Bucknell University
Financial White Paper
October 15, 2008

Over the past few weeks we have seen unprecedented turmoil in the US and global financial markets, the failure of a number of venerable US based financial institutions, and the attempt by the US government and other sovereign nations to calm the markets. In light of these events, it seemed a good time to give a brief update on the current financial state of Bucknell University. Below are comments on our operating budget, endowment, treasury funds and long-term debt. This note is not meant to be a total risk assessment for contingency planning but is simply a financial status report.

Operating Budget

While fiscal 2008 ended with a small operating surplus, we expect fiscal 2009 revenues will be adversely impacted by the current credit crisis and economic downturn. Interest income on working capital investments held outside the endowment are now expected to be less than budgeted and we are closely monitoring annual fund philanthropy. In addition, net revenue from tuition will be positively affected by having a few more students in the class of 2012 due to our higher yield, but negatively affected by the potential need for additional financial aid. Fiscal 2009 expenses were running on budget through September 30, 2008.

Endowment

Since 2003, when the endowment ended the fiscal year at $356 million, Bucknell has been on a measured and deliberate path of diversifying the fund across many asset classes. During that time we have decreased exposure to US equities and increased investments in private equities, hedge funds, non-US equities, and real assets, e.g. oil & gas partnerships, timberland, and real estate. This diversification continued in 2008 and fiscal year 2008 with the largest cash balance in recent history.

While diversification is expected to mitigate some of the negative returns being experienced in the US equity market, the endowment fund is not immune to the current global credit crisis. Our external consultant, Hammond Associates, estimates that their endowment fund client base had a negative return of about 8.5% in the quarter ended 9/30/08. We estimate a similar return for our fund, where the value was approximately $500 million at the end of September.

We are fortunate that we haven't been forced to sell any securities into these distressed markets. We have sufficient liquidity in the fund to meet our quarterly spending requirements for financial aid and university operations, and have enough left over to be opportunistic where prudently warranted. In the meantime, our Endowment Investment Office continues to monitor the overall fund, our investment managers, and is in frequent contact with our external consultant and members of the Committee on Investments.

Treasury Funds

During the past three years, Bucknell has had no less than $52 million at any quarter-end in operating cash and investment accounts held outside of the endowment. These accounts are used for collecting tuition and fees, disbursing payroll, paying operating expenses and debt service and also include funds held for capital projects, equipment replacement and general working capital reserves.

Bucknell moved significant funds in recent weeks to US government agencies as the US credit markets became illiquid and provided few short-term investment opportunities. Also, CommonFund, a historic higher education investment option, made national news as its Short-term Bond fund and Intermediate Term Bond fund limited investor redemptions. While many colleges and universities have faced significant liquidity issues over the past two weeks due to CommonFund's actions, Bucknell is well positioned with a diverse base of US government securities, money market funds (principally with Dreyfus and Merrill Lynch), and interest bearing deposits at M&T Bank (its Fitch rating of 'A-' was reaffirmed as recently as September 29, 2008).

Long-Term Debt

Our current debt structure includes fixed rate bonds of approximately $35 million and variable rate bonds of $6 million. The fixed rate bonds carry an average interest rate of slightly less than 5% and mature in varying amounts through 2022. The variable rate bonds have experienced significant rate increases over the past several weeks. Through early September, rates were around 2% or lower. Weekly rates have been as high as 7.9% in late September and are expected to settle this week in the 5% range. We continue to monitor the variable rate debt market to determine if longer term action may be appropriate. For instance, the US Treasury announced that institutions could voluntarily buy back their own bonds for approximately one year without those bonds losing tax-exempt treatment. Given our relatively low variable rate debt level and our current short-term investment liquidity, that option will be reviewed over the coming weeks.

Concluding Thoughts

While budgetary, endowment and treasury fund issues are of immediate concern, a protracted global economic downturn may have many significant effects on Bucknell and higher education. We will need to monitor the number, quality and financial need of applicants, the effect on spendable endowment income and philanthropy, the competitive marketplace for faculty and staff, the demographics and retirement expectations of our current workforce and inflation for our core purchased goods and services.

Due to fiscal restraint over a number of decades, Bucknell is in a better position than many of its peers to weather change and prosper during a period of economic volatility. As always, prudent financial stewardship calls for firm, informed leadership, strict budget management and strategic investment.