Year Ending June 30, 2001
Financial Report

Seattle Pacific University

Engaging the culture, changing the world.

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 3,500 degree-seeking students per academic quarter, primarily at its Seattle campus, as well as 3,700 adult learners per academic quarter in continuing education centers across Washington state.

Academically, Seattle Pacific University offers 52 undergraduate majors and 37 minors. The University's curriculum is carried out through the College of Arts and Sciences, and five professional schools: Business and Economics; Education; Health Sciences; Theology; and Psychology, Family and Community. Graduate studies include 10 master's degree specializations and two doctoral programs, one in educational leadership, the other in clinical psychology.

The University's physical plant includes a 35-acre main campus near the heart of downtown Seattle; a 965-acre wilderness campus on Blakely Island in the San Juan Islands; and the 150-acre Camp Casey 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, 2001 and 2000, 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, 2001 and 2000, 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 28, 2001

Consolidated Statements of Financial Position

For the Years Ended June 30, 2001, and 2000
(in thousands)

	June 30, 2001	June 30, 2000
ASSETS		
Cash and cash equivalents	$ 18,348	$ 3,088
Student accounts receivable, net	2,268	2,212
Governmental grants and other receivables	1,318	968
Current portion of student loans	934	967
Current portion of investments	21,953	34,129
Inventories and prepaid expenses	761	918
Total current assets	45,582	42,282
Student loans, net of allowance of $210 in 2001 and $194 in 2000	6,068	5,832
Notes receivable, net of allowance of $56 in 2001 and $129 in 2000	2,260	525
Investments	35,604	39,769
Investments restricted for capital projects or debt retirement	44,398	—
Land, buildings and equipment, net	93,498	71,943
Total other assets	181,828	118,069
Total assets	$ 227,410	$ 160,351
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 8,321	$ 5,792
Student deposits and prepaid fees	1,271	1,275
Deferred revenue	3,490	2,603
Note payable to bank — line of credit	8,700	—
Current portion of long-term and other debt	—	993
Total current liabilities	21,782	10,663
Long-term debt	87,000	21,042
Investments managed on behalf of others	5,604	6,615
Trust and annuity obligations	12,405	13,840
Other, principally trust funds held for others and life income funds	5,465	4,355
Governmental student loan programs	5,807	5,635
Total long-term liabilities	116,281	51,487
Total liabilities	138,063	62,150
Net assets		
Unrestricted	64,352	71,089
Temporarily restricted	10,583	13,507
Permanently restricted	14,412	13,605
Total net assets	89,347	98,201
Total liabilities and net assets	$ 227,410	$ 160,351

See accompanying notes to consolidated financial statements

Consolidated Statements of Activities

For the Years Ended June 30, 2001 and 2000
(in thousands)

	June 30, 2001	June 30, 2000
OPERATING UNRESTRICTED NET ASSETS ACTIVITY		
Revenues		
Student charges:		
Regular academic term degree programs:		
Undergraduate tuition and fees	$ 39,033	$ 37,074
Less: grants and scholarships	(12,450)	(12,092)
Net undergraduate tuition and fees	26,583	24,982
Graduate tuition and fees	5,787	5,376
Continuing education, summer school and other special programs	2,904	3,873
Net tuition and fees	35,274	34,231
Student housing and dining fees	8,235	8,178
Net student charges	43,509	42,409
Private gifts and grants	2,716	2,900
Public service activities	1,565	1,429
Government grants, primarily for students	1,193	1,210
Endowment gains and income distributed for operations	1,757	1,243
Other revenue and support	2,585	2,018
Total operating revenues	53,325	51,209
Net assets released from restrictions	1,084	1,075
Total revenues	54,409	52,284
Expenses		
Instruction:		
Regular academic term degree programs	21,369	19,666
Continuing education, summer school and other special programs	2,333	2,800
Total instruction	23,702	22,466
Institutional support	10,118	8,850
Student housing and dining expenses	8,972	7,996
Student services	9,050	8,190
Academic support	2,381	2,279
Public service	1,086	905
Total expenses	55,309	50,686
Excess (deficit) of revenues over expenses from operations	(900)	1,598
NONOPERATING UNRESTRICTED NET ASSETS ACTIVITY		
Total return on investments	(2,943)	4,983
Endowment gains and income distributed for operations	(1,757)	(1,243)
Unrealized loss on interest rate hedging related to bonds	(1,060)	—
Change in value of annuity obligations	(77)	(13)
Increase (decrease) in net assets from nonoperating activities	(5,837)	3,727
Net change in unrestricted net assets	(6,737)	5,325
TEMPORARILY RESTRICTED NET ASSETS ACTIVITY		
Private gifts and grants	337	3,758
Change in value of split interest agreements	(2,177)	(1,779)
Net assets released from restrictions	(1,084)	(1,075)
Net change in temporarily restricted net assets	(2,924)	904
PERMANENTLY RESTRICTED NET ASSETS ACTIVITY		
Private gifts and grants	807	644
Net change in permanently restricted net assets	807	644
Increase (decrease) in net assets	(8,854)	6,873
Total net assets, beginning of year	98,201	91,328
Total net assets, end of year	$ 89,347	$ 98,201

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2001 and 2000
(in thousands)

	June 30, 2001	June 30, 2000
OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ (8,854)	$ 6,873
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,697	4,236
Amortization of bond issuance costs	33	—
Provision for doubtful accounts	41	28
Net loss (gain) on investments	2,943	(4,983)
Contributions restricted for endowments and capital projects	(908)	(857)
Loss on disposal of plant assets	497	—
Contributions of land, insurance, investments	(30)	—
Change in value of split interest agreements	2,177	1,779
Unrealized loss on interest rate hedging related to bonds	1,060	—
Cash provided (used) by changes in operating assets and liabilities:		
Student accounts receivable	(97)	149
Governmental student loan programs	172	120
Accounts payable, accrued liabilities and other liabilities	757	406
Government grants and other receivables	(389)	22
Deferred revenue	887	6
Investments managed on behalf of others	(104)	(92)
Student loans	(203)	(151)
Inventories and prepaid expenses	173	(242)
Student deposits and prepaid fees	(38)	(352)
Net cash provided by operating activities	2,814	6,942
INVESTING ACTIVITIES		
Proceeds from sale of long-term investments	13,286	2,707
Proceeds from collections of notes receivable	24	138
Notes receivable issued	(1,649)	(15)
Purchase of long-term investments	(45,618)	(9,168)
Purchase of land, buildings and equipment	(25,650)	(13,431)
Net cash used in investing activities	(59,607)	(19,769)
FINANCING ACTIVITIES		
Proceeds from issuance of long term debt	87,000	13,012
Bond issuance costs	(984)	—
Proceeds from borrowing under short-term line of credit	8,700	—
Contributions restricted for endowments and capital projects	908	857
Annuity payments and other	(101)	(41)
Net cash transactions related to split interest agreements	(1,435)	4,445
Payments on long-term debt	(22,035)	(4,302)
Net cash provided by financing activities	72,053	13,971
Net increase in cash and cash equivalents	15,260	1,144
CASH AND CASH EQUIVALENTS		
Beginning of year	3,088	1,944
End of year	$ 18,348	$ 3,088
Supplemental disclosure of cash flow information —		
Cash paid during the year for interest, net of amount capitalized.	$ 2,860	$ 1,550
Acquisition of property, plant and equipment through accounts payable	$ 2,097	$ 1,018

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years Ended June 30, 2001 and 2000

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General

Seattle Pacific University is a private nonprofit institution of higher education based in Seattle, Washington. The University offers degree programs rooted in the Christian faith for undergraduate and graduate students through the College of Arts and Sciences and five professional schools: Business and Economics; Education; Health Sciences; Theology; and Psychology, Family and Community. The University offers 52 undergraduate majors and 37 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 includes amounts that are subject to donor imposed time or use restrictions that have not been met, primarily related to net assets held in irrevocable trusts. At June 30, 2001 and 2000, $10,070,000 and $12,324,000 respectively, are restricted by the passage of time and $513,000 and $1,183,000, respectively, are restricted by use requirements.

Permanently restricted net assets

Permanently restricted net assets include amounts subject to donor-imposed restrictions where the corpus is invested in perpetuity and only the income be made available for program operations and scholarships in accordance with donor restrictions. Generally only the original gift value of an endowment that has donor restrictions is considered permanently restricted.

Revenue and Expense Recognition

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions, including unconditional promises to give, are recognized as revenue in the period received and reported as increases in the appropriate category of net assets based on the presence or absence of donor restrictions. Contributions other than cash are recorded at their fair market value at the date of gift or at net realizable value if the assets are intended for sale. Contributions that the donor restricts where the restrictions are met within the same fiscal year as the contribution is received are recorded as increases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. All expenses are reported as decreases in unrestricted net assets. Except as restricted by donors, gains and losses on investments are reported as increases or decreases in unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period 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 $12,606,000 and $2,458,000 at June 30, 2001 and 2000, respectively.

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 as well as unamortized bond issuance costs.

Investments

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

Credit Risk and Fair Value of Financial Instruments

The University grants credit primarily to borrowers in the Pacific Northwest in the normal course of operations. The credit risk with respect to these receivables is generally considered minimal due to the wide dispersion of receivables.

The carrying amount of cash and cash equivalents, student accounts receivables, governmental grants and other receivables, and accounts payable, approximate fair value due to the short-term maturities of these instruments. The carrying amount of the University's notes receivable and notes payable, approximate fair value as they bear interest at variable interest rates or fixed rates which approximate current market rates for notes with similar maturities and credit quality.

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost, or if donated, at the fair value on the date of donation. The University uses the straight-line method of depreciation to allocate the cost of assets over the estimated useful lives. Estimated useful lives range from 3 years for computers to 50 years for buildings.

Estates and Trusts

Trusts in which either the University or the Foundation is named as irrevocable beneficiary but is not trustee, are recorded in the consolidated financial statements as contribution income when the trustee notifies the University 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, 2001 and 2000. 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 2000 consolidated financial statements to conform to the classifications used in 2001.

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, 2001 and 2000 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, 2001 ($000)	June 30, 2000 ($000)
Amounts due from charges for prior academic terms	$ 1,349	$ 1,391
Amounts due for summer term earned subsequent to year-end	1,368	1,229
	2,717	2,620
Allowance for doubtful accounts	(449)	(408)
Net student accounts receivable balance	$ 2,268	$ 2,212

NOTE C - INVESTMENTS:

Investments are composed of pooled investment funds, marketable securities and real estate. Two investment pools are managed by the Foundation for various trusts, annuities, pooled income and endowment funds.

	June 30, 2001 ($000)	June 30, 2000 ($000)
Pooled investments:		
Short-term investments	$ 629	$ 2,792
Marketable securities, common stock	35,703	42,639
Marketable securities, bond mutual funds	5,929	5,795
Private equities	6,596	8,870
Notes receivable	1,908	3,520
Real estate	4,766	1,870
Total pooled investments	55,531	65,486
Equity instruments	193	288
Debt instruments	556	425
Real estate held for investment or sale	1,277	7,699
Total investments	$ 57,557	$ 73,898

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

	June 30, 2001 ($000)	June 30, 2000 ($000)
Investment income	$ 610	$ 368
Net gain (loss) on investments	(3,553)	4,615
Total return on investments	$ (2,943)	$ 4,983
Operating		
Endowment gains and income distribution	$ 1,757	$ 1,243
Non operating		
Net gain (loss) and income on endowments, net of distributions	(5,359)	2,034
Net gains on other investments	659	1,706
Total return on investments	$ (2,943)	$ 4,983

NOTE D - LAND, BUILDINGS AND EQUIPMENT:

Land, buildings and equipment consist of the following:

	June 30, 2001 ($000)	June 30, 2000 ($000)
Land	$ 17,997	$ 15,701
Buildings	75,161	70,235
Equipment	13,276	12,732
Library books	4,498	4,175
Construction in progress	23,257	6,287
	134,189	109,130
Accumulated depreciation	(40,691)	(37,187)
Net land, buildings and equipment	$ 93,498	$ 71,943

NOTE E – LONG TERM DEBT

As of June 30, 2001, 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
			$ 87,000

The weekly variable rate in effect on June 30, 2001 was 3.00%.

These two series of bonds were issued in September 2000 for the purposes of refinancing outstanding debt related to property, plant and equipment under an existing credit agreement at that time and for construction and capital improvement projects on campus. As of June 30, 2000, there were twelve notes totaling $20,771,000 with interest rates between 6.73% and 8.12% outstanding against a $25,000,000 credit agreement with Bank of America and $1,264,000 of secured notes with interest rates ranging from 7.00% to 7.75%. The outstanding amount of $22,035,000 was refinanced with the proceeds from Series 2000A bonds.

Principal payments on the June 30, 2001 obligations are due as follows during the next five fiscal years and thereafter:

	Principal ($000)
2001-2002	$ 0
2002-2003	1,184
2003-2004	2,368
2004-2005	2,766
2005-2006	3,164
Thereafter	77,518
	$ 87,000

For the fiscal year ended June 30, 2001, the University incurred $3,286,000 in total interest costs related to long-term debt. Of this, $319,000 was capitalized as a cost of construction projects and $2,967,000 was charged against operations. Of the amount charged to operations, $2,491,000 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, 2001, there were draws of $8,700,000 outstanding against this line. The variable rate in effect at June 30, 2001 related to this borrowing was 6.75%. The balance on the revolving line of credit was subsequently repaid in July 2001.

NOTE F – INTEREST RATE RISK MANAGEMENT – CASH FLOW HEDGE

The University adopted Statement of Financial Accounting Standard 133, "Accounting for Derivative Instruments and Hedging Activities", effective July 1, 2001. This Statement establishes the accounting and reporting standards for derivative instruments and for hedging activities and requires entities to recognize all derivatives as either assets or liabilities and measure those instruments at fair value. Adoption of this Statement resulted in a nonoperating unrealized loss of $1,060,000 during the year ended June 30, 2001 compared to what would have been recognized in prior years.

The University uses variable-rate debt to finance the acquisition of property, plant and equipment as indicated in Note E and believes it is prudent to limit its exposure to the potential of increased interest rates. 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 between 30% and 50% of its variable-rate interest payments related to this debt.

To meet these objectives, the University entered into an interest rate swap to manage fluctuations in cash flows resulting from interest rate risk. Under the interest rate swap, 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. 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 value of the interest rate swap designated as a hedging instrument of the variability of cash flows associated with the University's variable-rate, long-term debt obligations are reported as unrealized gains/loss in hedging activities on the Statement of Activities. As of June 30, 2001 the valuation of the swap resulted in a net unrealized loss of $1,060,000 due to declining variable interest rates since September 2000. 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.

The University assesses interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposure that may adversely impact expected future cash flows and by evaluating hedging opportunities. The University monitors interest rate cash flow risk attributable to the outstanding debt obligations and hedge positions through the use of professional consultation and analytical techniques to estimate the expected impact of changes in interest rates on the University's future cash flows.

NOTE G – 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 were 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 H – 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 $486,000 and $570,000 at June 30, 2001 and 2000, respectively. The annuity trust payments are obligations of the trust and the present value of these annuity trust obligations totaled $310,000 and $318,000 at June 30, 2001 and 2000, respectively.

NOTE I - 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 $1,657,000 and $1,499,000 for the years ended June 30, 2001 and 2000 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 J – FUNDRAISING EXPENSE:

Institutional support expense reflected on the Statement of Activities includes approximately $2,233,000 and $1,991,000 of fundraising expenses for the years ended June 30, 2001 and 2000, respectively.

NOTE K - 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 $19,068,000 in these programs. At June 30, 2001, a cumulative total of $7,004,000 has been invested. The remaining $12,064,000 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, 2001, the University had a $204,000 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.