

Year Ending June 30, 2000
Financial Report





About Seattle Pacific University

Seattle Pacific University is a fully accredited institution of higher learning, which offers degree programs in liberal arts, professional and graduate studies. The University was founded in 1891 to provide a place where young people could gain a comprehensive education rooted in the Christian faith. SPU serves nearly 3,500 degree-seeking students per academic quarter, primarily at its Seattle campus, as well as 3,700 adult learners per academic quarter in continuing education locations across Washington state.

Academically, Seattle Pacific University offers 56 undergraduate majors and 37 minors. The University's curriculum is carried out through the College of Arts and Sciences and three professional schools: Business and Economics, Education, and Health Sciences. Graduate studies include 10 master's degree programs and two doctoral programs, one in educational leadership, the other in clinical psychology.

The University's physical plant includes a 35-acre main campus near the heart of downtown Seattle; a 965-acre wilderness campus on Blakely Island in the San Juan Islands; and the 150-acre Camp Casey on Whidbey Island.

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Independent Auditors' Report

The Board of Trustees
Seattle Pacific University:

We have audited the accompanying consolidated statements of financial position of Seattle Pacific University (the University) as of June 30, 2000 and 1999, 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 audit.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Seattle Pacific University as of June 30, 2000 and 1999, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Seattle, Washington
October 26, 2000

Consolidated Statements of Financial Position

	June 30,	
	2000	1999
ASSETS		
Cash and cash equivalents	\$ 3,090	\$ 1,944
Student accounts receivable, net	2,212	2,389
Governmental grants and other receivables	968	990
Current portion of student loans	967	850
Current portion of notes receivable	—	244
Current portion of investments	34,129	25,546
Inventories and prepaid expenses	916	676
Total current assets	42,282	32,639
Student loans, net of allowance of \$194 in 2000 and \$195 in 1999	5,832	5,798
Notes receivable, net of allowance of \$129 in 2000 and 1999	525	3,422
Investments	39,769	35,105
Land, buildings and equipment, net	71,943	63,049
Total assets	\$ 160,351	\$ 140,013
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 5,792	\$ 5,687
Student deposits and prepaid fees	1,275	1,627
Deferred revenue	2,603	2,597
Current portion of long-term and other debt	1,064	4,155
Total current liabilities	10,734	14,066
Long-term debt, less current portion	21,095	9,310
Other, principal trust funds held for others and life income funds	4,231	4,098
Investments managed on behalf of others	6,615	6,301
Trust and annuity obligations	13,781	4,753
Deferred contribution support - trust remainder interest	59	4,642
Governmental student loan programs	5,635	5,515
Total liabilities	62,150	48,685
Net assets		
Unrestricted		
Available for operational activities	7,978	7,368
Long-term investments for endowments	20,578	17,756
Invested in land, buildings and equipment	42,533	40,640
Total unrestricted net assets	71,089	65,764
Temporarily restricted		
Trusts and annuities	12,324	11,963
Other	1,183	640
Total temporarily restricted net assets	13,507	12,603
Permanently restricted - endowments	13,605	12,961
Total net assets	98,201	91,328
Total liabilities and net assets	\$ 160,351	\$ 140,013

See accompanying notes to consolidated financial statements

Consolidated Statement of Activities

For the Years Ended June 30, 2000 and 1999

(in thousands)

	June 30,	
	2000	1999
OPERATING UNRESTRICTED NET ASSETS ACTIVITY		
Revenues and gains		
Student charges:		
Regular academic term degree programs:		
Undergraduate tuition and fees	\$ 37,074	\$ 35,360
Less: grants and scholarships	(12,092)	(11,798)
Net undergraduate tuition and fees	24,982	23,562
Graduate tuition and fees	5,376	4,659
Continuing education, summer school and other special programs	3,873	4,237
Net tuition and fees	34,231	32,458
Student housing and dining fees	8,178	7,549
Net student charges	42,409	40,007
Private gifts and grants	2,900	2,573
Public service activities	1,429	1,387
Government grant, primarily for students	1,210	1,255
Endowment gains and income distributed for operations	1,243	1,000
Other revenue and support	2,018	2,005
Total operating revenues, gain	51,209	48,227
Net assets released from restrictions	1,075	840
Total revenues and gains	52,284	49,067
Expenses		
Instruction:		
Regular academic term degree programs	19,666	17,372
Continuing education, summer school and other special programs	2,800	3,450
Total instruction	22,466	20,822
Institutional support	8,850	8,249
Student housing and dining expenses	7,996	7,566
Student services	8,190	7,217
Academic support	2,279	2,065
Public service	905	900
Total expenses	50,686	46,819
Excess of revenues over expenses from operations	1,598	2,248
NONOPERATING UNRESTRICTED NET ASSETS ACTIVITY		
Net realized and unrealized gains on investments	3,740	3,208
Change in value of annuity obligations	(13)	186
Increase in net assets from nonoperating activities	3,727	3,394
Net change in unrestricted net assets	5,325	5,642
TEMPORARILY RESTRICTED NET ASSETS ACTIVITY		
Private gifts and grants	3,758	1,390
Net realized and unrealized gains on investments	0	213
Change in value of split interest agreements	(1,779)	(79)
Net assets released from restrictions	(1,075)	(840)
Net change in temporarily restricted net assets	904	684
PERMANENTLY RESTRICTED NET ASSETS ACTIVITY		
Private gifts and grants	644	2,973
Net change in permanently restricted net assets	644	2,973
Increase in total net assets	6,873	9,299
Total net assets, beginning of year	91,328	82,029
Total net assets, end of year	\$ 98,201	\$ 91,328

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

For the Years Ended June 30, 2000 and 1999

(in thousands)

	June 30,	
	2000	1999
OPERATING ACTIVITIES		
Increase in net assets	\$ 6,873	\$ 9,299
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,996	3,881
Provision for doubtful accounts	28	43
Net gains on/gÆvestmenss	(4,983)	4,421
Contributions restricted for endowments	(644)	(2,973)
Loss on disposal of plant assets	0	69
Change in value of split interest agreements	1,779	79
Cash provided (used) by changes in operating assets and liabilities:		
Student accounts receivable	149	34
Governmental student loan programs	120	141
Accounts payable, accrued liabilities and other liabilities	105	1,354
Government grants and other receivables	22	(107)
Deferred revenue	6	149
Investments managed on behalf of others	(92)	(130)
Student loans	(151)	(367)
Inventories and prepaid expenses	(240)	269
Student deposits and prepaid fees	(352)	(175)
Net cash provided by operating activities	<u>5,616</u>	<u>7,145</u>
INVESTING ACTIVITIES		
Proceeds from sale in long-term investments	2,707	1,007
Proceeds from note collections	138	178
Purchase of property held for resale	0	(1,926)
Notes issued	(15)	(142)
Purchase of long-term investments	(9,168)	(4,716)
Purchase of land, buildings and equipment advanced against proceeds of long-term debt	(4,615)	(4,031)
Purchase of land, buildings and equipment from operating funds	(7,275)	(6,257)
Net cash used in investing activities	<u>(18,228)</u>	<u>(15,887)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of new debt	13,012	170
Contributions restricted for endowments	644	2,973
Annuity payments and other	(41)	(43)
Net financing transactions related to split interest agreements	4,445	1,007
Payments on long-term debt	(4,302)	(1,075)
Net cash provided by financing activities	<u>13,578</u>	<u>3,032</u>
Net increase (decrease) in cash and cash equivalents	1,146	(5,710)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,944	7,654
End of year	<u>\$ 3,090</u>	<u>\$ 1,944</u>
Supplemental disclosure of cash flow information — cash paid during the year for interest.	<u>\$ 1,550</u>	<u>\$ 1,082</u>

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years Ended June 30, 2000 and 1999

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General

Seattle Pacific University is a private nonprofit institution of higher education based in Seattle, Washington. The University offers degree programs rooted in the Christian faith for undergraduate and graduate students through the College of Arts and Sciences and three professional schools: Business and Economics, Education, and Health Sciences. The University offers 49 undergraduate majors and 37 minors, 11 masters degree programs and two doctoral programs.

Basis of Presentation

The accompanying consolidated financial statements are those 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. Foundation Directors are appointed by the University's Board of Trustees.

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 intercompany transactions and balances have been eliminated. Resources received by the University and the Foundation are classified into three net asset categories according to presence or absence of donor 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 net assets received during the year that were subject to donor imposed restrictions that were temporary and were satisfied during the same year. Unrestricted net assets are designated into the following categories:

Available for operational activities includes the unrestricted operating net assets of the University and Foundation including internally designated funds for operational or special purposes such as net assets for lending activity to students and net assets designated for acquisition and construction of buildings and equipment.

Investments for endowments includes assets designated by the Board of Trustees as quasi-endowments and the realized and unrealized gains and reinvested income on all endowment funds unless otherwise restricted by the terms of the endowment agreements.

Invested in land, building and equipment includes the cost less accumulated depreciation of land, building and equipment less related debt.

Temporarily restricted net assets

Temporarily restricted net assets includes amounts that are subject to donor imposed time or use restrictions that have not been met, primarily related to net assets held in irrevocable trusts. At June 30, 2000 and 1999, \$12,324,000 and \$11,963,000 respectively, are restricted by the passage of time and \$1,183,000 and \$640,000, respectively, are restricted by use requirements.

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 be made available for program operations and scholarships in accordance with donor restrictions. Generally only the original gift value of an endowment that has donor restrictions is considered permanently restricted.

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 restrictions. Contributions other than cash are recorded at their fair market 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 which the assets are acquired or placed into service.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities at the date of purchase of three months or less. Cash equivalents totaled \$2,458,000 and \$2,638,000 at June 30, 2000 and 1999, respectively.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Real estate held for investment or sale acquired through contributions is reported at fair market value or appraisal value at the date of the gift, unless there has been a permanent impairment of value which requires a subsequent adjustment to current fair value. If an independent appraisal is not available for real estate at the date of donation, the investment is recorded at an amount that approximates fair value based on the judgment of University and Foundation management. These investments are intended by management to be long-term investments primarily held or maintained for use as endowments managed by the Foundation.

Credit Risk and Fair Value of Financial Instruments

The University grants credit primarily to 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 accounts receivables, governmental grants and other receivables, and accounts payable, approximate fair value due to the short-term maturities of these instruments. The carrying amount of the University's notes receivable and notes payable, approximate 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.

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 3 years for computers to 50 years for buildings.

Estates and Trusts

Trusts in which either the University or the Foundation is named as irrevocable beneficiary but is not trustee, are recorded in the consolidated financial statements as contribution income when the trustee notifies the University or Foundation and the ownership percentage and valuation are determined.

Student Loans

The University administers two federal revolving student loan programs, the Perkins Student Loan and Nursing Student Loan programs. The programs are funded 67% by the Federal Government and 33% by the University. Loans under these programs have a ten-year repayment period. Interest rates range from 3% to 6%. In the event of termination of the program, the loan repayments would be distributed to the Federal Government and the University on the basis of their relative contributions to the program. Any outstanding uncollectable loan balances would be allocated between the Federal Government and the University in a similar manner in the event of termination of the program.

Deferred Revenues

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

Notes to Consolidated Financial Statements (cont.)

NOTE B – STUDENT ACCOUNTS RECEIVABLE:

Student accounts receivable consists of net amounts due from students for tuition, room, board and other enrollment related charges. At June 30, 2000 and 1999 net amounts due for subsequent summer term charges are recorded as a receivable with the related revenue reflected as deferred revenue. Student accounts receivable consists of the following balances:

	June 30,	
	2000 (\$000)	1999 (\$000)
Amounts due from charges for prior academic terms	\$ 1,391	\$ 1,471
Amounts due for summer term earned subsequent to year-end.	1,229	1,362
	<u>2,620</u>	<u>2,833</u>
Allowance for doubtful accounts	(408)	(444)
Net student accounts receivable balance	<u><u>\$ 2,212</u></u>	<u><u>\$ 2,389</u></u>

NOTE C – INVESTMENTS

Investments are composed of pooled investment funds, marketable securities and real estate. The University's pooled investments are composed of four 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,	
	2000 (\$000)	1999 (\$000)
Pooled investments:		
Short-term investments	\$ 2,791	\$ 2,551
Marketable securities, common stock	51,515	37,995
Marketable securities, bond mutual funds	5,792	10,044
Notes receivable	3,519	1,486
Real estate	1,869	1,674
Total pooled investments	<u>65,486</u>	<u>53,750</u>
Equity instruments	288	1,487
Debt instruments	425	1,243
Real estate held for investment or sale	7,699	4,171
Total investments	<u><u>\$ 73,898</u></u>	<u><u>\$ 60,651</u></u>

The following schedule summarizes investment return and its classification on the statement of activities:

	June 30,	
	2000 (\$000)	1999 (\$000)
Investment income	\$ 368	\$ 157
Net gain on investments	4,615	4,264
Total return on investments	<u><u>\$ 4,983</u></u>	<u><u>\$ 4,421</u></u>
Operating		
Endowment gains and income distribution	\$ 1,243	\$ 1,000
Non-operating		
Net gains and investment income on endowments	2,034	1,981
Net gains and investment income on other investments	1,706	1,440
Total return on investments	<u><u>\$ 4,983</u></u>	<u><u>\$ 4,421</u></u>

Notes to Consolidated Financial Statements (cont.)

NOTE D – LAND, BUILDINGS AND EQUIPMENT:

Land, buildings and equipment consist of the following:

	June 30,	
	2000 (\$000)	1999 (\$000)
Land	\$ 15,701	\$ 14,852
Buildings	70,235	61,841
Equipment	12,732	11,328
Library books	4,175	3,692
Construction in progress	6,287	5,527
	<u>109,130</u>	<u>97,240</u>
Accumulated depreciation	(37,187)	(34,191)
Net land, buildings and equipment	<u><u>\$ 71,943</u></u>	<u><u>\$ 63,049</u></u>

Unrestricted net assets available for operational activities includes funds expended for construction in progress expenditures. As of June 30, 2000 and 1999, the unrestricted net assets related to construction in progress were \$2,130,000 and \$2,487,000, respectively.

NOTE E – LONG TERM DEBT:

The University has available with Bank of America a \$25,000,000 credit agreement to finance capital construction through term notes at variable rates based on the bank's cost of funds at the time of note issuance. As of June 30, 2000, twelve notes totaling \$20,772,000 were issued under the agreement. The credit agreement also provides for a \$6,000,000 line of credit at a floating prime interest rate. As of June 30, 2000, there were no amounts outstanding under this line of credit. The credit agreement prohibits the University from otherwise encumbering non-residential properties. The University also maintains other long-term notes with Bank of America that are not included in the credit agreement.

The University has entered into interest swap agreements with Bank of America to reduce the impact of changes in interest rates on six of these eight term notes by swapping the variable rates for fixed rates. The interest rate swap agreements mature at the time the related note matures. The notes with an associated swap agreement are noted with an asterisk (*).

	June 30,	
	2000 (\$000)	1999 (\$000)
Debt under Bank of America Credit Agreement		
Bank of America 7 year term note, 7.65%, due August 1999*	\$ 0	\$ 3,236
Bank of America 7 year term note, 6.48%, due June 2000*	0	231
Bank of America 10 year term note, 8.12%, due August 2002*	3,616	3,784
Bank of America 10 year term note, 6.73%, due April 2003	449	588
Bank of America 10 year term note, 7.31%, due July 2003*	798	834
Bank of America 10 year term note, 7.61%, due December 2003*	1,642	1,709
Bank of America 10 year term note, 7.72%, due March 2004*	832	865
Bank of America 10 year term note, LIBOR plus 1.0% (7.77% at June 30, 2000) due July 2006	669	779
Bank of America variable rate notes ranging from 7.08% to 7.77% and maturities ranging from August 2002 to August 2006.	12,765	0
Primarily residential secured notes with fixed rates ranging from 7.00% to 7.75% and maturities ranging from October 2003 to June 2028.	1,264	1,299
Total bank notes payable	<u><u>\$ 22,035</u></u>	<u><u>\$ 13,325</u></u>

Notes to Consolidated Financial Statements (cont.)

The aggregate minimum payments required for principal reduction for all bank notes payable listed above are as follows:

Fiscal Year Ending	Principal (\$000)
2001	\$ 992
2002	1,060
2003	7,237
2004	3,329
2005	6,467
Thereafter	2,950
Total	\$ 22,035

NOTE F – SPLIT INTEREST AGREEMENTS:

The Foundation has entered into a variety of charitable remainder trusts for which the Foundation is the trustee. For trusts with a fixed percentage payment obligation (straight unitrusts), an estimated liability has been recorded representing the expected cash flow to named beneficiaries, discounted primarily at 11.4%. Expected cash flows are based upon estimated earnings of 9-10% and a life expectancy of a pool of similar trusts. For trusts where payments are dependent on realization of future income (net income trusts), the University has recorded its estimated remainder interest in these trusts as contribution revenue, discounted at 5.5%. The difference between the fair value of the assets received and the estimated remainder interest has been recorded as deferred revenue. The estimated remainder interest is based upon estimated earnings of 9-10% and a life expectancy based on the weighted average life expectancy of a pool of similar trusts. Investments related to these agreements are reflected as long term investments in the accompanying consolidated financial statements.

During the year ended June 30, 2000, 41 of 43 net income unitrusts were reformed to straight unitrusts. These reformations were authorized under the final Treasury Regulations that were adopted on December 10, 1998 under Section 664(d)(1) of the Internal Revenue Code of 1986, as amended. As a result, \$4,718,000 of deferred revenue was adjusted to \$7,475,000 of trust and annuity obligations during the year based on the present value calculations described above.

NOTE G – ANNUITY OBLIGATIONS:

The University and Foundation have entered into a variety of charitable gift annuities and annuity trusts where the University or the trust agree 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 or trust 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 \$570,000 and \$610,000 at June 30, 2000 and 1999, respectively. The annuity trust payments are obligations of the trust and the present value of these annuity trust obligations totaled \$318,000 and \$319,000 at June 30, 2000 and 1999, respectively.

NOTE H – RETIREMENT PLAN:

The University participates in a 401(a) defined contribution retirement plan. The plan provides for employer contributions that are directed by participants to investment funds of Teachers Insurance and Annuity Association 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 \$1,499,000 for the years ended June 30, 2000 and 1999 respectively. The University also provides a 403(b)(7) supplemental retirement plan funded by individual employee contributions. These contributions are voluntary and the plan is open to all employees.

Notes to Consolidated Financial Statements (cont.)

NOTE I – FUNDRAISING EXPENSE:

Institutional support expense reflected on the Statement of Activities includes approximately \$1,991,000 and \$1,396,000 of fundraising expenses for the years ended June 30, 2000 and 1999, respectively.

NOTE J – COMMITMENTS AND CONTINGENCIES:

Commitments

The investment pools managed by the Foundation participate in seven venture and private equity investment programs through Commonfund Capital Inc., a wholly owned subsidiary of Commonfund Group. The University has committed to invest \$15,193,000 in these programs. At June 30, 2000, a cumulative total of \$5,091,000 has been invested. The remaining \$10,102,000 will be invested in one or more installments, and in amounts and on dates specified by Commonfund Capital, Inc.

Contingencies

The University is an equity owner of the College Liability Insurance Company (CLIC). For the fiscal year ended June 30, 2000, the University had a \$291,000 contingent liability for its portion of a \$2,000,000 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 realize losses in excess of its claim loss and equity reserves.

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

NOTE K – SUBSEQUENT EVENTS:

Subsequent to June 30, 2000 the University issued \$87,000,000 in variable rate, tax-exempt bonds with a 30-year amortization. The proceeds from the bond issue refunded \$21,823,000 of existing taxable debt with the remaining proceeds to be used for capital expenditures related to the construction, acquisition and renovation of facilities and equipment. Refunding of taxable debt resulted in no accounting loss.

Financial Report - June 30, 2000

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University Advancement

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