AUDITED FINANCIAL STATEMENTS

Year Ending June 30, 2007

Engaging the culture, changing the world®

Seattle Pacific UNIVERSITY

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 more than 3,800 undergraduate and graduate students at its main Seattle campus, as well as an average of 2,600 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 56 undergraduate majors and 42 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 11 master's degrees and three doctoral programs: educational leadership, clinical psychology, and organizational psychology.

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

Cover photo: *Constructed in 1995, SPU's 60,000 square foot Library contains more than 200,000 volumes, scores of databases, and many hundreds of other materials (including audiovisual and on-line resources), and a computer lab. SPU Library patrons are also afforded access to 28 million books through the Orbis Cascade Alliance (34 colleges and universities in Oregon and Washington).* **Photo by Kari Husby**

Contents

KPMG LLP
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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, 2007 and 2006, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 1, 2007

Consolidated Statements of Financial Position

As of June 30, 2007 and 2006
(in thousands)

	June 30, 2007	June 30, 2006
Assets		
Cash and cash equivalents	$ 27,474	$ 19,788
Student accounts receivable, net	2,419	2,240
Governmental grants and other receivables	2,460	1,927
Inventories and prepaid expenses	2,013	1,783
Student loans	1,422	1,588
Investments	39,789	32,111
Total current assets	75,577	59,437
Student loans, net of allowance of $196 in 2007 and $204 in 2006	6,139	5,790
Other receivables and prepaid expenses	8,224	7,833
Investments	45,249	41,716
Investments restricted for capital projects or debt retirement	4,742	8,323
Land, buildings and equipment, net	118,669	117,018
Total assets	$ 258,600	$ 240,117
Liabilities and Net Assets		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 10,957	$ 8,822
Bonds payable	3,480	3,470
Trust and annuity obligations	1,231	1,502
Student deposits and prepaid fees	1,947	1,526
Deferred revenue	4,707	4,321
Total current liabilities	22,322	19,641
Bonds payable	83,120	86,605
Trust and annuity obligations	12,420	11,292
Investments managed on behalf of charities	7,415	6,824
Governmental student loan programs	6,614	6,493
Other liabilities	4,169	3,723
Total liabilities	136,060	134,578
Net Assets		
Unrestricted		
Available for operational activities	28,731	19,600
Funds held for long-term investment as endowment	24,410	18,126
Net investment in land, buildings and equipment	31,673	31,207
Total unrestricted net assets	84,814	68,933
Temporarily restricted		
Split interest agreement funds	8,264	7,863
Unexpended funds received for educational purposes	2,081	2,514
Total temporarily restricted net assets	10,345	10,377
Permanently restricted		
Endowment funds	22,857	22,191
Split interest agreement funds restricted for endowment	4,524	4,038
Total permanently restricted net assets	27,381	26,229
Total net assets	122,540	105,539
Total liabilities and net assets	$ 258,600	$ 240,117

See accompanying notes to consolidated financial statements

Consolidated Statements of Activities

For the Years Ended June 30, 2007 and 2006
(in thousands)

	June 30, 2007	June 30, 2006
Operating Unrestricted Net Assets Activity		
Revenues and other support		
Student charges:		
Tuition and fees	$ 80,785	$ 75,939
Less: grants and scholarships	(24,799)	(23,321)
Net tuition and fees	55,986	52,618
Student housing and dining fees	11,871	12,021
Net student charges	67,857	64,639
Private gifts and grants	8,063	3,271
Public service activities	2,141	2,275
Government grants, primarily for student aid	1,952	1,518
Distributions from endowment to support operations, special programs and scholarships	1,436	1,169
Other revenue and support	3,007	2,574
Net assets released from restrictions	1,345	1,350
Total operating revenues and other support	85,801	76,796
Expenses		
Instruction	33,321	31,610
Student services	13,081	12,198
Student housing and dining expenses	12,965	12,699
Institutional support	12,789	12,160
Academic support	3,885	3,829
Public service	1,426	1,594
Total operating expenses	77,467	74,090
Excess of revenues and other support over expenses from operating activities	8,334	2,706
Nonoperating Unrestricted Net Assets Activity		
Investment income, realized and unrealized gains	8,938	7,468
Endowment distributions for operations, grants and scholarships	(1,436)	(1,169)
Other, principally unrealized gain (loss) on interest rate swaps related to bonds	(306)	4,269
Change in value of split interest agreements	351	(411)
Cumulative effect of change in accounting principle	–	(785)
Increase in unrestricted net assets from nonoperating activities	7,547	9,372
Net change in unrestricted net assets	15,881	12,078
Temporarily Restricted Net Assets Activity		
Private gifts and grants	932	2,125
Change in value of split interest agreements	381	390
Net assets released from restrictions	(1,345)	(1,350)
Net change in temporarily restricted net assets	(32)	1,165
Permanently Restricted Net Assets Activity		
Private gifts and grants	677	1,579
Change in value of split interest agreements	475	172
Net change in permanently restricted net assets	1,152	1,751
Increase in total net assets	17,001	14,994
Total net assets, beginning of year	105,539	90,545
Total net assets, end of year	$ 122,540	$ 105,539

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2007 and 2006
(in thousands)

	June 30, 2007	June 30, 2006
Operating Activities		
Increase in total net assets	$ 17,001	$ 14,994
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,734	7,360
Amortization of bond issuance costs	127	894
Provision for doubtful accounts	35	(8)
Net realized and unrealized gain on investments	(7,858)	(6,585)
Contributions restricted for endowments and capital projects	(1,369)	(2,582)
Contributions of remainder interest in trust managed by others	(661)	–
Loss on disposal of plant assets	–	3
Change in value of split interest agreements	(1,207)	(151)
Other, principally unrealized (gain) loss on interest rate swaps related to bonds	306	(4,269)
Cumulative effect of change in accounting principle	–	785
Changes in operating assets and liabilities:		
Student accounts receivable	(222)	2
Government grants and other receivables	(533)	(525)
Student loans	(175)	129
Inventories and prepaid expenses	(230)	(765)
Other receivables	54	198
Accounts payable, accrued liabilities and other liabilities	862	(467)
Student deposits and prepaid fees	421	306
Deferred revenue	386	660
Investments managed on behalf of charities	591	414
Governmental student loan programs	121	83
Net cash provided by operating activities	15,383	10,476
Investing Activities		
Proceeds from sale of investments	3,992	2,074
Purchase of investments	(1,806)	(4,647)
Proceeds from collections of notes receivable	116	17
Purchase of restricted investments	–	(8,323)
Issuance of notes receivable	(12)	(30)
Purchase of land, buildings and equipment	(8,143)	(5,212)
Net cash used by investing activities	(5,853)	(16,121)
Financing Activities		
Payment of short-term line of credit	–	(5,850)
Payments on long-term debt	(3,475)	(82,420)
Proceeds from issuance of long-term debt	–	91,820
Bond issuance costs	–	(3,144)
Contributions restricted for endowments and capital projects	1,369	2,582
Annuity payments and other	262	88
Net cash transactions related to split interest agreements	–	2,894
Net cash provided (used) by financing activities	(1,844)	5,970
Net increase in cash and cash equivalents	7,686	325
Cash and Cash Equivalents		
Beginning of year	19,788	19,463
End of year	$ 27,474	$ 19,788
Supplemental disclosure of cash flow information —		
Cash paid during the year for interest	$ 4,012	$ 4,347
Acquisition of property, plant and equipment through accounts payable	$ 1,242	$ 411

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 56 undergraduate major programs and 42 minor areas of study, 11 master's programs and three 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, 2007 and 2006, $8,543,000 and $7,871,000, respectively, are restricted by the passage of time, primarily related to net assets held in irrevocable trusts, and $1,802,000 and $2,506,000, 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. Included on June 30, 2007 and 2006, are irrevocable trusts restricted for endowment use at maturity valued at $4,524,000 and $4,038,000, respectively. 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 $27,021,000 and $18,651,000 at June 30, 2007 and 2006, respectively.

Investments

Investments are stated at fair value. The fair value of all equity and debt securities with readily determinable fair market values are based on quotations obtained from national securities exchanges. Real estate held for investment or sale is reported based on independent appraisals. 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 the University Foundation or management. These investments are intended by management to be long-term investments primarily held or maintained for use as endowments managed by the Foundation.

Alternative investments are investments for which there is no readily determinable published value. They include institutional funds, private equity funds, 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. These differences could be material.

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 or debt service reserve funds required.

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 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 which approximate current market rates for notes with similar maturities and credit quality.

Bond Issuance Costs

Bond issuance costs include amounts paid by the University in connection with the issuance of the Series 2005 WHEFA Bonds. Amortization of issuance costs is calculated using the straight-line method over the 25-year term of the bonds. Amortization expense related to bond issuance costs in the years 2007 and 2006 was $127,000 and $894,000, respectively.

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 three 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. The portions of these trusts that are restricted for endowment use at the time of trust maturity are classified as permanently restricted net assets.

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 in which the University is remainder beneficiary. Those assets and a corresponding liability are included in the accompanying consolidated financial statements.

Recently Adopted Accounting Standards

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations,* an interpretation of *Statement of Financial Accounting Standards No. 143* (SFAS 143). This interpretation clarified that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform when an asset is retired. However, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. SFAS 143 requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

The University adopted FIN 47 effective June 30, 2006, and has a recorded liability of $1,050,000. The cumulative effect of the adoption of FIN 47 reflects the accretion of the liability and the depreciation of the capitalized retirement asset from the liability inception date through June 30, 2006.

The financial statement impact of adopting FIN 47, as described above, relates to estimated costs to remove asbestos that is contained within the University's facilities. The additional depreciation and accretion costs in 2007 and 2006 are $33,000 and $32,000, respectively.

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 the majority of its educational and other noncommercial properties of the University and the Foundation.

Reclassifications

Certain reclassifications have been made to the 2006 consolidated financial statements to conform to the 2007 presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 consist of amounts due from students for tuition, room, board and other enrollment-related charges. At June 30, 2007 and 2006, 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, 2007 ($000)	June 30, 2006 ($000)
Amounts due from charges for prior academic terms	$ 1,634	$ 1,437
Amounts due for summer term earned subsequent to year-end	1,410	1,385
	3,044	2,822
Allowance for doubtful accounts	(625)	(582)
Net student accounts receivable balance	$ 2,419	$ 2,240

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, 2007 ($000)	June 30, 2006 ($000)
Pooled investments:		
Cash and short-term investments	$ 3,142	$ 3,089
Institutional funds, common stock	43,436	39,832
Institutional funds, bond mutual funds	9,127	5,598
Private equities	10,403	8,711
Notes receivable	2,523	1,973
Real estate	10,057	8,280
Total pooled investments	78,688	67,483
Equity securities	79	79
Debt securities	76	70
Real estate held for investment or sale	6,195	6,195
Total investments	$ 85,038	$ 73,827

The following schedule summarizes investment return and its classification on the Statement of Activities:

	June 30, 2007 ($000)	June 30, 2006 ($000)
Investment income	$ 1,080	$ 883
Net realized and unrealized gains on investments	7,858	6,585
Investment income, realized and unrealized gains	$ 8,938	$ 7,468
Operating:		
Endowment distributions for operations, special programs and scholarships	$ 1,436	$ 1,169
Nonoperating:		
Net gain on endowment investments, net of distributions	5,946	3,262
Net gains on other investments	1,556	3,037
Investment income, realized and unrealized gains	$ 8,938	$ 7,468

NOTE D – Contributions Receivable:

Contributions receivable at June 30, 2007 and 2006, include pledges in current and non-current other receivables that have been discounted at a rate of 5.00%, based on the risk-free rate of return and are due to be collected as follows:

	June 30, 2007 ($000)	June 30, 2006 ($000)
Contributions expected to be collected:		
Within one year	$ 225	$ 195
One to five years	450	503
	675	698
Less discount to present value	(60)	(71)
Less allowance for uncollectible contributions receivable	(25)	(35)
Total contributions receivable	$ 590	$ 592

NOTE E – Land, Buildings and Equipment:

Land, buildings and equipment consist of the following:

	June 30, 2007 ($000)	June 30, 2006 ($000)
Land	$ 17,620	$ 17,207
Buildings and improvements	136,889	131,953
Equipment	14,271	13,792
Library books	6,972	6,549
Construction in progress	1,699	1,866
	177,451	171,367
Less accumulated depreciation	(58,782)	(54,349)
Net land, buildings, and equipment	$ 118,669	$ 117,018

NOTE F – Notes and Bonds Payable:

As of June 30, 2007 and 2006, bonds payable issued through the Washington Higher Education Facilities Authority (WHEFA) consist of:

	Interest Rate Mode	Maturity Dates	June 30, 2007 ($000)	June 30, 2006 ($000)
Series 2005 Bonds	Variable Auction Rate	2005-2030	$ 86,600	$ 90,075

The weekly variable auction rate in effect on June 30, 2007 and 2006 was 3.85% and 3.96%, respectively.

In December 2005, the University issued the Series 2005 bonds for the purposes of refinancing the outstanding Series 2000A and B bonds and for capital improvement projects on campus. The Series 2005 bonds are supported by an underlying insurance policy with Radian Asset Assurance, Inc. The underlying insurance contains restrictive defined financial ratios and measures as defined in the policy. As of June 30, 2007 and 2006, the University was in compliance with the ratios and measures required under the insurance policy. 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:

	Principal ($000)
2007-2008	$ 3,480
2008-2009	3,485
2009-2010	3,485
2010-2011	3,495
2011-2012	3,500
Thereafter	69,155
	$ 86,600

For the fiscal years ended June 30, 2007 and 2006, the University incurred $3,973,000 and $4,155,000, respectively, in total interest costs related to long-term debt. Of this, $3,732,000 and $4,013,000, respectively, was charged against operations and $241,000 and $142,000, respectively, was paid out of bond proceeds. The University maintains a $10,000,000 revolving line of credit at a floating interest rate. As of June 30, 2007, there were no draws outstanding against this line.

Other interest costs for the years ended June 30, 2007 and 2006, were $33,000 and $40,000, respectively.

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. To meet this intent, the University entered into interest rate swaps to manage fluctuations in cash flows resulting from interest rate risk.

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 amortizing swap from Lehman Brothers with a June 30, 2007, notional amount of $19,900,000 at a fixed rate of 4.85%. In November 2001, the University acquired 10-year and 7-year swaps from Bank of America for $40,000,000 at 3.89% and $12,000,000 at 3.58%, respectively. In January 2006, the University acquired a 25-year accreting and amortizing swap from Bank of America. The notional amount of this swap will increase over time as the previous swaps expire and decrease as principal payments are made in the bonds, to maintain a consistent level of overall variable-rate exposure. As of June 30, 2007, the accreting and amortizing swap had a notional amount of $2,435,000 at 3.71%. 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 swap are reported as unrealized gains or losses on interest rate swaps related to bonds on the Statement of Activities. For the year ended June 30, 2007, the valuation of the swaps resulted in a net unrealized loss of $306,000 due to fixed interest rates for the remaining term of the swap being lower than they were at June 30, 2006, relative to the stated fixed rate for the swaps. The offsetting liability related to a cumulative loss as of June 30, 2007 and 2006 of $957,000 and $651,000, respectively, is included in the other liablilities total reported on the Statement of Financial Position. Providing that the University holds the swaps to maturity, the fair value of the swaps 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 these derivative instruments for any purpose other than interest cash flow purposes and does not speculate for investment purposes using derivative instruments.

NOTE H – Split Interest Agreements:

The University and Foundation have entered into a variety of charitable remainder trusts for which the Foundation is the trustee. For trusts with a fixed-percentage payment obligation (straight unitrusts) 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 Internal Revenue Service established rates, which have ranged between 4.6% and 8.0%. 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 projected earnings of 9.0-11.4% 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 investments in the accompanying consolidated financial statements.

NOTE I – 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 of the University, and the present value of these gift annuity obligations totaled $3,173,000 and $3,262,000 at June 30, 2007 and 2006, respectively.

NOTE J – Retirement Plan:

The University participates in an Internal Revenue Code (IRC) 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 $2,467,000 and $2,296,000 for the years ended June 30, 2007 and 2006, 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.

Effective July 2006, the University joined Emeriti Retirement Health Solutions (EMERITI), a consortium of colleges and universities organized to provide retiree health care benefits through a Voluntary Employees Benefit Assocation (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. All faculty and staff over the age of 35 with one year of employment participate in the plan. The University contributes a monthly fixed amount to a VEBA investment account with Fidelity Investments for all plan participants and the total annual contribution to EMERITI was $310,354 for the year ended June 30, 2007. Employees eligible to participate in EMERITI can make voluntary contributions to the same VEBA account.

NOTE K – Fund Raising Expense:

Institutional support expense reflected on the Statement of Activities includes approximately $2,421,000 and $2,367,000 of fund raising expenses for the years ended June 30, 2007 and 2006, respectively.

NOTE L – Related Party Transactions:

On December 21, 2004, the University issued a market-rate amortizing 20-year mortgage note in the amount of $329,000 in connection with the sale of residential real estate on University land to a member of management. The sale was in conjunction with the University's housing assistance programs for employees and made under an equity sharing agreement based on the then 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 market value.

NOTE M – Commitments and Contingencies:

Commitments

The investment pools managed by the Foundation participate in twenty 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 $28,243,000 in these programs. At June 30, 2007, a cumulative total of $16,778,000 has been invested. The remaining $11,465,000 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 ending June 30, 2007, the University had a $345,730 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 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 16 such loans outstanding that are due between 2007 and 2017. Since the inception of the HAP in 1991, no guarantees have been exercised by the credit union. As of June 30, 2007, the loan portfolio balance held by the credit union was $577,000. 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, 2007.

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 U.S. generally accepted accounting principles.

General Counsel

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Seattle, WA

Independent Auditors

KPMG LLP
Seattle, WA

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