

AUDITED FINANCIAL STATEMENTS Year Ending June 30, 2011



About Seattle Pacific University

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

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

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

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Independent Auditors' Report

To the Board of Trustees Seattle Pacific University Seattle, Washington

Certified Public Accountants and Consultants

We have audited the accompanying consolidated statements of financial position of Seattle Pacific University and affiliate (the University) as of June 30, 2011 and 2010, and the related consolidated statements of activities, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University and affiliate as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Clark Juber PS

Certified Public Accountants November 17, 2011

Consolidated Statements of Financial Position

For the Years Ended June 30, 2011 and 2010

(in thousands)

(in thousands)	Jur	ne 30,
Assets	2011	2010
Cash and cash equivalents	\$ 10,919	\$ 15,065
Investments	46,602	41,013
Student accounts receivable, net	2,740	2,863
Inventories and prepaid expenses	1,583	1,522
Grants and other receivables	3,128	1,398
Student loans	1,078	1,045
Total current assets	66,050	62,906
Student loans, net	7,509	7,477
Other receivables and prepaid expenses	1,879	2,042
Investments Investments — split interest agreements held by others	50,855 6,764	43,967 6,068
Land, buildings and equipment, net	109,578	110,675
Total assets	\$ 242,635	\$ 233,135
	<u> </u>	\$ 200,100
Liabilities and Net Assets Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 11,045	\$ 10,277
Bonds payable	3,500	3,500
Trust and annuity obligations	1,491	1,447
Student deposits and prepaid fees	1,483	1,602
Deferred revenue	4,437	4,347
Total current liabilities	21,956	21,173
Bonds payable	68,300	71,800
Trust and annuity obligations	10,109	9,799
Investments managed on behalf of charities	7,440	6,777
Fair value of interest rate swaps	4,687	8,739
Governmental student loan programs	6,938	6,883
Other liabilities	2,783	2,702
Total liabilities	122,213	127,873
Net Assets		
Unrestricted	10 505	
Available for operational activities	19,523	15,243
Funds held for long-term investment as endowment Net investment in land, buildings and equipment	9,860 36,629	8,347 34,232
Total unrestricted net assets	66,012	57,822
Temporarily restricted	00,012	57,822
	1.960	1 0 4 7
Unexpended funds received for educational purposes Unappropriated gains on endowments	1,860 10,384	1,847 5,512
Split interest agreement funds	7,384	7,220
Total temporarily restricted net assets	19,628	14,579
Permanently restricted		
Endowment funds	26,326	25,534
Split interest agreement funds restricted for endowment	8,456	7,327
Total permanently restricted net assets	34,782	32,861
Total net assets	120,422	105,262
Total liabilities and net assets	\$ 242,635	\$ 233,135

Consolidated Statements of Activities

For the Years Ended June 30, 2011 and 2010 (in thousands)

(in thousands)	June 30),		
Operating Unrestricted Net Assets Activity	erating Unrestricted Net Assets Activity 2011		2010			
Revenues and other support						
Student charges:						
Tuition and fees	\$	105,537	\$	97,587		
Less: grants and scholarships		(39,332)		(35,078		
Net tuition and fees		66,205		62,509		
Student housing and dining fees		13,273		12,476		
Net student charges		79,478		74,985		
Government grants, primarily for student aid		3,119		2,876		
Private gifts and grants		2,266		2,189		
Distributions from endowment to support operations, programs and scholarships		2,013		1,694		
Public service activities		1,900		1,913		
Other revenue and support		2,725		2,94		
Net assets released from restrictions		1,156		1,647		
Total operating revenues and other support		92,657		88,24		
Expenses						
Instruction		39,006		37,595		
Student housing and dining expenses		13,359		12,752		
Student services		15,022		14,829		
Institutional support		15,820		16,214		
Academic support		4,562		4,457		
Public service		1,321		1,758		
Total operating expenses		89,090		87,605		
Excess of revenues and other support over expenses from operating activities		3,567		640		
Nonoperating Unrestricted Net Assets Activity						
Investment income, realized and unrealized gains		2,367		1,873		
Endowment distributions for operations, grants and scholarships		(408)		(398		
Change in fair value of interest rate swaps		1,311		(1,540		
Change in value of split interest agreements		587		34(
Cumulative effect of change in accounting principle (Note F)		-		(2,98		
Net assets released from restrictions		766				
Increase (decrease) in unrestricted net assets from nonoperating activities		4,623		(2,714		
Net change in unrestricted net assets		8,190		(2,074		
Temporarily Restricted Net Assets Activity						
Private gifts and grants		809		901		
Investment income, realized and unrealized gains		6,663		3,809		
Endowment distributions appropriated for operations, grants and scholarships		(1,605)		(1,290		
Change in value of split interest agreements		1,125		1,040		
Cumulative effect of change in accounting principle (Note F)				2,989		
Net assets released from restrictions		(1,943)		(1,663		
Net change in temporarily restricted net assets		5,049		5,780		
Permanently Restricted Net Assets Activity				-,		
Private gifts and grants		861		839		
Change in value of split interest agreements		1,039		395		
Net assets reclassified to endowments		21		16		
Net change in permanently restricted net assets		1,921		1,250		
Increase in total net assets		15,160		4,956		
Total net assets, beginning of year		105,262		4,950		
Total net assets, end of year	ć		ċ			
	\$	120,422	\$	105,262		

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010 (in thousands)

	June	e 30,	
Cash Flows From Operating Activities	 2011		2010
Fees from students, net of financial aid	\$ 79,457	\$	74,933
Gifts and grants	5,891		5,955
Investment income	749		702
Public service income	1,900		1,913
Other revenue	1,490		3,564
Payments for interest on debt	(2,458)		(4,268)
Payments to employees and suppliers	 (73,856)		(72,597)
Net cash provided by operating activities	 13,173		10,202
Investing Activities			
Loans issued to students	(210)		(238)
Collections on loans issued to students	120		319
Proceeds from sale of investments	13,783		30,438
Purchase of investments	(17,769)		(31,083)
Proceeds from collections of notes receivable	122		91
Issuance of notes receivable	(23)		(345)
Purchase and construction of land, buildings and equipment	 (8,028)		(6,666)
Net cash used by investing activities	 (12,005)		(7,484)
Financing Activities			
Payments on long-term debt	(3,500)		(3,480)
Termination of interest rate swap	(2,741)		-
Contributions of temporarily restricted and permanently restricted net assets	1,310		933
Annuity payments and other	 (383)		(396)
Net cash used by financing activities	(5,314)		(2,943)
Net decrease in cash and cash equivalents	(4,146)		(225)
Cash and Cash Equivalents			
Beginning of year	 15,065		15,290
End of year	\$ 10,919	\$	15,065
Supplemental disclosure of cash flow information —			
Acquisition of property, plant and equipment through accounts payable	\$ 1,134	\$	946

Years Ended June 30, 2011 and 2010 (in thousands)

NOTE A – Summary of Significant Accounting Policies:

General

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

Basis of Presentation

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

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

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

Unrestricted net assets

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

Temporarily restricted net assets

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

Permanently restricted net assets

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

Revenue and Expense Recognition

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

Operating Revenues and Expenses

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

Years Ended June 30, 2011 and 2010 (in thousands)

Operating revenues include charges for tuition, room and board, net of financial aid as well as gifts and grants, public service activities and other revenue. Student tuition and fees are recognized as revenue in the year during which the related academic services are rendered. Operating expenses (for which the operating revenues are used) include salaries and benefits, departmental expenses, depreciation, amortization and interest.

Cash and Cash Equivalents

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

Investments

Most investments are stated at fair value. The fair values of all debt and equity securities with readily determinable fair values are based on quotations obtained from national securities exchanges. Real estate contracts are reported at balances representing outstanding principal plus accrued interest at rates of 6.5 % to 7.75%. Real estate held for investment or sale is reported based on historical value.

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

Credit Risk and Fair Value of Financial Instruments

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

Bond Issuance Costs

Bond issuance costs include amounts paid by the University in connection with the issuance of the Series 2008 WHEFA Bonds. Amortization of issuance costs is calculated using the straight-line method over the 23-year term of the 2008 bonds. Amortization expense related to bond issuance costs for the years ended June 30, 2011 and 2010 was \$77 and \$77, respectively.

Land, Buildings and Equipment

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

Deferred Revenues

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

Investments Managed on Behalf of Charities

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

Years Ended June 30, 2011 and 2010 (in thousands)

Government Student Loans

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

Taxes

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

Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 presentation. The reclassifications had no effect on the change in net assets or net asset balances as previously reported.

Use of Estimates

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

Subsequent Events

The University has evaluated events through November 17, 2011, the date on which the financial statements were issued.

NOTE B – Student Accounts Receivable:

Student accounts receivable consists of amounts due from students for tuition, room, board and other enrollment-related charges. At June 30, 2011 and 2010, student accounts receivable consists of the following balances:

	Jun	e 30,
	2011	2010
Student accounts receivable Allowance for doubtful accounts	\$ 3,576 (836)	\$ 3,553 (690)
Net student accounts receivable	\$ 2,740	\$ 2,863

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

NOTE C – Student Loans:

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2011 and 2010, student loans represented 3.5% and 3.7% of total assets, respectively.

Years Ended June 30, 2011 and 2010 (in thousands)

At June 30, student loans consisted of the following:

	June 30,							
	2011	2010						
Federal government programs	\$ 7,702	\$ 7,561						
Institutional programs	1,239	1,234						
Student loans receivable	8,941	8,795						
Less allowance for doubtful accounts:								
Beginning of year	(273)	(232)						
Increases	(81)	(41)						
Write-offs								
End of year	(354)	(273)						
Student loans receivable, net	\$ 8,587	\$ 8,522						

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government in the net amount of \$6,938 and \$6,883 at June 30, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated Statement of Financial Position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. At June 30, 2011 and 2010, the following amounts were past due under student loan programs:

		June 30,					
	2	2011	2	010			
< 2 years	\$	106	\$	78			
2 - 5 years		100		68			
> 5 years		194		181			
Total	\$	400	\$	327			

Luna 70

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program.

Faculty and Staff Loans

As part of a program to attract and retain excellent faculty and senior staff, the University has provided forgivable and nonforgivable home mortgage financing assistance and forgivable educational assistance.

	Jur	ne 30,
	2011	2010
Forgivable mortgage loans	\$ 42	\$ 42
Non-forgivable mortgage loans	287	271
Forgivable educational loans	25	18
	\$ 354	\$ 331

Forgivable and non-forgivable notes are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Educational assistance is not collateralized, but is attached to a length of service requirement as a part of the forgivable condition. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history.

Notes to Consolidated Financial Statements (cont.) Years Ended June 30, 2011 and 2010

Years Ended June 30, 2011 and 201 (in thousands)

The University has issued market-rate amortizing mortgage notes in connection with the sale of residential real estate on University land to members of management and faculty. The current value of the notes at June 30, 2011 and 2010, respectively, is \$306 and \$345. The sales were in conjunction with the University's housing assistance programs for employees and made under an equity sharing agreement based on the current fair market value of the property. The agreement provides the right to the University to purchase the property back at its option for a price below fair value.

The loan amounts represent .27% and .29% of total assets, respectively. At June 30, 2011 and 2010, there were no amounts past due under the faculty and staff loan program.

NOTE D – Investments:

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

	 June 30				
	2011		2010		
Pooled Investments:					
Cash and short-term investments	\$ 6,900	\$	5,599		
Equity institutional funds	42,091		34,172		
Bond institutional funds	10,556		11,045		
Private equities	14,509		12,073		
Notes receivable	3,532		3,245		
Real estate	12,351		11,304		
Total pooled investments	 89,939		77,438		
Equity securities	423		447		
Real estate held for investment or sale	7,095		7,095		
Total investments	\$ 97,457	\$	84,980		

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

	June 30, 2011						
		Temporar Unrestricted Restricte			/		
Investment income	\$	603	\$	146	\$	749	
Net realized and unrealized gains on investments		1,764		6,517		8,281	
Investment income, realized and unrealized gains	\$	2,367	\$	6,663	\$	9,030	
Operating:							
Endowment distributions for operations, grants and scholarships	\$	408	\$	1,605	\$	2,013	
Nonoperating:							
Net gains on endowments, net of distributions		965		5,058		6,023	
Net gains on other investments		994		_		994	
Investment income, realized and unrealized gains	\$	2,367	\$	6,663	\$	9,030	

Years Ended June 30, 2011 and 2010 (in thousands)

			June	30, 2010		
Investment income	Unr	estricted		nporarily stricted	 Total	
	\$	571	\$	131	\$ 702	
Net realized and unrealized gains on investments		1,302		3,678	 4,980	
Investment income, realized and unrealized gains	\$	1,873	\$	3,809	\$ 5,682	
Operating:						
Endowment distributions for operations, grants and scholarships	\$	398	\$	1,296	\$ 1,694	
Nonoperating:						
Net gains on endowments, net of distributions		103		2,513	2,616	
Net gains on other investments		1,372		_	 1,372	
Investment income, realized and unrealized gains	\$	1,873	\$	3,809	\$ 5,682	

NOTE E – Fair Value Measurements:

Fair Value Measurements

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

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

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

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

Equity and Bond Institutional Funds — Valued by the fund's manager based on quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the fund at the valuation date. All holdings of the funds are publicly traded securities. The fund is traded on a private market that is not active; however, the unit price is based on observable market data of the fund's underlying assets.

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

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

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

Investments – Split Interest Agreements Held by Others — Valued at the University's share of the present value of estimated future cash flows based on the fair value of trust assets.

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

Years Ended June 30, 2011 and 2010 (in thousands)

Fair values of assets and liabilities measured on a recurring basis were as follows:

			Fair	Value Measurem	ents	at June 30, 2011	
	Acti	oted Prices in we Markets for entical Assets (Level 1)	Ot	Significiant her Observable Inputs (Level 2)		Significant ssumptions or Jnobservable Inputs (Level 3)	Total
Cash and short-term investments	\$	6,900	\$	-	\$	_	\$ 6,900
Bond institutional funds:							
Bond securities		-		2,540		-	2,540
Marketable alternatives		-		8,016		-	8,016
Equity institutional funds:							
US equity securities		-		19,995		-	19,995
Commodities		-		2,214		-	2,214
Non-US equity securities		-		12,120		-	12,120
Marketable alternatives		-		7,762		-	7,762
Private equities:							
Private equity partnership interests		-		-		11,289	11,289
Natural resource partnership interests		-		-		1,709	1,709
Distressed debt partnership interests		-		-		1,511	1,511
Real estate		-		-		12,774	12,774
Investments – split interest agreements							
held by others		-		-		6,764	6,764
Interest rate swap agreements		-		-		(4,687)	(4,687)
Total	\$	6,900	\$	52,647	\$	29,360	\$ 88,907

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

		Fair Val	ue Measurem	ents at J	une 30, 2011			
	vestments Fair Value	Interes	ments–Split t Agreements by Others		erest Rate Swap reements	Total Level 3		
Beginning balance Total realized/unrealized gains	\$ 24,158 2,555	\$	6,068 867	\$	(8,739) 1,311	\$	21,487 4,733	
Total net sales and purchases	2,555 570		(171)		2,741		4,755 3,140	
Ending balance	\$ 27,283	\$	6,764	\$	(4,687)	\$	29,360	

Total gains or losses are included in the consolidated Statement of Activities for the year ended June 30, 2011.

Years Ended June 30, 2011 and 2010 (in thousands)

Fair values of assets and liabilities measured on a recurring basis were as follows:

	Fair Value Measurements at June 30, 2010								
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significiant Other Observable Inputs (Level 2)		gnificant Imptions or observable Inputs Level 3)		Total	
Cash and short-term investments	\$	5,599	\$	_	\$	_	\$	5,599	
Bond institutional funds:									
Bond securities		-		3,142		-		3,142	
Marketable alternatives		-		7,903		-		7,903	
Equity institutional funds:									
US equity securities		-		15,700		_		15,700	
Commodities		-		2,295		-		2,295	
Non-US equity securities		-		9,219		-		9,219	
Marketable alternatives		-		6,624		-		6,624	
Relative value fund		-		_		334		334	
Private equities:									
Private equity partnership interests		-		-		9,410		9,410	
Natural resource partnership interests		-		-		1,282		1,282	
Distressed debt partnership interests		-		-		1,381		1,381	
Real estate		-		-		11,751		11,751	
Investments – split interest agreements									
held by others		-		-		6,068		6,068	
Interest rate swap agreements		_				(8,739)		(8,739)	
Total	\$	5,599	\$	44,883	\$	21,487	\$	71,969	

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

		une 30, 2010						
	vestments Fair Value	Interest	ments–Split Agreements by Others		erest Rate Swap reements	Total Level 3		
Beginning balance	\$ 60,705	\$	5,788	\$	(7,199)	\$	59,294	
Total realized/unrealized gains (losses)	445		280		(1,540)		(815)	
Total net sales and purchases	304		-		-		304	
Total transfers in/out of level 3	(37,296)		-		-		(37,296)	
Ending balance	\$ 24,158	\$	6,068	\$	(8,739)	\$	21,487	

Based on new guidance from the FASB, the University transferred certain investment assets that were listed as Level 3 as of June 30, 2009. All equity institutional funds and a portion of bond institutional funds are classified as Level 2 as of June 30, 2010 utilizing the NAV shares.

Years Ended June 30, 2011 and 2010 (in thousands)

The table below summarizes significant terms of the agreements with certain investment companies. There are no significant redemption restrictions or unfunded commitments on other types of investments.

			2011		
	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity	\$14.5 million	1 to 12 years	\$8.7 million	Closed end funds not eligible for redemption	Not redeemable
Real estate	\$12.8 million	No limit	None	Closed end funds not eligible for redemption	Not redeemable

NOTE F – Endowment:

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

Interpretation of Relevant Law

In accordance with GAAP, the Board of Trustees of the University has adopted a policy requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the Washington State Prudent Management of Institutional Funds Act (PMIFA). In accordance with PMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment:

- 1. The duration and preservation of the endowment fund;
- 2. The purposes of the University and the endowment fund;
- 3. General economic conditions;
- 4. The possible effect of inflation or deflation;
- 5. The expected total return from income and the appreciation of investments;
- 6. Other resources of the University; and
- 7. The investment policy of the University.

Years Ended June 30, 2011 and 2010 (in thousands)

Endowment net assets consisted of the following at June 30:

				20	D11		
	Un	restricted		nporarily estricted		manently estricted	Total
Donor restricted endowment funds	\$	_	\$	-	\$	26,326	\$ 26,326
Unappropriated net investment income and appreciation on endowment funds		_		10,384		_	10,384
Board designated quasi-endowment		9,860		_		_	 9,860
Endowment Net Assets, June 30, 2011	\$	9,860	\$	10,384	\$	26,326	\$ 46,570
	2010						
	Un	restricted		nporarily estricted		manently estricted	Total
Donor restricted endowment funds	\$	_	\$	_	\$	25,534	\$ 25,534
Unappropriated net investment income and appreciation on endowment funds		_		5,512		_	5,512
Board designated quasi-endowment		8,347		_		-	8,347
Endowment Net Assets, June 30, 2010	\$	8,347	\$	5,512	\$	25,534	\$ 39,393

Changes to endowment net assets are as follows for the years ended June 30, 2010 and 2011:

	Unrestricted		Temporarily Restricted		Permanently Restricted		Total
Endowment net assets, June 30, 2009	\$	10,480	\$	_	\$	24,700	\$ 35,180
Net assets reclassified based on change in law		(2,989)		2,989		-	_
Endowment net assets after reclassification		7,491		2,989		24,700	 35,180
Endowment investment return							
Investment return		18		-		-	18
Realized and unrealized gains		468		3,672		_	 4,140
Total endowment investment gains		486		3,672		-	4,158
Contributions		200		_		818	1,018
Distributions for operating programs		(398)		(1,159)		-	(1,557)
Transfer to quasi-endowments		594		-		-	594
Net assets reclassified		(26)		10		16	 -
Endowment Net Assets, June 30, 2010		8,347		5,512		25,534	39,393
Endowment investment return							
Investment return		3		(1)		-	2
Realized and unrealized gains		1,356		6,517		_	 7,873
Total endowment investment return		1,359		6,516		-	7,875
Contributions		40		-		771	811
Distributions for operating programs		(408)		(1,458)		-	(1,866)
Transfer to quasi-endowments		333		-		-	333
Net assets reclassified to endowments		189		(186)		21	 24
Endowment Net Assets, June 30, 2011	\$	9,860	\$	10,384	\$	26,326	\$ 46,570

Years Ended June 30, 2011 and 2010 (in thousands)

Funds With Deficiencies

From time to time declines in the market value of the investment pool have created a situation where the fair values of certain endowments are less than the historical cost basis of the original gift(s). Deficiencies of this nature have been recorded as decreases in unrestricted net assets and were approximately \$189 at June 30, 2010 and there were no such deficiences at June 30, 2011.

Return Objectives, Risk Parameters and Spending Policies

The goal of the University's investment and spending policies for endowment assets is to provide an increasing stream of funding to programs supported by its endowments while maintaining the purchasing power of the endowment assets over long-term time periods.

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

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

NOTE G – Contributions Receivable:

Contributions receivable in current and non-current other receivables, include pledges that have been discounted at a rate of 0.2-2%, based on the risk-adjusted rate of return at the time of the gift, and are due to be collected as follows:

June 30

		June	$\begin{array}{c} 6 \\ 6 \\ 05 \\ (5) \\ (6) \\ \hline \end{array}$			
	2	2011	2	010		
Contributions expected to be collected:						
Within one year	\$	100	\$	249		
One to five years		199		189		
More than five years		6		5		
		305		443		
Less discount to present value		(5)		(7)		
Less allowance for uncollectible contributions receivable		(6)		(8)		
Total contributions receivable, net	\$	294	\$	428		

NOTE H – Land, Buildings and Equipment:

Land, buildings and equipment consist of the following:

June	2.50,
2011	2010
\$ 17,365	\$ 17,365
135,811	136,854
12,354	12,963
9,008	8,446
10,979	6,471
185,517	182,099
(75,939)	(71,424)
\$ 109,578	\$ 110,675
	\$ 17,365 135,811 12,354 9,008 10,979 185,517 (75,939)

Years Ended June 30, 2011 and 2010 (in thousands)

GAAP require an organization to recognize a liability for the fair value of a conditional asset retirement obligation if the liability can be reasonably estimated. For the University, these obligations are primarily for the disposal of asbestos, mercury, and certain other regulated materials found in the pre-1980 campus facilities. Though these materials do not currently pose a health hazard in any of these facilities, appropriate remediation procedures are required to remove these materials upon renovation or demolition. The University has recorded a liability of \$1,104 and \$1,101 at June 30, 2011 and 2010, respectively, for conditional asset retirement obligations.

NOTE I - Notes and Bonds Payable:

As of June 30, 2011 and 2010, bonds payable issued through the Washington Higher Education Facilities Authority (WHEFA) consist of:

			June	e 30,
	Interest Rate Mode	Maturity Dates	2011	2010
Series 2008 Bonds	Variable Rate Demand	2008-2030	\$ 71,800	\$ 75,300

The weekly variable demand rate in effect on June 30, 2011 and 2010 was 0.06% and 0.25%, respectively.

In June 2008, the University issued the Series 2008 bonds for the purposes of refinancing the Series 2005 bonds and moving the interest rate mode of the bonds from auction rate securities to variable rate demand bonds. The Series 2008 bonds are supported by a letter of credit from US Bank through July 15, 2013. The underlying supporting documents for the 2008 series bonds contains defined minimum financial ratios and measures for the letter of credit. As of June 30, 2011 and 2010, the University was in compliance with the ratios and measures required under the letter of credit. WHEFA is a financing conduit through the State of Washington for private higher education institutions in the State. The tax-exempt bonds are obligations of the University and are not guaranteed by the State.

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

	Pi	rincipal
2011-2012	\$	3,500
2012-2013		3,510
2013-2014		3,510
2014-2015		3,515
2015-2016		3,525
Thereafter		54,240
Total	\$	71,800

For the fiscal years ended June 30, 2011 and 2010, the University incurred \$2,444 and \$3,831, respectively, in total interest costs related to long-term debt.

The University maintains a \$20,000 revolving line of credit at a floating interest rate. There were no draws outstanding against this line as of June 30, 2011 and 2010.

Short-term and other interest costs for the years ended June 30, 2011 and 2010, were \$20 and \$19, respectively.

NOTE J – Interest Rate Swaps:

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

Under the interest rate swaps, the University receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. In September 2000, the University acquired a 20-year amortizing swap from Lehman Brothers Special Financing, Inc. with a June 30, 2010, notional amount of \$18,900 at a fixed rate of 4.85%. In November 2001, the University acquired 10-year swaps from Bank of America with a notional amount or \$40,000 at a fixed rate of 3.89%.

Notes to Consolidated Financial Statements (cont.) Years Ended June 30, 2011 and 2010

(in thousands)

In January 2006, the University acquired a 25-year accreting and amortizing swap from Bank of America at a fixed rate of 3.71%. The value of this swap will increase over time as the previous swaps expire and decrease as principal payments are made on the bonds to maintain a consistent level of overall variable rate exposure. The accreting and amortizing swap had a notional amount of \$3,755 and \$6,425 at June 30, 2011 and 2010, respectively. There was no cash exchanged at the time of acquisition of these swaps due to the relationship between the variable rates and the swap rate at that time.

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

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

On September 15, 2008, Lehman Brothers Holding Inc. (LBH) filed for Chapter 11 bankruptcy, and on October 3, 2008 Lehman Brothers Special Financing Inc (LBSF) filed for bankruptcy. LBH serves as a credit guarantor for LBSF's interest rate swap with the University. On July 28, 2010, the University negotiated a settlement to terminate the Lehman Brothers Special Financing, Inc. swap for an agreed upon settlement amount that is included in fair value of interest rate swaps liability at June 30, 2010.

NOTE K – Split Interest Agreements:

The University and Foundation have entered into a variety of charitable remainder trusts (CRT) for which the Foundation is the trustee. These CRTs have annual payment obligations to donors or others for the life of the trust based on either a fixed percentage of the trust asset value updated annually or the lower of a fixed percentage or actual annual income received by the trust. A liability has been recorded for these payments at the net present value of expected annual cash flows to named beneficiaries, discounted from 4.6% to 11.4% as determined by published actuarial factors for ages of the respective beneficiaries discount using Internal Revenue Service established rates at the time the trusts were established. In the year assets are transferred into the CRT the difference between the fair value of the assets received and the net present value of the payments to beneficiaries is recorded as contribution income to the University or Foundation. Annual adjustments to the net present value of the payment liability based on actuarial factors is recorded as changes in split interest agreements on the consolidated financial statements as \$26,143 and \$23,286 at June 30, 2011 and 2010, respectively. Gifts received related to these trusts were \$53 and \$22 for the years ended June 30, 2011 and 2010, respectively.

Trusts in which either the University or the Foundation is named as irrevocable remainder beneficiary, but not as trustee, are recorded in the consolidated financial statements as contribution income when the trustee notifies the University and the ownership percentage and valuation are determined. The portions of these trusts that are restricted for endowment use at the time of trust maturity are classified as permanently restricted net assets. The University has trusts managed by others valued at \$3,265 and \$3,080 as of June 30, 2011 and 2010, respectively, and include them as investments – split interest agreements held by others. There were no new similar trusts received during the years ended June 30, 2011 and 2010, but one trust matured during the fiscal year ending June 30, 2011.

Perpetual trusts in which the University is named as irrevocable remainder beneficiary, but not as trustee, are recorded in the consolidated financial statements as contribution income when the trustee notifies the University and the ownership percentage and valuation are determined. These perpetual trusts are restricted for endowment use and are classified as permanently restricted net assets. The University has perpetual trusts valued at \$3,499 and \$2,988 as of June 30, 2011, and 2010, respectively, and included them in investments – split interest agreements held by others. There was one new perpetual trust received during the year ended June 30, 2011.

NOTE L – Annuity Obligations:

The University and Foundation have entered into a variety of charitable gift annuities where the University agrees to pay a donor and named beneficiaries a fixed amount per year for the life of the annuitant(s), or a stated term. In exchange, the University receives assets valued in excess of the present value of the annuity. The charitable gift annuity payments are general obligations

Years Ended June 30, 2011 and 2010 (in thousands)

of the University, and the present value of these gift annuity obligations totaled \$2,877 and \$2,977 at June 30, 2011 and 2010, respectively. Investments related to the annuity obligations and Washington state reserve requirements totaled \$3,165 and \$3,274 at June 30, 2011 and 2010, respectively.

NOTE M – Retirement Plan:

The University participates in an Internal Revenue Code – (IRC) 401(a) defined contribution retirement plan. As of October 1, 2010, the University engaged Diversified Investment Advisors to be the primary investment agent and third party administrator for the University's 401(a) retirement plan. The plan provides for employer contributions that are directed by participants to a menu of approved investment funds as determined by the plan's investment committee. 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 monthly concurrent with salary payment. The University's contributions to the plan were \$2,982 and \$3,052 for the years ended June 30, 2011 and 2010, respectively. The University also provides a IRC 403(b)(7) supplemental retirement plan funded by individual employee contributions. These contributions are voluntary and the plan is open to all employees, excluding students who are employees of the University.

The University is a participant in Emeriti Retirement Health Solutions (EMERITI), a consortium of colleges and universities organized to provide retiree health care benefits through a Voluntary Employees Benefit Association (VEBA) recognized under IRC 501(c)(9). The EMERITI program is a defined contribution plan whose assets are restricted for use toward qualified medical expenses upon retirement. All faculty and staff over the age of 35 with one year of employment participate in the plan. The University funds its obligations on this plan currently and contributes a monthly fixed amount to a VEBA investment account with Fidelity Investments for all plan participants. The total annual contribution to EMERITI on June 30, 2011 and 2010 was \$355 and \$378, respectively.

NOTE N - Cash Flow Reconciliation:

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

	\$ 15,160 \$		
	 2011		2010
ncrease in net assets	\$ 15,160	\$	4,956
djustments to total change in net assets to net cash provided by operating activities:			
Depreciation	7,772		8,008
Amoritization of bond issuance costs and loss on debt extinguishment	77		77
Provision for doubtful student accounts and pledges	224		50
Net realized and unrealized gain on investments	(8,281)		(4,980)
Contributions to temporarily restricted and permanently restricted net assets	(1,310)		(933
Contributions of remainder interest in trusts managed by others	(38)		-
Loss (Gain) on disposal of plant assets	219		(89
Change in value of split interest agreements	(2,751)		(1,77
Change in fair value of interest rate swaps	(1,311)		1,540
Changes in operating assets and liabilities:			
Student accounts receivable	(23)		(51
Grants and other receivables	(1,712)		93
Inventories and prepaid expenses	(61)		(26)
Other receivables	(11)		11
Accounts payable, accrued expenses and other liabilites	4,585		2,94
Student deposits and prepaid fees	(119)		(
Deferred revenue	90		520
Investments managed on behalf of charities	663		442
Net cash provided by operating activities	\$ 13,173	\$	10,202
	 		-

Years Ended June 30, 2011 and 2010 (in thousands)

NOTE O – Fundraising Expense:

Institutional support expense reflected on the consolidated Statement of Activities includes approximately \$2,967 and \$2,986 of fundraising expenses for the years ended June 30, 2011 and 2010, respectively.

NOTE P – Related Party Transactions:

On December 21, 2004, the University issued a market-rate amortizing 20-year mortgage note in the amount of \$329 in connection with the sale of residential real estate on University land to a member of management. The current value of the note at June 30, 2011 is \$260. The sale was in conjunction with the University's housing assistance programs for employees and made under an equity sharing agreement based on the current fair market value of the property. The agreement provides the right to the University to purchase the property back at its option for price below fair value.

NOTE Q – Contingencies:

The University is an equity owner of the College Liability Insurance Company (CLIC). For the fiscal year beginning July 1, 2011, the University has a \$212 contingent liability for its portion of a \$2,000 letter of credit issued to CLIC by a bank. The University is a guarantor of this letter of credit and would be liable for its share of the contingency if CLIC were to fail to repay amounts borrowed under the letter of credit. The accumulated loss reserves and net assets of CLIC are substantially above historical claim losses and the University believes a call on the CLIC letter of credit is unlikely in the foreseeable future.

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

The University provides a guarantee to Seattle Metropolitan Credit Union on loans they provide in support of the University's Housing Assistance Program (HAP) for faculty and staff. The HAP provides down-payment assistance loans on a need basis to faculty and staff moving into the Seattle area or purchasing a first home. These loans are supported with a secured deed of trust against the underlying property. There are currently 10 such loans outstanding that are due between 2012 and 2020. Since the inception of the HAP in 1991, no guarantees have been exercised by the credit union. As of June 30, 2011, the loan portfolio balance held by the credit union was \$437. The University's exposure under the loan guarantees is limited to the difference between the value of the secured deed of trust held by the credit union and the remaining principal balance of the related loan. The University believes the value of the secured deeds of trust held by the credit union exceeds the loan balances as of June 30, 2011.

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 its net assets, and its cash flows in conformity with GAAP.

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

Audited Financial Statements | June 30, 2011

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