Engaging the culture, changing the world.

Seattle Pacific UNIVERSITY

Year Ending June 30, 2003
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 3,700 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 ten master's degrees and two doctoral programs, one in educational leadership, the other in clinical psychology.

The University's physical plant includes a 45-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.

Cover photo: *SPU's new undergraduate science facility opened in September 2003 and is located in the center of campus bordering the University's historic Tiffany Loop area. The 63,000-square-foot building provides instructional space, research laboratories and offices for faculty and undergraduate students studying in biology, chemistry, botany and other lab-based sciences.*

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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, 2003 and 2002, 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, 2003 and 2002, 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
September 26, 2003

Consolidated Statements of Financial Position

For the Years Ended June 30, 2003 and 2002
(in thousands)

	June 30, 2003	June 30, 2002
ASSETS		
Cash and cash equivalents	$ 23,659	$ 25,658
Student accounts receivable, net	2,632	2,529
Governmental grants and other receivables	2,287	863
Current portion of student loans	1,238	1,040
Current portion of investments	18,369	17,495
Inventories and prepaid expenses	918	846
Total current assets	49,103	48,431
Student loans, net of allowance of $210 in 2003 and $208 in 2002	6,042	6,214
Contributions receivable, net	959	840
Other receivables and prepaid expenses	1,833	1,384
Investments	33,494	34,131
Investments restricted for capital projects or debt retirement	9,302	23,671
Land, buildings and equipment, net	120,063	105,759
Total assets	$ 220,796	$ 220,430
LIABILITIES AND NET ASSETS		
Liabilities		
Note payable to bank — line of credit	$ 10,000	$ 8,950
Accounts payable, accrued expenses and other liabilities	8,450	6,979
Student deposits and prepaid fees	1,246	1,280
Deferred revenue	3,437	3,355
Current portion of bonds payable	2,370	1,184
Current portion of trust and annuity obligations	1,263	1,492
Total current liabilities	26,766	23,240
Bonds payable	83,445	85,816
Investments managed on behalf of others	5,521	5,732
Trust and annuity obligations	8,544	9,117
Deferred unrealized loss on interest rate swaps	7,608	1,910
Other, principally trust funds held for others and life income funds	2,332	3,852
Governmental student loan programs	6,110	5,949
Total long-term liabilities	113,560	112,376
Total liabilities	140,326	135,616
Net assets		
Unrestricted	51,365	58,618
Temporarily restricted	13,700	11,245
Permanently restricted	15,405	14,951
Total net assets	80,470	84,814
Total liabilities and net assets	$ 220,796	$ 220,430

See accompanying notes to consolidated financial statements

Consolidated Statements of Activities

For the Years Ended June 30, 2003 and 2002
(in thousands)

	June 30, 2003	June 30, 2002
OPERATING UNRESTRICTED NET ASSETS ACTIVITY		
Revenues and other support		
Student charges:		
Regular academic term degree programs:		
Undergraduate tuition and fees	$ 47,086	$ 43,555
Less: grants and scholarships	(14,746)	(13,232)
Net undergraduate tuition and fees	32,340	30,323
Graduate tuition and fees	6,875	6,101
Continuing education, summer school and other special programs	3,556	3,287
Net tuition and fees	42,771	39,711
Student housing and dining fees	10,849	10,087
Net student charges	53,620	49,798
Private gifts and grants	3,490	2,539
Public service activities	1,780	1,747
Government grants, primarily for students	1,196	1,216
Distributions from endowment to support operations, grants and scholarships	1,666	1,890
Other revenue and support	2,282	2,479
Net assets released from restrictions	1,121	794
Total operating revenues and other support	65,155	60,463
Expenses		
Instruction:		
Regular academic term degree programs	24,420	22,639
Continuing education, summer school and other special programs	2,582	2,565
Total instruction	27,002	25,204
Institutional support	11,854	10,453
Student housing and dining expenses	11,674	10,514
Student services	10,587	9,931
Academic support	2,760	2,514
Public service	1,335	1,276
Total operating expenses	65,212	59,892
Excess (deficit) of revenues and other support over expenses from operating activities	(57)	571
NONOPERATING UNRESTRICTED NET ASSETS ACTIVITY		
Investment income, realized and unrealized gains and (losses), net	329	(3,477)
Endowment distributions for operations, grants and scholarships	(1,666)	(1,890)
Unrealized loss on interest rate swaps related to bonds	(5,699)	(850)
Change in value of annuity obligations	(160)	(88)
Decrease in net assets from nonoperating activities	(7,196)	(6,305)
Net change in unrestricted net assets	(7,253)	(5,734)
TEMPORARILY RESTRICTED NET ASSETS ACTIVITY		
Private gifts and grants	3,281	3,739
Change in value of split interest agreements	295	(1,112)
Net assets released from restrictions	(1,121)	(794)
Net change in temporarily restricted net assets	2,455	1,833
PERMANENTLY RESTRICTED NET ASSETS ACTIVITY		
Private gifts and grants	454	539
Net change in permanently restricted net assets	454	539
Decrease in net total assets	(4,344)	(3,362)
Total net assets, beginning of year	84,814	88,176
Total net assets, end of year	$ 80,470	$ 84,814

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2003 and 2002
(in thousands)

	June 30, 2003	June 30, 2002
OPERATING ACTIVITIES		
Decrease in net assets	$ (4,344)	$ (3,362)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,121	5,311
Amortization of bond issuance costs	33	33
Provision for doubtful accounts	60	100
Net realized and unrealized loss on investments	262	3,995
Contributions restricted for endowments and capital projects	(466)	(618)
Loss on disposal of plant assets	33	171
Contributions of land, insurance, investments	(52)	—
Change in value of split interest agreements	295	1,112
Unrealized loss on interest rate swaps related to bonds	5,699	850
Cash provided (used) by changes in operating assets and liabilities:		
Student accounts receivable	(163)	(361)
Governmental student loan programs	161	142
Contributions receivable	(119)	(840)
Accounts payable, accrued liabilities and other liabilities	364	502
Government grants and other receivables	(1,418)	441
Deferred revenue	32	(135)
Investments managed on behalf of others	(283)	127
Student loans	(26)	(252)
Inventories and prepaid expenses	(69)	(91)
Student deposits and prepaid fees	16	9
Net cash provided by operating activities	6,136	7,134
INVESTING ACTIVITIES		
Proceeds from sale of investments	15,378	26,785
Purchase of investments	(2,296)	(4,756)
Proceeds from collections of notes receivable	15	1,857
Notes issued	(328)	(23)
Purchase of land, buildings and equipment	(20,065)	(22,721)
Net cash (used) provided by investing activities	(7,296)	1,142
FINANCING ACTIVITIES		
Proceeds from borrowing under short-term line of credit	10,000	8,950
Payment of short-term line of credit	(8,950)	(8,700)
Contributions restricted for endowments and capital projects	466	618
Annuity payments and other	(368)	(38)
Net cash transactions related to split interest agreements	(802)	(1,796)
Payments on long-term debt	(1,185)	—
Net cash provided by financing activities	(839)	(966)
Net (decrease) increase in cash and cash equivalents	(1,999)	7,310
CASH AND CASH EQUIVALENTS		
Beginning of year	25,658	18,348
End of year	$ 23,659	$ 25,658
Supplemental disclosure of cash flow information —		
Cash paid during the year for interest, net of amount capitalized	$ 3,330	$ 3,305
Acquisition of property, plant and equipment through accounts payable	$ 521	$ 416

See accompanying notes to consolidated financial statements

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 degrees in 48 undergraduate major programs and 39 minor areas of study, 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-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 net assets 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. At June 30, 2003 and 2002, $9,545,000 and $8,725,000 respectively, are restricted by the passage of time, primarily related to net assets held in irrevocable trusts, and $4,155,000 and $2,520,000, 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, 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 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 the assets are acquired or placed into 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. Cash equivalents totaled $22,245,000 and $23,592,000 at June 30, 2003 and 2002, respectively.

Investments

Investments in equity securities with readily determinable fair market values and all investments in debt securities are reported at fair market value. 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. Investment balances as of June 30, 2003 and 2002, include $3,386,000 and $3,391,000, respectively, related to two limited liability companies that individually run and operate real estate properties. The two companies, SP Real Estate Partners I and SP Real Estate Fund 2, are 50% owned by the Foundation and are recorded using the equity method of accounting.

At June 30, 2003, the University had certain endowment investments related to donor-restricted endowment funds for which the fair value of assets was $3,815,000, which was less than the cost basis of $4,701,000.

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 loans and accounts receivables, governmental grants and other receivables, and accounts payable approximates fair market 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 that 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 30 year term of the bonds. Amortization expense related to bond issuance costs in the years 2003 and 2002 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 terms.

Investments Managed on Behalf of Others

The Foundation manages the assets of an unrelated foundation and is trustee for several special needs trusts in which the University is remainder beneficiary. 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 pursuant to Section 501(c)(3) and Section 509(a)(3) of the Internal Revenue Code except for unrelated business taxable income as defined in sections 511 through 515 of the Internal Revenue Code. Accordingly, the financial statements do not include a provision for Federal income tax. In addition, the University presently is exempt from real and personal taxes on educational and other noncommercial properties of the University and the Foundation.

Reclassifications

Certain reclassifications have been made to the 2002 consolidated financial statements to conform to the classifications used in 2003.

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.

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, 2003 and 2002, 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,	
	2003 ($000)	2002 ($000)
Amounts due from charges for prior academic terms	$ 1,860	$ 1,609
Amounts due for summer term earned subsequent to year-end	1,387	1,475
	3,247	3,084
Allowance for doubtful accounts	(615)	(555)
Net student accounts receivable balance	$ 2,632	$ 2,529

NOTE C - INVESTMENTS:

Investments are composed of pooled investment funds, marketable securities and real estate. The University's pooled investments are composed of three 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,	
	2003 ($000)	2002 ($000)
Pooled investments:		
Cash and short-term investments	$ 2,210	$ 511
Marketable securities, common stock	27,345	29,126
Marketable securities, bond mutual funds	6,500	6,154
Private equities	5,115	4,937
Notes receivable	2,174	3,125
Real estate	4,712	4,699
Total pooled investments	48,056	48,552
Due to other funds	(1,173)	(1,650)
Net pooled investments	46,883	46,902
Equity securities	206	236
Debt securities	542	408
Real estate held for investment or sale	4,232	4,080
Total investments	$ 51,863	$ 51,626

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

	June 30,	
	2003 ($000)	2002 ($000)
Investment income	$ 591	$ 518
Net realized and unrealized losses on investments	(262)	(3,995)
Investment income, realized and unrealized gains and (losses), net	$ 329	$ (3,477)
Operating		
Endowment distributions for operations, grants and scholarships	$ 1,666	$ 1,890
Nonoperating		
Net gain (loss) on endowments, net of distributions	(1,928)	(5,872)
Net gains on other investments	591	505
Investment income, realized and unrealized gains and (losses), net	$ 329	$ (3,477)

NOTE D – CONTRIBUTIONS RECEIVABLE:

Contributions receivable at June 30, 2003 and 2002, include pledges that have been discounted at a rate of 5% and are due to be collected as follows:

	June 30, 2003 ($000)	June 30, 2002 ($000)
Contributions expected to be collected:		
Within one year	$ 236	$ 193
One to five years	589	508
More than five years	300	400
	1,125	1,101
Less present value component	(110)	(206)
Less allowance for uncollectible contributions receivable	(56)	(55)
Total contributions receivable	$ 959	$ 840

NOTE E – LAND, BUILDINGS AND EQUIPMENT:

Land, buildings and equipment consist of the following:

	June 30, 2003 ($000)	June 30, 2002 ($000)
Land	$ 17,128	$ 16,831
Buildings	102,951	100,067
Equipment	13,313	12,022
Library books	5,293	4,905
Construction in progress	27,368	11,960
	166,053	145,785
Less accumulated depreciation	(45,990)	(40,026)
Net land, buildings and equipment	$ 120,063	$ 105,759

NOTE F – BONDS PAYABLE:

As of June 30, 2003 and 2002, bonds payable issued through the Washington Higher Education Facilities Authority (WHEFA) and associated interest rates and maturities consist of:

	Interest rates	Maturity dates	June 30, 2003	June 30, 2002
Series 2000A Bonds	Weekly variable rate	2003-2030	$ 65,115	$ 66,300
Series 2000B Bonds	Weekly variable rate	2005-2030	20,700	20,700
			$ 85,815	$ 87,000

The weekly variable rate in effect on June 30, 2003 and 2002, was 0.98% and 1.40%, respectively.

As of June 30, 2003, principal payments on the June 30, 2003, obligations are due as follows during the next five fiscal years and thereafter:

	Principal ($000)
2003-2004	2,370
2004-2005	2,770
2005-2006	3,170
2006-2007	3,170
2007-2008	3,170
Thereafter	71,165
	$ 85,815

For the fiscal years ended June 30, 2003 and 2002, the University incurred $4,200,000 and $3,992,000, respectively, in total interest costs related to long-term debt. Of this, $870,000 and $687,000, respectively, was capitalized as a cost of construction projects, and $3,330,000 and $3,305,000, respectively, was charged against operations. Of the amount charged to operations, $1,452,000 and $2,133,000, 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, 2003, there were draws of $10,000,000 outstanding against this line. The variable rate in effect at June 30, 2003, related to this borrowing was 4.00%. The balance on the revolving line of credit was subsequently repaid in July 2003.

NOTE G – ACCOUNTING FOR INTEREST RATE SWAPS:

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 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. In addition, the reimbursement agreement related to the underlying letter of credit to the University's bond issue requires some form and level of interest rate hedging. It is the University's objective to hedge a minimum of 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 the equivalent of 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.

Changes in the fair market value of the interest rate swaps are reported as unrealized gains or losses on interest rate swaps related to bonds on the Statement of Activities. As of June 30, 2003, the valuation of the swap resulted in a net unrealized loss of $5,699,000 due to declining variable interest rates since June 30, 2002. The offsetting liability related to this loss is reported on the Statement of Financial Position as deferred credit on interest rate swap. 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 anytime during the term of the swap.

The University does not enter into derivative instruments for any purpose other than cash flow hedging purposes and 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 Internal Revenue Service established rates which have have ranged between 5.6% 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 $568,000 and $513,000 at June 30, 2003 and 2002, respectively. The annuity trust payments are obligations of the trust and the present value of these annuity trust obligations totaled $26,000 and $301,000 at June 30, 2003 and 2002, 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 $1,943,000 and $1,696,000 for the years ended June 30, 2003 and 2002, 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 $2,712,000 and $2,488,000 of fundraising expenses for the years ended June 30, 2003 and 2002, 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 $18,443,000 in these programs. At June 30, 2003, a cumulative total of $9,523,000 has been invested. The remaining $8,960,000 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, 2003, the University had a $184,000 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 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.

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.

Legal Counsel

Ellis, Li & McKinstry
Seattle, WA

Independent Auditors

KPMG LLP
Seattle, WA

Financial Institution

Bank of America
Seattle, WA