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Seattle Pacific
UNIVERSITY



Year Ending June 30, 2002
Financial Report



About Seattle Pacific University

Seattle Pacific University is a fully accredited institution of higher learning which offers degree programs in the 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 more than 3,600 degree-seeking students per academic quarter, primarily at its Seattle campus, as well as 3,450 adult learners per academic quarter in continuing education centers across Washington state.

Academically, Seattle Pacific University offers 48 undergraduate majors and 39 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 10 master's degrees and two doctoral programs, one in educational leadership, the other in clinical 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.

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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, 2002 and 2001, 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 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 the University as of June 30, 2002 and 2001, 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.

As discussed in note F to the financial statements, effective July 1, 2000, the University adopted the provisions of Financial Accounting Standards Board Statement No. 133.

KPMG LLP

Seattle, Washington
September 27, 2002

Consolidated Statements of Financial Position

	June 30,	
	2002	2001
ASSETS		
Cash and cash equivalents	\$ 25,658	\$ 18,348
Student accounts receivable, net	2,529	2,268
Governmental grants and other receivables	863	1,318
Current portion of student loans	1,040	934
Current portion of investments	17,495	23,725
Inventories and prepaid expenses	846	761
Total current assets	48,431	47,354
Student loans, net of allowance of \$208 in 2002 and \$210 in 2001	6,214	6,068
Notes receivable, net of allowance of \$56 in 2002 and \$56 in 2001	465	2,260
Contributions receivable, net of allowance of \$55 in 2002	840	—
Bond issuance costs, net	919	951
Investments	34,131	33,832
Investments restricted for capital projects or debt retirement	23,671	43,447
Land, buildings and equipment, net	105,759	93,498
Total assets	\$ 220,430	\$ 227,410
LIABILITIES AND NET ASSETS		
Liabilities		
Note payable to bank — line of credit	\$ 8,950	\$ 8,700
Accounts payable, accrued expenses and other liabilities	6,979	8,321
Student deposits and prepaid fees	1,280	1,271
Deferred revenue	3,355	3,490
Current portion of bonds payable	1,184	—
Current portion of trust and annuity obligations	1,492	1,772
Total current liabilities	23,240	23,554
Bonds payable	85,816	87,000
Investments managed on behalf of others	4,561	5,604
Trust and annuity obligations	9,117	10,633
Other, principally trust funds held for others and life income funds	5,762	5,465
Governmental student loan programs	5,949	5,807
Total long-term liabilities	111,205	114,509
Total liabilities	134,445	138,063
Net assets		
Unrestricted	58,618	64,352
Temporarily restricted	12,416	10,583
Permanently restricted	14,951	14,412
Total net assets	85,985	89,347
Total liabilities and net assets	\$ 220,430	\$ 227,410

See accompanying notes to consolidated financial statements

Consolidated Statements of Activities

For the Years Ended June 30, 2002 and 2001

(in thousands)

	June 30,	
	2002	2001
OPERATING UNRESTRICTED NET ASSETS ACTIVITY		
Revenues and other support		
Student charges:		
Regular term academic degree programs:		
Undergraduate tuition and fees	\$ 43,555	\$ 39,033
Less: grants and scholarships	(13,232)	(12,450)
Net undergraduate tuition and fees	30,323	26,583
Graduate tuition and fees	6,101	5,787
Continuing education, summer school and other special programs	3,287	2,904
Net tuition and fees	39,711	35,274
Student housing and dining fees	10,087	8,235
Net student charges	49,798	43,509
Private gifts and grants	2,539	2,716
Public service activities	1,747	1,565
Government grants, primarily for students	1,216	1,193
Distributions from endowment to support operations, grants and scholarships	1,890	1,757
Other revenue and support	2,479	2,585
Net assets released from restrictions	794	1,084
Total operating revenues and other support	60,463	54,409
Expenses		
Instruction:		
Regular academic term degree programs	22,639	21,369
Continuing education, summer school and other special programs	2,565	2,333
Total instruction	25,204	23,702
Student housing and dining expenses	10,514	8,972
Institutional support	10,453	9,955
Student services	9,931	9,213
Academic support	2,514	2,381
Public service	1,276	1,086
Total operating expenses	59,892	55,309
Excess (deficit) of revenues and other support over expenses from operating activities	571	(900)
NONOPERATING UNRESTRICTED NET ASSETS ACTIVITY		
Investment income, realized and unrealized gains and (losses), net	(3,477)	(2,943)
Endowment distributions for operations, grants and scholarships	(1,890)	(1,757)
Unrealized loss on interest rate hedging related to bonds	(850)	(1,060)
Change in value of annuity obligations	(88)	(77)
Decrease in net assets from nonoperating activities	(6,305)	(5,837)
Net change in unrestricted net assets	(5,734)	(6,737)
TEMPORARILY RESTRICTED NET ASSETS ACTIVITY		
Private gifts and grants	3,739	337
Change in value of split interest agreements	(1,112)	(2,177)
Net assets released from restrictions	(794)	(1,084)
Net change in temporarily restricted net assets	1,833	(2,924)
PERMANENTLY RESTRICTED NET ASSETS ACTIVITY		
Private gifts and grants	539	807
Net change in permanently restricted net assets	539	807
Decrease in total net assets	(3,362)	(8,854)
Total net assets, beginning of year	89,347	98,201
Total net assets, end of year	\$ 85,985	\$ 89,347

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2002 and 2001

(in thousands)

	June 30,	
	2002	2001
OPERATING ACTIVITIES		
Decrease in net assets	\$ (3,362)	\$ (8,854)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,311	4,697
Amortization of bond issuance costs	33	33
Provision for doubtful accounts	100	41
Net loss (gain) on investments	3,995	3,553
Contributions restricted for endowments and capital projects	(618)	(908)
Loss on disposal of plant assets	171	497
Contributions of land, insurance, investments	—	(30)
Change in value of split interest agreements	1,112	2,177
Unrealized loss on interest rate hedging related to bonds	850	1,060
Cash provided (used) by changes in operating assets and liabilities:		
Student accounts receivable	(361)	(97)
Governmental student loan programs	142	172
Contributions receivable	(840)	—
Accounts payable, accrued liabilities and other liabilities	502	757
Government grants and other receivables	441	(389)
Deferred revenue	(135)	887
Investments managed on behalf of others	127	(104)
Student loans	(252)	(203)
Inventories and prepaid expenses	(91)	173
Student deposits and prepaid fees	9	(38)
Net cash provided by operating activities	<u>7,134</u>	<u>3,424</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	26,785	13,286
Purchase of investments	(4,756)	(46,228)
Proceeds from collections of notes receivable	1,857	24
Notes issued	(23)	(1,649)
Purchase of land, buildings and equipment	(22,721)	(25,650)
Net cash provided by investing activities	<u>1,142</u>	<u>(60,217)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of long term debt	—	87,000
Bond issuance costs	—	(984)
Proceeds from borrowing under short-term line of credit	8,950	8,700
Payment of short-term line of credit	(8,700)	—
Contributions restricted for endowments and capital projects	618	908
Annuity payments and other	(38)	(101)
Net cash transactions related to split interest agreements	(1,796)	(1,435)
Payments on long-term debt	—	(22,035)
Net cash provided by financing activities	<u>(966)</u>	<u>72,053</u>
Net increase in cash and cash equivalents	<u>7,310</u>	<u>15,260</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	18,348	3,088
End of year	<u>\$ 25,658</u>	<u>\$ 18,348</u>
Supplemental disclosure of cash flow information —		
Cash paid during the year for interest, net of amount capitalized	<u>\$ 3,305</u>	<u>\$ 3,844</u>
Acquisition of property, plant and equipment through accounts payable	<u>\$ 416</u>	<u>\$ 2,097</u>

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years Ended June 30, 2002 and 2001

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General

Seattle Pacific University is a private nonprofit institution of Christian 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 48 undergraduate majors and 39 minors, 10 master's degree programs and two 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-company 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 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 which were subject to donor-imposed restrictions that were temporary and were 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. At June 30, 2002 and 2001, \$12,020,000 and \$10,070,000, respectively, are restricted by the passage of time, primarily related to net assets held in irrevocable trusts, and \$396,000 and \$513,000, 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 is 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 with donor restrictions that are met within the same fiscal year that the gift was 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.

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 \$23,592,000 and \$12,606,000 at June 30, 2002 and 2001, respectively.

Investments

Investments in equity securities with readily determinable fair market values and all investments in debt securities are reported at fair market value as of June 30, 2002 and 2001. Real estate held for investment or sale is reported at fair market value. If an independent appraisal is not available for real estate, the investment is recorded at an amount that approximates fair market value based on the judgment of University management. These investments are intended by management to be long-term

investments primarily held or maintained for use as endowments managed by the Foundation. As of June 30, 2002, investment balances include \$3,391,000 related to two limited liability companies that individually run and operate real estate properties. This balance is accounted for using the equity method.

Investments Restricted for Capital Projects or Debt Retirement

Investments restricted for capital projects or debt retirement include unspent proceeds from bond issues that are invested in guaranteed investment contracts and are restricted for future construction and capital project funds.

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

Bond Issuance Costs

Bond issuance costs include amounts paid by the University in connection with the issuance of the Series 2000A and 2000B WHEFA Bonds. Amortization of issuance costs is calculated using the straight-line method over the life of the bonds. Amortization expense related to bond issuance costs in the years 2002 and 2001 was \$33,000.

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost, or if donated, at the fair market 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 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.

Deferred Revenues

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

Investments Managed on Behalf of Others

The Foundation manages the assets of an unrelated foundation. Those assets and a corresponding liability are included in the accompanying consolidated financial statements.

Taxes

The University and the Foundation are exempt from federal income taxes as entities described in Section 501(c)(3) and Section 509(a)(3) of the Internal Revenue Code except to the extent of unrelated business taxable income as defined in sections 511 through 515 of the Internal Revenue Code. The University did not incur unrelated business income tax for the years ended June 30, 2002 and 2001. Accordingly, the financial statements do not include a provision for Federal income tax. In addition, the University presently is exempt from real and personal taxes on educational and other noncommercial properties of the University and the Foundation.

Reclassifications

Certain reclassifications have been made to the 2001 consolidated financial statements to conform to the classifications used in 2002.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

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, 2002 and 2001 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,	
	2002	2001
	(\$000)	(\$000)
Amounts due from charges for prior academic terms	\$ 1,603	\$ 1,349
Amounts due for summer term earned subsequent to year-end	1,475	1,368
	<u>3,078</u>	<u>2,717</u>
Allowance for doubtful accounts	(549)	(449)
Net student accounts receivable balance	<u>\$ 2,529</u>	<u>\$ 2,268</u>

NOTE C - INVESTMENTS:

Investments are composed of pooled investment funds, marketable securities and real estate. The University's pooled investments are composed of two 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,	
	2002	2001
	(\$000)	(\$000)
Pooled investments:		
Cash and short-term investments	\$ 511	\$ 6,196
Marketable securities, common stock	29,126	35,703
Marketable securities, bond mutual funds	6,154	5,929
Private equities	4,937	6,596
Notes receivable	3,125	1,908
Real estate	4,699	4,766
Total pooled investments	<u>48,552</u>	<u>61,098</u>
Due to other funds	(1,650)	(5,567)
Net pooled investments	<u>46,902</u>	<u>55,531</u>
Equity securities	189	193
Debt securities	455	556
Real estate held for investment or sale	4,080	1,277
Total investments	<u>\$ 51,626</u>	<u>\$ 57,557</u>

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

	June 30,	
	2002	2001
	(\$000)	(\$000)
Investment income	\$ 518	\$ 610
Net realized and unrealized losses on investments	(3,995)	(3,553)
Investment income, realized and unrealized losses, net	<u>\$ (3,477)</u>	<u>\$ (2,943)</u>
Operating		
Endowment distributions for operations, grants and scholarships	\$ 1,890	\$ 1,757
Nonoperating		
Net loss on endowments, net of distributions	(5,872)	(5,359)
Net gains on other investments	505	659
Investment income, realized and unrealized losses, net	<u>\$ (3,477)</u>	<u>\$ (2,943)</u>

NOTE D – CONTRIBUTIONS RECEIVABLE:

Contributions receivable at June 30, 2002 include pledges that have been discounted at a rate of 5% and are due to be collected as follows:

	June 30, 2002
	(\$000)
Contributions expected to be collected:	
Within one year	\$ 193
One to five years	508
More than five years	400
	<u>1,101</u>
Less: present value component	(206)
Less: allowance for uncollectible contributions receivable	(55)
Total contributions receivable	<u>\$ 840</u>

The University did not have unconditional promises to give before July 1, 2001.

NOTE E – LAND, BUILDINGS AND EQUIPMENT:

Land, buildings and equipment consist of the following:

	June 30,	
	2002	2001
	(\$000)	(\$000)
Land	\$ 16,831	\$ 17,997
Buildings	100,067	75,161
Equipment	12,022	13,276
Library books	4,905	4,498
Construction in progress	11,960	23,257
	<u>145,785</u>	<u>134,189</u>
Accumulated depreciation	(40,026)	(40,691)
Net land, buildings and equipment	<u>\$ 105,759</u>	<u>\$ 93,498</u>

NOTE F – BONDS PAYABLE:

As of June 30, 2002, bonds payable issued through WHEFA (Washington Higher Education Facilities Authority) and associated interest rates and maturities consist of:

	Interest rates	Maturity dates	Amount (\$000)
Series 2000A Bonds	Weekly variable rate	2003-2030	\$ 66,300
Series 2000B Bonds	Weekly variable rate	2005-2030	20,700
			<u>\$ 87,000</u>

The weekly variable rate in effect on June 30, 2002 was 1.4%.

Principal payments on the June 30, 2002 obligations are due as follows during the next five fiscal years and thereafter:

	Principal (\$000)
2002-2003	1,184
2003-2004	2,368
2004-2005	2,766
2005-2006	3,164
2006-2007	3,164
Thereafter	74,354
	<u>\$ 87,000</u>

Notes to Consolidated Financial Statements (cont.)

For the fiscal year ended June 30, 2002 and 2001, the University incurred \$3,992,000 and \$4,163,000, respectively, in total interest costs related to long-term debt. Of this, \$687,000 and \$319,000, respectively, was capitalized as a cost of construction projects and \$3,305,000 and \$3,844,000, respectively, was charged against operations. Of the amount charged to operations, \$2,133,000 and \$3,181,000, respectively, was paid out of bond proceeds.

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. The bonds are supported by an underlying Letter of Credit with Bank of America. The reimbursement agreement for the Letter of Credit contains restrictive covenants as to the maintenance of certain financial ratios and measures as defined in the agreement.

The University maintains a \$10,000,000 revolving line of credit at a floating interest rate. As of June 30, 2002, there were draws of \$8,950,000 outstanding against this line. The variable rate in effect at June 30, 2002, related to this borrowing was 4.75%. The balance on the revolving line of credit was subsequently repaid in July 2002.

NOTE G – INTEREST RATE RISK MANAGEMENT — CASH FLOW HEDGE:

The University uses variable-rate debt to finance the acquisition of property, plant and equipment as indicated in Note F. These debt obligations expose the University to variability in interest payments due to changes in interest rates. If interest rates increase, interest expenses increase. Conversely, if interest rates decrease, interest expenses decrease.

The University believes it is prudent to limit the variability of a portion of its interest payments. In addition, the reimbursement agreement related to the underlying letter of credit to the University's bond issue requires some form of interest rate hedging. It is the University's objective to hedge 30-50% of its variable-rate interest payments related to this debt, depending on the existing interest rate environment. To meet this objective, the University entered into various types of derivative instruments to manage fluctuations in cash flows resulting from interest rate risk. These instruments include interest rate swaps and caps.

The University swapped its variable-rate cash flow exposure on the 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 fixed-rate debt. In September 2000, the University acquired a 20-year swap from Lehman Brothers at a fixed rate of 4.85% on \$20,700,000 of the outstanding variable rate debt. In November 2001, the University acquired a 10-year and 7-year swap from Bank of America for \$40,000,000 at 3.89% and \$12,000,000 at 3.58% respectively. There was no cash exchanged at the time of acquisition due to the relationship between the variable rates and the swap rate at that time.

The University assesses interest rate cash flow risk by identifying and monitoring changes in interest rate exposure that may adversely impact expected future cash flows and by evaluating hedging opportunities. The University maintains control systems to monitor interest rate cash flow risk attributable to the outstanding debt obligations and hedge positions through the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on the University's future cash flows.

Changes in the fair market value of the interest rate swap are reported as unrealized gains or losses on interest rate hedge related to bonds on the Statement of Activities. As of June 30, 2002, the valuation of the swap resulted in a net unrealized loss of \$850,000 due to declining variable interest rates since July and November 2001. The offsetting liability related to this loss is included in other long-term liabilities.

The University does not enter into derivative instruments for any purpose other than cash flow hedging purposes. That is, the University does not speculate for investment purposes using derivative instruments.

NOTE H – SPLIT INTEREST AGREEMENTS:

The University has entered into a variety of charitable remainder trusts for which the University is the trustee. For trusts with a fixed percentage payment obligation (straight unitrusts) established prior to and including 1998, 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 11.4% and a life expectancy of a pool of similar trusts. For all unitrusts established after 1998, the present value of these estimated payments was determined on the basis of published actuarial

factors for ages of the respective beneficiaries discounted using current IRS rates of between 5.8% and 8.0%. 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.

NOTE I – 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 \$513,000 and \$486,000 at June 30, 2002 and 2001, respectively. The annuity trust payments are obligations of the trust, and the present value of these annuity trust obligations totaled \$301,000 and \$310,000 at June 30, 2002 and 2001, respectively.

NOTE J – 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 \$1,696,000 and \$1,657,000 for the years ended June 30, 2002 and 2001, 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.

NOTE K – FUNDRAISING EXPENSE:

Institutional support expense reflected on the Statement of Activities includes approximately \$2,488,000 and \$2,233,000 of fundraising expenses for the years ended June 30, 2002 and 2001, respectively.

NOTE L – COMMITMENTS AND CONTINGENCIES:

Commitments

The investment pools managed by the Foundation participate in fifteen 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 \$19,243,000 in these programs. At June 30, 2002, a cumulative total of \$8,179,000 has been invested. The remaining \$11,064,000 will be invested in one or more 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 ended June 30, 2002, the University had a \$203,000 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 fail to repay amounts borrowed under the letter of credit.

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 accounting principles generally accepted in the United States of America.

Financial Report - June 30, 2002

University Administration

Philip W. Eaton
President

Marjorie R. Johnson
Vice President for University Relations
Assistant to the President

Robert D. McIntosh
Vice President for University Advancement

Donald W. Mortenson
Vice President for Business and Planning

Les L. Steele
Vice President for Academic Affairs

University Board of Trustees

H. Mark Abbott
Campus Pastor, First Free Methodist Church
Seattle, WA

Carol L. Bartlett
Church Administrator
First Free Methodist Church
Seattle, WA

Lawrence F. Brown, Jr., *Secretary*
Attorney / CPA
Fall City, WA

Forest C. Bush
Conference Superintendent
Free Methodist Church
Sacramento, CA

William J. Clancy
Retired Financial Advisor
Cornerstone Advisors, Inc.
Bellevue, WA

John P. Clark
Senior Pastor
Wenatchee Free Methodist Church
Wenatchee, WA

Victor E. Delamarter
Broker, Midland Real Estate
GMAC Real Estate
Madras, OR

Philip W. Eaton
President, Seattle Pacific University
Seattle, WA

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