and amortizing swap had a notional amount of $6,590,000 and $0, respectively. 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 swaps are reported as unrealized loss of interest rate swaps related to bonds on the consolidated Statement of Activities. For the year ended June 30, 2009, the valuation of the swaps resulted in a net unrealized loss of $2,817 due to fixed interest rates projected for the remaining term of the swap being lower than they were projected to be at June 30, 2008, relative to the stated fixed rate for the swaps. The offsetting liability of $7,199 related to a cumulative loss is reported on the consolidated Statement of Financial Position as fair value of interest rate swaps. 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 hedging its variable interest rate for the term of the bonds 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 (LGSF) filed for bankruptcy. LHB serves as a credit guarantor for LBSF in 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, this 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 Lehman Brothers Holding Inc. of its intent to terminate the swap on September 18, 2009 using the protocol established in the swap documents due to the bankruptcy filings of Lehman Brothers Holding Inc and Lehman Brothers Special Financing Inc. LBH has disputed the University's ability to terminate the swap. The two parties are attempting to work out a resolution. The University does not believe the default of LBSF or LBH and the final resolution with respect to the swap will have a material impact on the University's financial statements.

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. 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 $21,321 and $27,599 at June 30, 2009 and 2008, respectively. Gifts related to these trusts were $62 and $102 for June 30, 2009 and 2008, 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 $2,951 and $3,903 as of June 30, 2009 and 2008, respectively and include them as beneficial interest in trusts held by others. Gifts related to these trusts were $0 and $695 at June 30, 2009 and 2008, respectively.

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 $2,837 and $3,665 as of June 30, 2009, and 2008, respectively and included them in beneficial interest in trusts held by others.

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 $3,047 and $3,091 at June 30, 2009 and 2008, respectively. Investments related to the annuity obligations and Washington state reserve requirements totaled $3,351 and $3,400 at June 30, 2009 and 2008, respectively.

(in thousands)

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 $2,929 and $2,730 for the years ended June 30, 2009 and 2008, 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.

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 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, 2009 and 2008 was $346 and $291, respectively. During December 2007, the University made a one-time lump-sum contribution allowed by IRS regulations during the first plan year, to certain eligible employees who were at least age 35 with at least one year of service as of July 1, 2006. The total amount contributed for those individuals was approximately $998. Employees eligible to participate in EMERITI can make voluntary contributions to the same VEBA account.

NOTE M – Cash Flow Reconciliation:

The change in the University's net assets is reconciled to net cash provided by operations for the years ended June 30, 2009 and 2008 as follows:

	2009	2008
Decrease in net assets	$ (18,494)	$ (7,825)
Adjustments to total change in net assets to net cash provided by operating activities:		
Depreciation	8,210	8,153
Amoritization of bond issuance costs and loss on debt extinguishment	163	2,944
Provision for doubtful student accounts and pledges	34	40
Net realized and unrealized loss on investments	11,977	744
Contributions to temporarily restricted and permanently restricted net assets	(751)	(1,239)
Contributions of remainder interest in trusts managed by others	175	(582)
Loss on disposal of plant assets	131	869
Change in value of split interest agreements	4,496	660
Investments managed on behalf of charities	(1,437)	357
Unrealized loss on interest rate swaps	2,817	3,425
Changes in operating assets and liabilities:		
Student accounts receivable	(188)	65
Grants and other receivables	(207)	66
Inventories and prepaid expenses	460	293
Other receivables	388	(232)
Accounts payable, accrued liabilities and other liabilites	(4,267)	266
Student deposits and prepaid fees	(373)	22
Deferred revenue	232	98
Net cash provided by operating activities	$ 3,366	$ 8,124

NOTE N – Fundraising Expense:

Institutional support expense reflected on the consolidated Statement of Activities includes approximately $2,557 and $2,518 of fundraising expenses for the years ended June 30, 2009 and 2008, 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 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 value of the property. The agreement provides the right to the University to purchase the property back at its option for a price below market value.

NOTE P – Commitments and Contingencies:

Commitments

The investment pools managed by the Foundation participate in twenty-three 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, 2009, a cumulative total of $20,595 has been invested. The remaining $8,898 will be invested in installments, and in amounts and on dates specified by the private equity investment managers.

Contingencies

The University is an equity owner of the College Liability Insurance Company (CLIC). For the fiscal year ending June 30, 2009, the University had a $326 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 9 such loans outstanding that are due between 2012 and 2019. Since the inception of the HAP in 1991, no guarantees have been exercised by the credit union. As of June 30, 2009, the loan portfolio balance held by the credit union was $380. 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, 2009.

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 net assets, and cash flows in conformity with U.S. accounting principles generally accepted in the United States of America.

The University has no contingent liability related to these commitments and contingencies and has not accrued any liabilities for these commitments and contingencies.

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