



**BUCKNELL UNIVERSITY**

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

# BUCKNELL UNIVERSITY

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## Independent Auditors' Report

Board of Trustees  
Bucknell University:

We have audited the accompanying statement of financial position of Bucknell University as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Bucknell University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2005 financial statements and, in our report dated September 30, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 Bucknell 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bucknell University as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

*KPMG LLP*

October 17, 2006

**BUCKNELL UNIVERSITY**  
Statement of Financial Position  
June 30, 2006  
(with comparative totals for June 30, 2005)  
(In thousands)

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	\$ 5,529	4,316
Accounts and other receivables, net	4,324	2,426
Contributions receivable, net (note 2)	16,982	17,164
Inventories, accrued interest, and other assets	2,935	3,994
Investments (note 3)	584,973	533,612
Employee loans receivable, net	977	1,003
Student loans receivable, net	5,042	4,868
Funds held in trust by others (note 3)	12,669	12,570
Property and equipment, net (notes 4, 5 and 11)	205,775	205,219
Total assets	\$ 839,206	785,172
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses (note 11)	\$ 14,203	13,632
Student deposits and deferred revenues	4,543	3,934
Postretirement health care (note 9)	35,542	33,430
Annuities payable	15,188	14,668
Funds held for the accounts of others	1,465	966
Advances from federal government	4,045	4,045
Bonds and notes payable (note 5)	46,382	49,487
Total liabilities	121,368	120,162
Net assets:		
Unrestricted	326,136	304,899
Temporarily restricted (note 6)	233,114	209,180
Permanently restricted (note 7)	158,588	150,931
Total net assets	717,838	665,010
Total liabilities and net assets	\$ 839,206	785,172

See accompanying notes to financial statements.

**BUCKNELL UNIVERSITY**

Statement of Activities

For the year ended June 30, 2006  
(with comparative totals for the year ended June 30, 2005)

(In thousands)

	2006			2005
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	\$ 116,073	—	—	116,073
Institutional scholarships	(34,736)	—	—	(34,736)
Net tuition and fees	81,337	—	—	81,337
Sales and services of auxiliary enterprises	27,126	—	—	27,126
Government grants and contracts	4,413	—	—	4,413
Private gifts, grants, and contributions	7,432	1,526	—	8,958
Net investment income (note 3)	19,224	5,758	—	24,982
Other	4,162	118	—	4,280
Net assets released from restrictions	6,752	(6,752)	—	—
Total operating revenues	150,446	650	—	151,096
Operating expenses (notes 8, 9, and 12):				
Education and general:				
Instruction	48,858	—	—	48,858
Sponsored research and community service	2,181	—	—	2,181
Academic support	17,098	—	—	17,098
Student services	26,422	—	—	26,422
Institutional support	19,541	—	—	19,541
Auxiliary enterprises	25,872	—	—	25,872
Total operating expenses	139,972	—	—	139,972
Increase in net assets from operating revenues, net of expenses	10,474	650	—	11,124
Nonoperating activities:				
Investment gains, net of endowment spending (note 3)	8,983	23,154	260	32,397
Capital gifts	344	3,492	7,397	11,233
Net assets released from restrictions	3,362	(3,362)	—	—
Increase in net assets from nonoperating activities	12,689	23,284	7,657	43,630
Change in net assets before cumulative effect of change in accounting principle	23,163	23,934	7,657	54,754
Cumulative effect of change in accounting principle (note 11)	(1,926)	—	—	(1,926)
Changes in assets	21,237	23,934	7,657	52,828
Net assets, beginning of year	304,899	209,180	150,931	665,010
Net assets, end of year	\$ 326,136	233,114	158,588	717,838

See accompanying notes to financial statements.

**BUCKNELL UNIVERSITY**

Statement of Cash Flows

For the year ended June 30, 2006  
(with comparative totals for the year ended June 30, 2005)

(In thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 52,828	43,045
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	1,926	—
Depreciation	11,964	11,676
Contributions restricted for long-term investment	(10,889)	(5,590)
Net realized and unrealized gains	(53,484)	(50,691)
Change in asset and liabilities:		
Accounts and other receivables, net	(1,898)	(122)
Inventories, accrued interest and other assets	1,059	(106)
Employee loans receivable, net	26	(26)
Accounts payable and accrued expenses	575	2,100
Postretirement health care	2,112	3,198
Net cash provided by operating activities	<u>4,219</u>	<u>3,484</u>
Cash flows from investing activities:		
Sales of investments	208,555	253,172
Purchases of investments	(205,506)	(254,454)
Student loans issued	(1,388)	(1,016)
Student loans collected	1,214	902
Purchase of property and equipment	(13,342)	(10,505)
Net cash used in investing activities	<u>(10,467)</u>	<u>(11,901)</u>
Cash flows from financing activities:		
Payment of bonds and notes payable	(3,105)	(1,971)
Receipts under annuity liability arrangements	1,274	825
Payments to annuitants	(1,779)	(1,881)
Proceeds from private gifts and grants restricted for long-term investment	11,071	12,667
Change in advances from federal government	—	86
Net cash provided by financing activities	<u>7,461</u>	<u>9,726</u>
Increase in cash and cash equivalents	1,213	1,309
Cash and cash equivalents – beginning of year	4,316	3,007
Cash and cash equivalents – end of year	\$ <u><u>5,529</u></u>	\$ <u><u>4,316</u></u>
Supplemental disclosures of cash flow information:		
Cash paid for interest during the year	\$ 2,156	2,143
Noncash investing and financing activities:		
Fixed assets acquired by issuance of note payable	—	732

See accompanying notes to financial statements.

# BUCKNELL UNIVERSITY

## Notes to Financial Statements

June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

### (1) Summary of Significant Accounting Policies

Bucknell University (the University) is a private, not-for-profit institution of higher education in Lewisburg, Pennsylvania. The University provides education services at the graduate and undergraduate levels.

The significant accounting policies followed by the University are described below to enhance the usefulness of the financial statements to the reader.

#### (a) *Basis of Presentation*

The financial statements of the University have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Financial reporting standards require that net assets, revenues, gains, and losses be classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

*Permanently restricted* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the investment income on related investments for general or specific purposes. Such assets primarily include the University's permanent endowment funds.

*Temporarily restricted* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time.

*Unrestricted* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

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## Notes to Financial Statements

June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and reported in accordance with donor-imposed restrictions, if any. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Investment income earned in excess of the University's spending policy and capital gifts restricted or designated for capital expenditures or long-term investment (i.e. endowment gifts) are considered nonoperating activities in the accompanying statement of activities.

**(b) *Cash and Cash Equivalents***

Cash and cash equivalents include cash on deposit with financial institutions and other highly liquid investments with maturities of three months or less.

**(c) *Investments***

Investments in fixed income securities and publicly traded marketable equity securities are recorded at fair value based upon quoted market prices.

Investments in other financial instruments (including ownership interests in investment funds structured as limited partnerships and limited liability corporations) are recorded at estimated fair value by the University based on information provided by the general partner(s)/shareholder(s) and other data. Underlying securities owned by the limited partnerships and limited liability corporations include certain publicly traded securities that have readily available market values and other investments that are not readily marketable. The University believes the carrying amount of these financial instruments is a reasonable fair value. Because certain of these investments are not readily marketable, their fair value is subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from currently reported values.

**(d) *Investment Gains on Donor Endowment Funds***

Commonwealth of Pennsylvania law requires the University to allocate to income each year a portion of endowment net realized gains based on a minimum of 2% and a maximum of 7% of a three-year moving average of the market value of the endowed assets. Unless the terms of the gift instrument state otherwise, accumulated endowment net realized gains may, therefore, eventually be spent over time by the University. As a result, endowment net unrealized and realized gains are recorded in the financial statements as temporarily restricted net assets.

The University's endowment spending policy allows for the spending of pooled endowment earnings determined at 4.5% of a twelve quarter moving average of the fair value of pooled assets. Should the determined spendable amount not provide for a 5.0% increment over the previous fiscal year spendable amount, the determined amount may be further adjusted to the 5.0% incremental level, but not exceeding 5.5% of the twelve quarter moving average of the fair value of pooled assets. The

# BUCKNELL UNIVERSITY

## Notes to Financial Statements

June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

spendable return is distributed to the pooled funds each quarter based on the units owned by each fund in the pool.

**(e) Funds Held in Trust by Others**

Funds held in trust by others are for the benefit of the University based on the terms of the irrevocable trusts. These funds are neither in the possession, nor under the control, of the University. Such terms provide that the University a.) is to receive annually the income earned by the funds which are held in trust, or b.) is to receive a remainder interest in the trust. The present values of the estimated future cash flows from the trusts are recognized as assets and contribution income at the dates the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

**(f) Property and Equipment**

Property and equipment are stated at cost or at estimated fair value if acquired by gift, less accumulated depreciation. Depreciation of the University's property and equipment is computed using a straight-line method over 15 to 50 years for buildings and improvements and 3 to 10 years for equipment, furniture, fixtures, and library books.

**(g) Inventories**

Inventories are stated at cost using the first-in, first-out method.

**(h) Split Interest Agreements and Annuities Payable**

The University's split interest agreements with donors consist primarily of annuity, life income, and charitable trusts for which the University serves as trustee. Principally all assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, changes in the estimated present value of future cash outflows, and other changes in the estimates of future benefits. The annuities payable represent the net present value of future cash outflows over the annuitant's life expectancy as required by the annuity agreements.

The University uses the applicable federal rate at the time of the gift as the basis for determining discount rates in recording annuity obligations at net present value for charitable gift annuities, life income, and charitable trusts for which the University serves as trustee. Discount rates range from 3.6% to 7% as of and for the years ended June 30, 2006 and 2005.

**(i) Advances from Federal Government for Student Loans**

Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are reported as a liability.

**BUCKNELL UNIVERSITY**

Notes to Financial Statements

June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

**(j) Tax Status**

The University, recognized by the Internal Revenue Service as a not-for-profit educational institution, qualifies under Section 501(c)(3) of the *Internal Revenue Code* and thus is exempt from federal income tax on activities related to its exempt purpose.

**(k) Prior Year Information**

Certain prior year amounts have been reclassified to conform with the current year presentation.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

**(2) Contributions Receivable**

The net present value of contributions receivable as of June 30 follows:

	<u>2006</u>	<u>2005</u>
Unconditional promises expected to be collected:		
One year or less	\$ 6,543	10,651
One year to five years	9,317	4,517
Over five years	2,390	2,319
	<u>18,250</u>	<u>17,487</u>
Less allowance for uncollectible contributions	1,268	323
	<u>\$ 16,982</u>	<u>17,164</u>

The net present value of contributions receivable is recorded as follows:

	<u>2006</u>	<u>2005</u>
Temporarily restricted (donor use and time restrictions)	\$ 6,423	6,822
Permanently restricted (donor endowment funds)	10,559	10,342
	<u>\$ 16,982</u>	<u>17,164</u>

Contributions are recorded at net present value. Discount rates for the years ended June 30, 2006 and 2005, respectively, ranged from 3.6% to 6.5%. The discount to present value amounted to approximately \$2,628 and \$1,249 at June 30, 2006 and 2005, respectively.

**BUCKNELL UNIVERSITY**

Notes to Financial Statements

June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

**(3) Investments and Funds Held in Trust by Others**

A summary of the investments held by the University at June 30 follows:

	<u>2006</u>	<u>2005</u>
Fixed income securities:		
Domestic	\$ 83,666	59,539
International	7,987	12,840
Marketable equity securities:		
Domestic	250,790	265,728
International	63,154	42,833
Other investments:		
Hedge funds	114,452	112,254
Private equity funds	64,924	40,418
	<u>\$ 584,973</u>	<u>533,612</u>

Other investments are principally ownership interests in investment entities structured as limited partnerships or limited liability corporations. Underlying securities owned by the limited partnerships and limited liability corporations include certain publicly traded securities that have readily available market values and other investments that are not readily marketable. Because certain of these investments are not readily marketable, their fair value is subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from currently reported values.

Under the terms of the agreements with the limited liability entities, the University has outstanding commitments at June 30, 2006 to invest additional funds of approximately \$66,484.

Certain investments described above, are pooled on a fair value basis for purposes of managing the University's endowment fund. In addition, endowment funds include certain fixed income investments, as well as funds held in trust by others. These trust instruments are similar to endowment gift instruments in that they require investment income be paid to the University in perpetuity. Funds held in trust by others not included in endowment funds are principally charitable remainder trusts. The terms of these charitable trusts are not perpetual instruments but entitle the University to a remainder interest upon the expiration of the trust.

**BUCKNELL UNIVERSITY**

Notes to Financial Statements

June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

A summary of investment and funds held in trust by others follows:

	<u>June 30, 2006</u>			<u>June 30, 2005</u>
	<u>Endowment Funds</u>	<u>Other Funds</u>	<u>Total</u>	<u>Total</u>
Investments in pooled funds	\$ 504,217	—	504,217	457,205
Remaining investments	12,146	68,610	80,756	76,407
Total investments	516,363	68,610	584,973	533,612
Funds held in trust by others	5,696	6,973	12,669	12,570
Total	<u>\$ 522,059</u>	<u>75,583</u>	<u>597,642</u>	<u>546,182</u>
Totals - 2005	<u>\$ 472,070</u>	<u>74,112</u>	<u>546,182</u>	

Net investment income for the years ended June 30 consisted of the following:

	<u>2006</u>	<u>2005</u>
Interest and dividends	\$ 7,099	6,578
Net realized and unrealized gains	53,484	50,691
Investment fees	(3,204)	(2,620)
	<u>\$ 57,379</u>	<u>54,649</u>

Investment income is presented in the statement of activities as follows:

	<u>2006</u>	<u>2005</u>
Operating investment income	\$ 24,982	24,224
Nonoperating investment gains	32,397	30,425
	<u>\$ 57,379</u>	<u>54,649</u>

**BUCKNELL UNIVERSITY**

Notes to Financial Statements

June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

**(4) Property and Equipment**

Property and equipment as of June 30 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Land	\$ 5,050	5,050
Buildings and improvements	237,614	232,665
Equipment, furniture, and fixtures	84,298	78,522
Library books and materials	35,447	33,020
Construction in progress	4,090	4,589
	<u>366,499</u>	<u>353,846</u>
Less accumulated depreciation:		
Buildings and improvements	65,708	60,603
Equipment, furniture, and fixtures	70,621	65,542
Library books and materials	24,395	22,482
	<u>160,724</u>	<u>148,627</u>
Property and equipment, net	<u>\$ 205,775</u>	<u>205,219</u>

**(5) Bonds and Notes Payable**

The following is a summary of bonds and notes payable as of June 30:

	<u>2006</u>	<u>2005</u>
University revenue bonds, Series 1996	\$ 8,670	9,315
University revenue bonds, Series 1998	10,735	11,415
University revenue bonds, Series 2002 A	19,305	19,575
University revenue bonds, Series 2002 B	6,830	7,150
	<u>45,540</u>	<u>47,455</u>
Bond premium – University revenue bonds, Series 2002 A	620	671
Total bonds payable	<u>46,160</u>	<u>48,126</u>
Notes payable	222	1,361
Total bonds and notes payable	<u>\$ 46,382</u>	<u>49,487</u>

The University entered into various agreements with the Union County Higher Education Facilities Financing Authority that provided issuance of \$13,060 University Revenue Bonds, Series 1996. The proceeds were used, in part, to repay certain other indebtedness, to finance the renovation and construction of additions to the University's existing power plant including capitalized interest, and to pay certain

## BUCKNELL UNIVERSITY

### Notes to Financial Statements

June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

financing costs. The 1996 bonds carry interest rates ranging from 5.25% to 5.50% with annual principal payments made on April 1. These bonds mature on April 1, 2016.

The University entered into various agreements with the Union County Higher Education Facilities Financing Authority that provided issuance of \$15,000 University Revenue Bonds, Series 1998. The proceeds of the 1998 bonds were used to finance the construction of a 304-bed student residence facility, including capitalized interest and certain financing costs. The 1998 bonds carry interest rates ranging from 4.00% to 4.50% with annual principal payments made on April 1. These bonds mature on April 1, 2018.

The University entered into various agreements with the Union County Higher Education Facilities Financing Authority that provided issuance of \$20,325 University Revenue Bonds, Series 2002 A. The proceeds of the Series 2002 A bonds were used to advance refund the Pennsylvania Higher Educational Facilities Authority Revenue Bonds (Council of Independent Colleges and Universities Financing Program-Bucknell University Project) Series 1997, advance refund a portion of the Authority's University Revenue Refunding Bonds Series of 1992, and the acquisition, construction, renovation, improvement and equipping of various capital facilities of the University, including but not limited to construction, renovation and equipping of student dormitory facilities, and payment of the costs of issuance. The Series 2002 A bonds carry interest rates ranging from 3.0% to 5.25% with annual principal payments made on April 1. These bonds mature on April 1, 2022.

The University entered into various agreements with the Union County Higher Education Facilities Financing Authority that provided issuance of \$7,890 University Variable Rate Revenue Bonds, Series 2002 B. The proceeds of the Series 2002 B bonds were used to advance refund the Pennsylvania Higher Educational Facilities Authority Revenue Bonds (Council of Independent Colleges and Universities Financing Program-Bucknell University Project) Series 2000G1, advance refund a portion of the Authority's University Revenue Refunding Bonds Series 1992, and payment of the costs of issuance. The Series 2002 B bonds bear variable rate interest (3.98% at June 30, 2006) as determined by the remarketing agent with annual principal payments made on April 1. These bonds mature on April 1, 2022.

Bonds are collateralized by gross revenues, tangible personal property, fixtures, furnishings, and equipment of the University.

The University entered into an agreement in June 2004 for the purchase of land and a building. The note, with a balance of \$222 at June 30, 2006, shall be discharged upon final payment on July 1, 2024 or upon the razing of the structure, whichever first occurs, pending all other contractual obligations. The obligation bears annual interest at 5.5%.

**BUCKNELL UNIVERSITY**

Notes to Financial Statements

June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

Maturities of principal for the next five years on outstanding bonds and notes payable at June 30, 2006 follow:

2007	\$	1,995
2008		2,075
2009		2,170
2010		2,260
2011		2,360

**(6) Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Investment gains on donor endowments subject to time restrictions under Pennsylvania law	\$ 207,714	183,156
Pledges receivable subject to time and/or purpose restrictions	6,423	6,822
Unexpended donor restricted funds available for:		
Scholarship and financial aid	6,934	4,853
Other university activities	12,043	14,349
	<u>\$ 233,114</u>	<u>209,180</u>

Temporarily restricted net assets have arisen primarily from unexpended investment gains which may be expended to support operations, subject to statutory restrictions. At June 30, 2006 and 2005, the aggregate amount of deficiencies for all donor restricted endowment funds for which the fair value is less than the level required by donor stipulation is \$139 and \$607, respectively.

**(7) Permanently Restricted Net Assets**

Permanently restricted net assets are principally donor endowment funds. The investment income earned on these funds is used, as specified by the donors, to support University activities as listed below:

	<u>2006</u>	<u>2005</u>
Donor contributed principal invested to support:		
Scholarship and financial aid	\$ 95,062	90,413
Instruction and academic programs	31,365	30,716
Library and related services	7,371	7,369
Other	24,790	22,433
	<u>\$ 158,588</u>	<u>150,931</u>

**BUCKNELL UNIVERSITY**

Notes to Financial Statements

June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

**(8) Pension Plan**

Pension benefits for staff, faculty, and administration are provided under the University's defined contribution retirement program administered by the Teachers' Insurance and Annuity Association for Colleges and Universities. The University's policy is to pay its share of the annual premium accrued in connection with this program; there are no unfunded benefits. University contributions were \$5,047 and \$4,949 for 2006 and 2005, respectively.

**(9) Postretirement Health Care Benefits**

Certain current and former employees are covered by a noncontributory retirement plan providing health care benefits. The University accrues the cost of postretirement benefits other than pensions over the employee's service period. The University has elected to amortize the initial accumulated postretirement benefit obligation at July 1, 1993 over a period of 20 years. The following table sets forth the plan's funded status and amounts recognized in the University's statement of financial position at June 30:

	<u>2006</u>	<u>2005</u>
Change in benefit obligation during year:		
Benefit obligation at beginning of year	\$ 46,784	41,836
Service cost	1,923	1,576
Interest cost	1,904	2,339
Benefit payments	(1,731)	(1,784)
Actuarial (gain) loss	(3,199)	2,817
Plan amendment	(10,980)	—
Benefit obligation at end of year	\$ <u>34,701</u>	<u>46,784</u>
Change in plan assets during year:		
Fair value of plan assets at beginning of year	\$ —	—
Employer contributions	1,731	1,784
Benefit payments	(1,731)	(1,784)
Fair value of plan assets at end of year	\$ <u>—</u>	<u>—</u>
Reconciliation of funded status at end of year:		
Funded status	\$ (34,701)	(46,784)
Unrecognized net transition or obligation	—	8,546
Unrecognized prior service cost	(2,247)	—
Unrecognized net gain	1,406	4,808
Accrued employee postretirement healthcare cost	\$ <u>(35,542)</u>	<u>(33,430)</u>

**BUCKNELL UNIVERSITY**

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June 30, 2006

(with comparative information for June 30, 2005)

(In thousands of dollars)

	<u>2006</u>	<u>2005</u>
Net periodic benefit cost recognized for year:		
Service cost	\$ 1,923	1,576
Interest cost	1,904	2,339
Amortization of net transition obligation	—	1,068
Amortization of prior service costs	(187)	—
Amortization of net loss	202	—
Net periodic benefit cost	<u>\$ 3,842</u>	<u>4,983</u>
Effect of a 1% increase in medical cost trend rate:		
Change in total of service cost and interest cost	\$ 241	880
Change in benefit obligation	3,615	6,832
Effect of a 1% decrease in medical cost trend rate:		
Change in total of service cost and interest cost	(323)	(690)
Change in benefit obligation	(3,483)	(5,523)
Weighted-average assumptions for year:		
Discount rate	5.15%	6.25%
Initial health care cost trend rate	9.00	10.00
Ultimate health care cost trend rate	4.50	4.50
Years remaining to attain ultimate health care cost trend rate	6	3
Weighted-average assumptions at end of year:		
Discount rate	6.25%	5.15%
Measurement Date	June 30, 2006	June 30, 2005

Expected cash outflows (inflows) information for year after current fiscal year:

Years ending June 30:	
2007	\$ 1,689
2008	1,806
2009	1,952
2010	2,088
2011	2,232
2012-2016	13,496

During the year ended June 30, 2006, the University amended the postretirement healthcare plan to: a.) change participant eligibility to 15 years of continuous service after the later of age 47 or date of hire; b.) limit the University's maximum annual cost per participant to a multiple of calendar year 2006 premium rates. The impact of the amendment (with an effective date of July 1, 2005) on the funded status of the plan was to decrease the accumulated postretirement benefit obligation as of July 1, 2005 by \$10,980 offset by a decrease in the transition obligation by \$8,546 and an increase in unrecognized prior service

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## Notes to Financial Statements

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cost by \$2,434. Consequently, there was no impact on the accrued postretirement healthcare cost as of July 1, 2005.

In December 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Act) became law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health benefits that provide a benefit that is at least actuarially equivalent to the Medicare benefit. The University, through arrangements with its health care insurance provider, pays insurance premiums that are billed net of the federal subsidy.

### **(10) Commitment and Contingencies**

The University has a contingent liability as guarantor of a portion of certain faculty and administrative employees' mortgages and loans. The portion of these outstanding mortgages and loans that is being guaranteed by the University amounts to \$932 and \$789 at June 30, 2006 and 2005, respectively.

Amounts received and expended by the University under various federal and state programs are subject to audit by governmental entities. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the University.

The University is obligated for certain construction and other commitments totaling approximately \$5,723 at June 30, 2006.

The University is party to various litigation and other claims in the ordinary course of business. It is the opinion of management, as advised by legal counsel, that these suits will not have a material effect on the financial statements of the University.

### **(11) Conditional Asset Retirement Obligations**

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. Under FIN 47, costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued.

The University's conditional asset retirement obligation relates primarily to asbestos abatement. Asbestos abatement costs, in most cases, were estimated for each building or structure using a cost per square foot or cost per lineal foot based on the type of building materials containing asbestos. As of July 1, 2005, the University recorded depreciable building and improvement costs of \$306, related accumulated depreciation of \$252, an asset retirement obligation of \$1,980 and a cumulative effect of change in accounting principle of \$1,926 as of July 1, 2005. The asset retirement obligation at June 30, 2006 is \$2,065 and is included in accounts payable and accrued expenses.

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**(12) Operating Expenses**

Operating expenses by natural classification for the years ended June 30 follow:

	<u>2006</u>	<u>2005</u>
Compensation, including benefits	\$ 83,454	83,717
Purchased services and supplies	42,390	38,879
Depreciation	11,964	11,676
Interest	2,164	2,127
Total operating expenses	<u>\$ 139,972</u>	<u>136,399</u>

*Fundraising*

Fundraising expenses (recorded in institutional support expenses in the statement of activities), including salaries, benefits, purchased services and supplies, and allocated depreciation and other costs, totaled \$7,448 and \$6,185 for the years ended June 30, 2006 and 2005, respectively.

*Related party transaction*

A member of the University's Board of Trustees is president and chief operating officer of a health care organization providing certain competitively bid health care insurance services to the University. Amounts paid for those insurance services totaled \$1,959 and \$1,460 for the years ended June 30, 2006 and 2005, respectively. In September 2006, the University's President was elected to the Board of Directors of the health care organization referred to above.

**(13) Fair Value of Financial Instruments**

The carrying amounts of cash, accounts and other receivables, employee loans receivable, funds held by bond trustees, and accounts payable and accrued expenses approximate fair value because of the short maturity of these financial instruments. The fair values of investments are more fully discussed in notes 1 (c) and 3.

A reasonable estimate of the fair value of loans receivable from students under government loan programs (with carrying values of \$5,042 at June 30, 2006) could not be made because the notes are not saleable and can only be assigned to the U.S. government or its designees. Long-term debt, with a carrying value of \$46,382 at June 30, 2006 has a fair value of approximately \$46,730. Annuities payable, with a carrying value of \$15,188 has a fair value of approximately \$16,214 at June 30, 2006. The fair value of contributions receivable at June 30, 2006 with a carrying value of \$16,982 is approximately \$17,051.