KPMG

BUCKNELL UNIVERSITY

Consolidated Financial Statements

June 30, 2012
(with comparative information as of June 30, 2011)

(With Independent Auditors' Report Thereon)

BUCKNELL UNIVERSITY

Table of Contents

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Independent Auditors' Report

The Board of Trustees
Bucknell University:

We have audited the accompanying consolidated statement of financial position of Bucknell University and subsidiaries as of June 30, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of Bucknell University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the 2011 consolidated financial statements and, in our report dated November 8, 2011, we expressed an unqualified opinion on those consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bucknell University and subsidiaries as of June 30, 2012, and the changes in their net assets and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 17, 2012

BUCKNELL UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2012
(with comparative information as of June 30, 2011)

(In thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	12,378	20,110
Inventories, prepaid expenses, and other assets		1,702	2,187
Accounts and other receivables, net (note 2)		3,688	4,134
Contributions receivable, net (note 2)		18,604	30,695
Loans and notes receivable, net (note 2)		5,656	6,171
Investments (note 3)		662,360	661,079
Funds held in trust by others (note 3)		10,003	10,987
Funds held for construction (note 5)		21,809	10,590
Property and equipment, net (notes 4, 5, and 10)		254,037	234,260
Total assets	$	990,237	980,213
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	18,874	19,779
Student deposits and deferred revenues		8,753	8,850
Funds held for the accounts of others		2,241	2,166
Postretirement healthcare (note 9)		62,570	50,365
Annuities payable		15,263	14,747
Advances from federal government		4,454	4,402
Long-term debt (note 5)		69,124	42,010
Total liabilities		181,279	142,319
Net assets:			
Unrestricted		357,717	369,140
Temporarily restricted (note 6)		233,869	260,761
Permanently restricted (note 7)		217,372	207,993
Total net assets		808,958	837,894
Total liabilities and net assets	$	990,237	980,213

See accompanying notes to consolidated financial statements.

BUCKNELL UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2012
(with comparative information for the year ended June 30, 2011)

(In thousands)

	2012				2011
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:					
Tuition and fees	$ 154,846	—	—	154,846	147,845
Institutional scholarships	(47,108)	—	—	(47,108)	(44,725)
Net tuition and fees	107,738	—	—	107,738	103,120
Sales and services of auxiliary enterprises	30,848	—	—	30,848	29,991
Government grants and contracts	3,190	—	—	3,190	4,795
Private gifts, grants, and contributions	8,791	3,559	—	12,350	11,034
Net investment income (note 3)	10,243	19,237	—	29,480	29,974
Other	5,615	—	—	5,615	5,586
Net assets released from restrictions	21,456	(21,456)	—	—	—
Total operating revenues	187,881	1,340	—	189,221	184,500
Operating expenses (notes 8, 9, and 11):					
Education and general:					
Instruction	66,250	—	—	66,250	63,981
Research and public service	2,616	—	—	2,616	3,454
Academic support	23,660	—	—	23,660	21,824
Student services	33,289	—	—	33,289	30,891
Institutional support	26,994	—	—	26,994	26,882
Auxiliary enterprises	26,447	—	—	26,447	25,820
Total operating expenses	179,256	—	—	179,256	172,852
Change in net assets from operating revenues, net of expenses	8,625	1,340	—	9,965	11,648
Nonoperating activities:					
Investment income (loss) including endowment income withdrawn for operations (note 3)	(14,420)	(27,975)	(880)	(43,275)	75,989
Capital gifts and grants	164	3,283	10,259	13,706	31,418
Postretiree (costs)/credits other than net periodic expense	(9,332)	—	—	(9,332)	663
Net assets released from restrictions	3,540	(3,540)	—	—	—
(Decrease) increase in net assets from nonoperating activities	(20,048)	(28,232)	9,379	(38,901)	108,070
Change in net assets	(11,423)	(26,892)	9,379	(28,936)	119,718
Net assets, beginning of year	369,140	260,761	207,993	837,894	718,176
Net assets, end of year	$ 357,717	233,869	217,372	808,958	837,894

See accompanying notes to consolidated financial statements.

BUCKNELL UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)

(In thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(28,936)	119,718
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Postretiree (credits) costs other than net periodic costs (note 9)		9,332	(663)
Amortization of bond premium		(356)	(370)
Depreciation		15,667	14,405
Loss on disposal of fixed assets		39	31
Contributions restricted for long-term investment		(13,542)	(27,239)
Net investment depreciation (appreciation)		20,269	(100,714)
Changes in asset and liabilities:			
Inventories, prepaid expenses, and other assets		485	14
Accounts and other receivables		446	1,120
Loans and notes receivable		30	101
Accounts payable and accrued expenses		(1,574)	529
Postretirement healthcare		2,873	2,589
Net cash provided by operating activities		4,733	9,521
Cash flows from investing activities:			
Sales of investments		183,481	194,659
Purchases of investments		(202,244)	(178,267)
Loans and notes issued		(293)	(328)
Loans and notes collected		778	2,440
Deposits to funds held for construction		(30,000)	(16,189)
Withdrawals from funds held for construction		18,781	5,599
Purchase of property and equipment		(34,784)	(25,150)
Net cash used in investing activities		(64,281)	(17,236)
Cash flows from financing activities:			
Payment of bonds and notes payable		(2,530)	(2,436)
Proceeds from issuance of debt		30,000	4,167
Receipts under annuity liability arrangements		607	238
Payments to annuitants		(1,894)	(1,960)
Proceeds from private gifts restricted for long-term investment		25,633	15,715
Net cash provided by financing activities		51,816	15,724
Net (decrease) increase in cash and cash equivalents		(7,732)	8,009
Cash and cash equivalents – beginning of year		20,110	12,101
Cash and cash equivalents – end of year	$	12,378	20,110
Supplemental disclosure of cash flow information:			
Cash paid for interest during the year	$	1,466	1,473

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Bucknell University is a private, not-for-profit institution of higher education in Lewisburg, Pennsylvania. Bucknell University provides education services at the graduate and undergraduate levels. These consolidated financial statements include Bucknell University, Bison Ventures, Inc., a wholly owned subsidiary formed in May 2009, and Bucknell Real Estate, Inc, a tax-exempt title holding company formed in October 2010 (collectively, University). All significant intercompany balances have been eliminated in preparing these consolidated financial statements (financial statements).

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 donor-restricted 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.

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.

Non-operating activities include the following:

- Endowment investment income earned in excess of the University's spending policy;
- Capital gifts restricted or designated for capital expenditures or long-term investment (i.e., endowment gifts);
- Split interest agreements' net investment earnings and other gains or losses primarily related to annuity liabilities determined at net present value;
- Prior service costs or credits and actuarial gains or losses of the postretirement health care plan.

(b) Fair Value

The University accounts for its investments and funds held in trust at fair value; however, as permitted by generally accepted accounting principles the University has not elected fair value accounting for any assets (accounts, loans, notes, and contributions receivable) or liabilities (long-term debt, postretirement healthcare obligations, and annuities payable) that are not otherwise required to be measured at fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy for fair value measurements is based upon the transparency of inputs as further described in note 3.

With respect to investments that do not have a readily determinable fair value and for which it is industry practice for the investee to calculate and regularly report in its financial statements a net asset value per share (or its equivalent), the University, as a practical expedient, estimates fair value using the net asset value per share as reported by the investee. The University considers whether adjustment to the most recent net asset value per share is necessary if the net asset value per share obtained from the investee is not as of the University's financial statement date, if the University has plans to sell the investment in the short-term, or if the investee's investment assets are not valued at fair value on a recurring basis.

(c) 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.

(d) Investments

Investments are recorded at estimated fair value as described in note 1(b) and note 3. Because certain investments are not readily marketable, their net asset value per share or equivalent has been used as a practical determinant for fair value and is subject to additional uncertainty. Therefore, values realized upon disposition may vary significantly from currently reported values.

The University's investments are exposed to various risks such as interest rate, market, and credit risks. Such risks, and the resulting investment fair values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

(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 investment income earned by the funds that 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. Investment income 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. Funds held in trust by others are carried at fair value as described in note 1(b) and note 3.

(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. As permitted by generally accepted accounting principles, the University does not capitalize works of art, historical artifacts, and collectibles, which are principally acquired by donation.

(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 charitable gift annuities, life income funds, 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 funds, and charitable trusts for which the University serves as trustee. Discount rates for determining the net present value of annuities payable ranged from 1.4% to 7.0% as of June 30, 2012 and 2.8% to 7.0% as of June 30, 2011.

(i) Advances from Federal Government for Student Loans

Funds provided by the U.S. government under the Federal Perkins Loan Program ('Perkins') are loaned to qualified students and may be reloaned after collections. These funds, excluding University required matching funds to Perkins, are ultimately refundable to the U.S. government and are reported as a liability.

(j) Tax Status

Bucknell 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. Bison Ventures, Inc., a wholly owned for-profit, taxable subsidiary, operates a bookstore in Lewisburg, Pennsylvania. Bucknell Real Estate, Inc., a title holding company formed for the benefit of Bucknell University, qualifies under Section 501(c)(2) of the Internal Revenue Code and thus is exempt from federal income tax on activities related to its exempt purpose.

The University records income tax liabilities and assets using a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The University does not believe that there are any unrecognized tax benefits or costs that should be recorded in the financial statements. The University is subject to routine audits by taxing jurisdictions and provision for audit adjustments, if any, is included in the financial statements when estimable.

(k) Prior Year Information

The financial statements include certain prior year comparative information summarized 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 audited financial statements for the year ended

(In thousands of dollars)

June 30, 2011, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to the current year presentation.

(l) Subsequent Events

Management has evaluated subsequent events through October 17, 2012, the date the financial statements were issued.

(2) Receivables

(a) Accounts, Notes, and Loans Receivable

Accounts, notes, and loans receivable as of June 30 consist of the following:

		2012	2011
Accounts and other receivables:			
Students	$	872	910
Other		381	510
Less allowance for doubtful accounts		(335)	(327)
		918	1,093
Accrued grants/contracts revenue		2,770	3,041
	$	3,688	4,134
Loans and notes receivable:			
Student loans	$	4,994	5,479
Employee loans		902	948
Less allowance for doubtful accounts		(240)	(256)
	$	5,656	6,171

(b) Contributions Receivable

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

		2012	2011
Unconditional promises expected to be collected:			
One year or less	$	7,010	20,046
Over one year to five years		10,894	9,855
Over five years		2,873	3,414
		20,777	33,315
Less allowance for uncollectible contributions		(2,173)	(2,620)
Total contributions receivable	$	18,604	30,695

(In thousands of dollars)

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

		2012	2011
Temporarily restricted (donor use and time restrictions)	$	11,402	17,320
Permanently restricted (donor endowment funds)		7,202	13,375
Total contributions receivable	$	18,604	30,695

Contributions receivable are recorded at estimated fair value on the date the donor's unconditional promise to contribute is made using the present value of future cash flows. Contributions receivable are not measured at fair value subsequent to the initial measurement because the discount rate selected for each contribution receivable remains constant over time.

Discount rates used to determine net present values of contributions receivable as of June 30, 2012 and 2011 ranged from 1.2% to 6.5%; whereas discount rates ranged from 2.8% to 6.5% at June 30, 2011. The discount to present value amounted to approximately $2,467 and $2,802 at June 30, 2012 and 2011, respectively.

(3) Investments and Funds Held in Trust by Others

A summary of the investments held by the University and funds held in trust by others at June 30 follows:

		2012	2011
U.S. government agency bonds and notes	$	—	10,000
Publicly traded mutual funds		125,011	93,227
Certificates of deposit		1,450	2,048
Custodial investment funds- fixed income securities		9,489	17,811
Total fixed income investments		135,950	123,086
Publicly traded equity securities and mutual funds		188,662	190,600
Custodial investment funds-equity securities		11,104	—
Total equity security investments		199,766	190,600
Redeemable alternative funds		140,846	147,599
Private funds		183,988	198,796
Total alternative investment funds		324,834	346,395
Other investments		1,810	998
Total investments		662,360	661,079
Funds held in trust by others		10,003	10,987
Total	$	672,363	672,066

(Continued)

Alternative investment funds are principally ownership interests in investment entities structured as limited partnerships or corporations or units/shares of investment funds that are not traded in public markets or exchanges. Underlying securities owned by the limited partnerships/corporations or investment funds include certain publicly traded securities that have readily available market values and other investments that are not readily marketable. All alternative investment funds are held in the University's endowment fund.

At June 30, 2012 and 2011, the University has used an estimate of fair value of custodial investment funds of $20,593 and $17,811, respectively, and redeemable alternative funds of $140,846 as of June 30, 2012 and $147,599 as of June 30, 2011 based on the net asset value per share of the respective investment fund consistent with the measurement provisions as described in note 1(b). These investments are redeemable, generally at each calendar quarter or anniversary date, at net asset value under the terms of the underlying fund agreements or subscription documents. However, it is possible that these redemption rights may be restricted in the future. At June 30, 2012, $21,271 of these otherwise redeemable investment funds were restricted from redemption due to limitations placed by the investment fund managers such as stated lock-up periods for recent investments made (usually within the last year) or due to investment funds that segregate certain underlying securities as currently nonredeemable (i.e., side-pocket investments). At June 30, 2011, $28,293 of these investment funds had similar redemption restrictions.

Private funds generally are not redeemable at net asset value until the underlying partnership or limited liability corporation dissolves or the underlying investments of the fund are sold. Most of the underlying investments in private funds are ownership interests in closely held companies and are not readily marketable. Although a secondary market may exist from time to time for private funds, individual transactions are typically not observable. When such secondary market transactions do occur, they may occur at amounts that differ from the reported net asset value. It is, therefore, reasonably possible that if the University were to sell these investments in the secondary market, buyers may require a discount to the reported fair value and the discount could be significant.

Under the terms of the agreements with alternative investment funds, the University has remaining commitments to invest in these funds of approximately $77,226 at June 30, 2012. Remaining commitments at June 30, 2011 were approximately $90,434.

(a) Investment Fair Value Accounting and Reporting

As described in note 1(b), fair value is defined as the price the University would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value disclosures are required using a three-level hierarchy based upon the transparency of inputs to the valuation of an asset or liability.

Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the University. Unobservable inputs reflect the University's view of assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. That information includes, but is not limited to, the recent audited financial statements of the respective alternative investment funds, financial information of underlying securities of the respective funds provided by the fund manager, and review of performance data of similar funds or investments.

Each investment (including funds held in trust by others) is assigned a level based upon the observability of the inputs, which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below:

Level 1: Quoted prices in active markets for identical financial instruments.

Level 2: Other significant observable inputs, including quoted prices for similar financial instruments, interest rates, credit spreads, etc., Generally, University investments in redeemable investment funds and commingled investment funds that are fully redeemable in a period of 60 days or less, given timely notice under the terms of the investment fund, at net asset value, or its equivalent, are included in Level 2.

Level 3: Significant unobservable inputs. This category includes financial instruments whose fair value requires significant management judgment or estimation. This category generally includes private funds and certain other nonmarketable investments. Generally, fair value for these investments is estimated based on the reported net asset value or its equivalent of the alternative investment fund.

Included in Level 3 are those otherwise redeemable alternative funds that are in an initial lock-up period as specified in the investment agreement; that have side pocket investments that are excluded from the redemption provisions of the fund; or that have the redemption provisions suspended by the investment manager. The University's policy is to recognize the transfers in or transfers out of Level 3 (or any other Level) on the date circumstances have changed or the defined event has occurred.

In certain cases, the inputs to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which fair value level is based on the lowest level of input that is significant to the fair value measurement of the specific alternative investment fund or fund held in trust by others.

The classification of investments in the fair value levels described above is not necessarily an indication of the degree of risks, liquidity, and price volatility.

(In thousands of dollars)

The following table presents fair value information at June 30, 2012 of the University's investments and funds held in trust by others:

	Total	Level 1	Level 2	Level 3	Redemption or liquidation	Days notice	Outstanding commitments
Publicly traded mutual funds:							
U.S. fixed income	$ 111,880	111,880	—	—	Daily (1)		$ —
International fixed income	13,131	13,131	—	—	Daily (1)		—
Certificates of deposit	1,450	—	1,450	—	Monthly (2)	30	—
Custodial investment funds – bond funds	9,489	—	9,489	—	Weekly – monthly	5	—
Fixed income investments	135,950	125,011	10,939	—			—
Publicly traded equity securities	59,337	59,337	—	—	Daily (1)		—
Publicly traded mutual funds	106,597	106,597	—	—	Daily (1)		—
Publicly traded index funds	22,728	22,728	—	—	Daily (1)		—
Custodial investment funds	11,104	—	11,104	—	Monthly	5	—
Equity investments	199,766	188,662	11,104	—			—
Multistrategy	72,767	—	49,560	23,207	Quarterly – annually	33-90	—
Long/short equity strategy	24,265	—	9,878	14,387	Monthly – annually	60	—
Other strategies	43,814	—	39,940	3,874	Monthly – annually	30-90	—
Redeemable alternative funds	140,846	—	99,378	41,468			—
Private real estate	22,012	—	—	22,012	Illiquid		8,465
Private energy	23,291	—	—	23,291	Illiquid		22,488
Private – other	138,685	—	—	138,685	Illiquid		46,273
Private funds	183,988	—	—	183,988			77,226
Alternative investment funds	324,834	—	99,378	225,456			77,226
Other investments	1,810	—	—	1,810	Illiquid		—
Total investments	$ 662,360	313,673	121,421	227,266			$ 77,226
Funds held in trust by others	$ 10,003	—	—	10,003	Illiquid (3)		

(In thousands of dollars)

The following table presents fair value information at June 30, 2011 of the University's investments and funds held in trust by others:

	Total	Level 1	Level 2	Level 3	Redemption or liquidation	Days notice	Outstanding commitments
U.S. government and related agencies	$ 10,000	—	10,000	—	Daily (1)		$ —
Publicly traded mutual funds:							
U.S. fixed income	81,109	81,109	—	—	Daily (1)		—
International fixed income	12,118	12,118	—	—	Daily (1)		—
Certificates of deposit	2,048	—	2,048	—	Monthly (2)	30	—
Custodial investment funds – bond funds	17,811	—	17,811	—	Weekly – monthly	5	—
Fixed income investments	123,086	93,227	29,859	—			—
Publicly traded equity securities	59,601	59,601	—	—	Daily (1)		—
Publicly traded mutual funds	119,644	119,644			Daily (1)		
Publicly traded index funds	11,355	11,355	—	—	Daily (1)		—
Equity investments	190,600	190,600	—	—			—
Multistrategy	73,824	—	48,868	24,956	Quarterly – annually	30-90	—
Long/short equity strategy	35,386	—	19,489	15,897	Monthly – annually	30-60	—
Other strategies	38,389	—	3,274	35,115	Monthly – bi-annually	30-90	—
Redeemable alternative funds	147,599	—	71,631	75,968			—
Private real estate	16,073	—	—	16,073	Illiquid		13,103
Private energy	21,694	—	—	21,694	Illiquid		25,398
Private – other	161,029	—	—	161,029	Illiquid		51,933
Private funds	198,796	—	—	198,796			90,434
Alternative investment funds	346,395	—	71,631	274,764			— 90,434
Other investments	998	—	—	998	Illiquid		—
Total investments	$ 661,079	283,827	101,490	275,762			$ 90,434
Funds held in trust by others	$ 10,987	—	—	10,987	Illiquid (3)		

Notes regarding redemption or liquidation on pages 13 and 14:

(1) Bucknell University may sell the investments in these categories on same day or next day terms. However, the settlement of trades and receipt of cash proceeds is governed by the national exchange on which the equity security, fixed income security, or mutual fund shares trade. These settlement terms typically range from 1 to 3 days.

(2) Certificates of deposit that may be liquidated prior to maturity with 30-day notice or less. A penalty for early redemption may apply.

(3) Funds held in trust by others include $5,205 and $5,495 at June 30, 2012 and 2011, respectively, for which the University irrevocably receives investment income from the trusts and the trust assets are held by others in perpetuity; whereas, $4,798 and $5,492 at June 30, 2012 and 2011, respectively, represent the estimated net present value of expected University receipts from funds held in trust by others as provided by the termination provisions of the trust agreements.

(In thousands of dollars)

Publicly Traded Mutual Funds and Equity Securities

The following securities, mutual funds, and index funds have daily quoted prices in active markets:

		2012	2011
Publicly traded mutual funds – fixed income:			
U.S. fixed income	$	111,880	81,109
International fixed income		13,131	12,118
Publicly traded fixed income securities		125,011	93,227
Publicly traded U.S. equity securities by general industry sector:			
Consumer related		10,009	18,582
Information technology		28,696	21,101
Other sectors		20,632	19,918
		59,337	59,601
Publicly traded mutual funds:			
Domestic equities – by capitalization objective:			
Large capitalization		29,314	29,200
Small and mid sized capitalization		3,237	3,965
		32,551	33,165
International equities – by capitalization objective:			
Large capitalization		51,536	64,562
Small and mid sized capitalization		22,510	21,917
		74,046	86,479
Total publicly traded mutual funds		106,597	119,644
Publicly traded index funds:			
Domestic equities		16,060	8,073
International equities		6,668	3,282
Total publicly traded index funds		22,728	11,355
Equity investments		188,662	190,600
Total – publicly traded securities	$	313,673	283,827

Redeemable Alternative Funds

Multistrategy

Multistrategy funds pursue multiple strategies to diversify risks and reduce volatility. These funds have the ability to shift investments between net long and net short positions in equity, fixed income, commodities, currencies, and private investments. At June 30, 2012 and 2011 certain of these funds had redemption restrictions or illiquid side pocket investments totaling $3,007 and $3,657, respectively.

Long/Short Equity Strategy

Long/short equity funds invest in both long and short positions primarily in U.S. common stocks. These funds have the ability to shift investments between value and growth strategies, small and large capitalization stocks, and net long and net short positions. At June 30, 2012 and 2011 approximately $14,387 and $9,887, respectively, of these funds were not redeemable because the funds have restrictions that do not allow for redemptions in the first 12 months after acquisition.

Other Strategies

Other strategies' funds invest on both the long and short side in fixed income arbitrage, master limited partnerships, and securities in the healthcare sector. At June 30, 2012 and 2011 approximately $3,877 and $14,749, of these funds could not be redeemed because of certain illiquid side pocket investments or the investment manager has restricted the amount of annual redemptions.

Private Funds

Real Estate Funds

Private real estate funds invest primarily in U.S. and non-U.S. real estate. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the remaining life of the respective funds that expire over the next 2 to 9 years.

Energy Funds

Private energy funds invest primarily in U.S. and non-U.S. oil, gas, and renewable energy assets. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the remaining life of the respective funds that expire over the next 3 to 12 years.

Private – Other

These funds invest primarily in U.S. and non-U.S. private corporations in multiple industries and locations and in other private funds (e.g., fund of funds). Approximately $39,219 and $35,234 at June 30, 2012 and 2011, respectively, of this category includes private funds that have a primary objective of investing outside of the United States. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the remaining life of the respective funds that expire over the next 12 years.

(In thousands of dollars)

The following tables present a reconciliation of investments in which significant unobservable inputs (Level 3) were used to determine fair value:

		Balance at June 30, 2011	Acquisitions/ purchases	Sales, redemptions, or distributions	Net appreciation (depreciation)	Transfer into (out of) Level 3	Balance at June 30, 2012
Investments:							
Redeemable alterative funds	$	75,968	9,516	(6,344)	(1,117)	(36,555)	41,468
Private funds		198,796	28,578	(37,875)	(5,511)	—	183,988
Other investments		998	1,000	(429)	241	—	1,810
Total	$	275,762	39,094	(44,648)	(6,387)	(36,555)	227,266
Funds held in trust by others	$	10,987	—	(1,152)	168	—	10,003

		Balance at June 30, 2010	Purchases	Sales, redemptions, or distributions	Net appreciation (depreciation)	Transfer into (out of) Level 3	Balance at June 30, 2011
Investments:							
Redeemable alternative funds	$	59,296	23,397	(3,693)	6,063	(9,095)	75,968
Private funds		154,877	30,345	(21,933)	35,507	—	198,796
Other investments		660	495	(157)	—	—	998
Total	$	214,833	54,237	(25,783)	41,570	(9,095)	275,762
Funds held in trust by others	$	10,445	—	(1,593)	2,135	—	10,987

Transfers out of Level 3 to Level 2 of $36,555 and $9,095 for the years ended June 30, 2012 and 2011, respectively, were recorded on the date the initial lock-up period ended or the date side pocket investments were made available for redemption.

(b) Additional Investment and Investment Income Information

Unless precluded by donor restriction, endowment funds are pooled and collectively managed on a unitized basis. Each individual endowment fund subscribes to or disposes of units in the pool using the estimated fair value at the end of the quarter such subscription or disposition occurs.

(In thousands of dollars)

The following is a summary of endowment and other fund investments and funds held in trust by others:

	June 30, 2012			June 30, 2011		
	Endowment	Other	Total	Endowment	Other	Total
Fixed income investments	$ 83,899	52,051	135,950	47,338	75,748	123,086
Publicly traded equity securities and similar funds	185,278	14,488	199,766	175,659	14,941	190,600
Alternative investment funds	324,834	—	324,834	346,395		346,395
Other investments		1,810	1,810	480	518	998
Total investments	594,011	68,349	662,360	569,872	91,207	661,079
Funds held in trust by others	5,205	4,798	10,003	5,495	5,492	10,987
Total	$ 599,216	73,147	672,363	575,367	96,699	672,066
Other funds are held for the following:						
Operations and facilities		$ 43,719			65,830	
Split interest agreements		29,428			30,869	
		$ 73,147			96,699	

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

	2012	2011
Interest and dividends	$ 8,159	6,946
Net appreciation (depreciation)	(20,269)	100,714
Investment expenses	(1,685)	(1,697)
Total investment income (loss)	$ (13,795)	105,963

Net appreciation (depreciation) includes unrealized and realized gains/(losses) on specific investment securities owned by the University as well as the University's share of net investment return on mutual funds, private funds, redeemable alternative funds, and net appreciation of funds held in trust by others.

Investment expenses include those investment custody fees, internal and external investment advisory costs, and investment management fees incurred for services rendered for the sole benefit of the University. Investment expenses incurred directly by mutual funds and alternative investment funds that are contracted by the respective fund managers are included in the University's share of the respective fund's net investment return and are not reported separately as investment expenses by the University.

(In thousands of dollars)

Investment income (loss) is presented in the consolidated statement of activities as follows:

		2012	2011
Endowment income available for operations	$	28,646	28,646
Other investment income		834	1,328
Net investment income – operating		29,480	29,974
Endowment investment income and (losses) gains		(13,734)	100,529
Endowment income withdrawn for operations		(28,646)	(28,646)
Net endowment income reinvested (used)		(42,380)	71,883
Other (losses) gains – principally related to split interest agreements		(895)	4,106
Net investment income – nonoperating		(43,275)	75,989
Total investment income (loss)	$	(13,795)	105,963

(c) Endowment Accounting and Reporting

The University's endowment consists of individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(d) Interpretation of Relevant Law Regarding Donor Endowments and Spending Policy

The University has interpreted the Commonwealth of Pennsylvania law as requiring the preservation of the fair value of a donor-restricted endowment gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations, if any, to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University under its endowment spending policy.

Commonwealth of Pennsylvania law permits 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 or more moving average of the market value of the endowed assets. Unless the terms of a gift instrument state otherwise, accumulated endowment net realized gains may, therefore, eventually be spent over time by the University. As a result, net appreciation of donor endowments is recorded in the financial statements as temporarily restricted net assets.

(In thousands of dollars)

The University's endowment spending policy allows for the spending of pooled endowment earnings determined at 4.5% of a 12-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 12-quarter moving average of the fair value of pooled assets. In accordance with this policy, the rate was 5.5% of the 12-quarter moving average of the fair value of pooled assets for each of the years ended June 30, 2012 and 2011.

(e) Summary of Endowment Balances and Activity by Net Asset Classification

Endowment net assets consisted of the following at June 30, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(2,242)	185,329	202,481	385,568
Board-designated endowment funds		207,962	5,686	—	213,648
Total endowment net assets	$	205,720	191,015	202,481	599,216

Endowment net assets consisted of the following at June 30, 2011:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(434)	213,508	186,535	399,609
Board-designated endowment funds		175,024	734	—	175,758
Total endowment net assets	$	174,590	214,242	186,535	575,367

(f) Donor Endowment Funds with Fair Values Less than Contributed Value

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of the original value of gifts donated. Deficiencies of this nature that are reported in unrestricted net assets were $2,242 and $434 as of June 30, 2012 and 2011, respectively. Subsequent gains that restore the fair value of the assets of the endowment fund to the original value will be classified as an increase in unrestricted net assets.

(In thousands of dollars)

Changes in endowment net assets for the year ended June 30, 2012 follow:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2011	$ 174,590	214,242	186,535	575,367
Contributions received	85	—	16,073	16,158
Proceeds from expired split-interest agreements	—	—	71	71
	85	—	16,144	16,229
Investment return:				
Interest and dividends	2,309	4,497	—	6,806
Net depreciation	(6,903)	(13,439)	(198)	(20,540)
	(4,594)	(8,942)	(198)	(13,734)
Withdrawal for operating activities under the University's spending policy	(9,409)	(19,237)	—	(28,646)
Transfer to board-designated endowment funds	45,048	4,952	—	50,000
Endowment net assets, June 30, 2012	$ 205,720	191,015	202,481	599,216

(In thousands of dollars)

Changes in endowment net assets for the year ended June 30, 2011 follow:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2010	$ 147,404	170,498	173,593	491,495
Contributions received	88	—	11,400	11,488
Proceeds from expired split-interest agreements	—	—	501	501
	88	—	11,901	11,989
Investment return:				
Interest and dividends	1,607	2,901	—	4,508
Net appreciation	33,137	61,843	1,041	96,021
	34,744	64,744	1,041	100,529
Withdrawal for operating activities under the University's spending policy	(8,769)	(19,877)	—	(28,646)
Release from donor restrictions	1,123	(1,123)	—	—
Endowment net assets, June 30, 2011	$ 174,590	214,242	186,535	575,367

(g) Endowment Investment Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period, as well as board-designated funds. The long-term return objective, as approved by the Board of Trustees, is to produce an inflation-adjusted rate of return measured over rolling five-year periods that exceeds the endowment spending policy. The University maintains a diversified asset allocation that places emphasis on generating an acceptable level of return given a prudent level of risk.

Risk may take the form of investment concentration, volatility, illiquidity, or other dimensions, and is monitored to ensure the incremental risks are appropriate for the given level of incremental returns.

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that is divided into four asset groups: Growth, Hybrid, Inflation-protection, and Low-volatility assets. Growth assets (principally publicly traded equity securities and mutual funds and certain private alternative investment funds) are intended to produce equity-like returns, while Hybrid assets (principally redeemable alternative investment funds) are meant to produce returns that are less correlated with Growth assets. Inflation-protection assets (principally private real estate and private energy funds and certain redeemable alternative funds) are expected to provide reasonable returns but are likely to perform better during periods of rising inflation. Lastly, Low-volatility assets (principally fixed income investments) should produce modest returns in most environments and provide stability for the endowment.

(In thousands of dollars)

The ranges for these asset classes, as approved by the Board of Trustees, are as follows:

	Range
Growth assets	40% – 75%
Inflation protection assets	0 – 20
Low-volatility assets	5 – 20
Hybrid assets	10 – 50

(4) Property and Equipment

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

	2012	2011
Land	$ 5,326	5,293
Buildings and improvements	315,573	289,861
Equipment, furniture, and fixtures	117,518	111,371
Library books and materials	47,799	45,766
Construction in progress	12,672	11,340
	498,888	463,631
Less accumulated depreciation:		
Buildings and improvements	105,131	96,989
Equipment, furniture, and fixtures	102,523	97,392
Library books and materials	37,197	34,990
	244,851	229,371
Property and equipment, net	$ 254,037	234,260

(In thousands of dollars)

(5) Debt

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

		2012	2011
University revenue bonds, Series 2002 A	$	17,455	17,790
University revenue bonds, Series 2002 B		4,675	5,065
University revenue bonds, Series 2010		9,170	10,830
University revenue bonds, Series 2012A		26,715	—
Total par value of bonds outstanding		58,015	33,685
Bond premium – Series 2002 A		325	371
Bond premium – Series 2010		563	836
Bond premium – Series 2012A		3,248	
Total bonds payable (including unamortized bond premium)		62,151	34,892
Notes payable		5,262	5,293
Capital lease obligation		1,711	1,825
Total long-term debt	$	69,124	42,010

(a) Bonds Payable

The University entered into various agreements with the Union County Higher Educational Facilities Financing Authority (Authority) that provided issuance of $20,325 University Revenue Bonds, Series 2002A. The Series 2002A bonds carry interest rates ranging from 4.00% to 5.25% with annual principal payments made on April 1. These bonds mature in various amounts through April 1, 2022 of which $17,100 are callable by the Authority upon direction of the University on or after April 1, 2013.

The University entered into various agreements with the Authority that provided issuance of $7,890 University Variable Rate Revenue Bonds, Series 2002B. The Series 2002B bonds require annual principal payments each April 1 (with final payment on April 1, 2022) and bear variable rate interest (0.15%) at June 30, 2012) as determined by the remarketing agent. The Series 2002B bonds are callable at any time in whole or in part by the Authority upon direction of the University.

The Series 2002B bonds are remarketed weekly by the remarketing agent. The University must provide funds required to purchase tendered Series 2002B bonds should weekly remarketing proceeds be insufficient to pay the selling bondholders.

In April 2010, the University entered into various agreements with the Authority that provided issuance of $12,445 Revenue Bonds, Series 2010. The proceeds of the bonds were used to redeem previously issued bonds and pay for the costs of issuance. The Series 2010 bonds bear interest ranging from 2.00% to 5.00% with annual principal payments made on April 1. These bonds mature in various amounts through April 1, 2018. The 2010 bonds are not subject to call or early redemption.

In April 2012 the University entered into various agreements with the Authority that provided for the issuance of University Revenue Bonds, Series 2012A, at a par value of $26,715. The proceeds of the bonds will be used for the construction of academic and other facilities as well as improvements to existing facilities. Gross proceeds from the issuance of the 2012A bonds were $30,000 (including par value plus bond premium received upon issuance of $3,285). The bonds mature annually beginning on April 1, 2023 with final maturity on April 1, 2042. The bonds bear interest ranging from 4% to 5%. At June 30, 2012, unexpended bond proceeds of $21,809 were invested by the bond trustee in U.S. government securities and money market funds and are reported as funds held for construction on the statement of financial position.

(b) Notes Payable

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, 2012 and 2011, 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%.

In December 2009, the University entered into a loan agreement with the Borough of Lewisburg, Pennsylvania. The loan bears interest at 2.7%, requires annual debt service payments of $55, and matures in 2033. The principal balance of the loan was $873 and $904 at June 30, 2012 and 2011, respectively.

In December 2010, Bucknell Real Estate, Inc. entered into a financing arrangement with a bank and its related community development entities for the acquisition and construction of improvements to several buildings in Lewisburg, Pennsylvania (collectively, the Project). Under the terms of the Project, the University advanced $12,022 and the community development entity loaned $4,167 for the acquisition of the properties and construction of the improvements. During the year ended June 30, 2012, the loan proceeds have been expended and the improved buildings have been placed in service. At June 30, 2011, the unexpended construction proceeds of $10,590 were held in a separate interest bearing bank account and were presented in the consolidated statement of financial position as funds held for construction.

Under the terms of the $4,167 loan, the University pays interest quarterly at an annual rate of 1.01%. Principal payments begin in April 2018 through the maturity date of January 2046. However, in March 2018 the University may exercise an option to acquire those community development entities and effectively retire the debt at the then fair market value (i.e., the fair value of remaining cash flows of the debt instrument). At June 30, 2012 and 2011, the carrying amount of the community development loan was $4,167.

(In thousands of dollars)

(c) Future Principal Maturities

Principal maturities of bonds and notes payable described above for the next five fiscal years follow:

2013	$	2,511
2014		2,627
2015		2,753
2016		2,829
2017		2,960

(d) Capital Lease Obligation

In May 2009, the University entered into various agreements with community development entities owned or controlled by a bank and a real estate corporation. The agreements provided financing to construct a bookstore in Lewisburg, Pennsylvania. Concurrent with these financing agreements, the University, primarily through its wholly owned taxable subsidiary, entered into agreements that provide for the University to lease the bookstore from the real estate corporation. The agreements provide that the University may exercise a purchase option, including closing costs, in May 2016. Because of the interdependent loan agreements and lease agreements, the University has accounted for the financing arrangement as a capital lease.

Future net cash outflows under the bookstore related agreements described above range from $165 for the year ended June 30, 2013 to $936 for the year ended June 30, 2017. At June 30, 2012 and 2011, property and equipment (net of accumulated depreciation) under the capital lease was $5,860 and $6,073, respectively.

(e) Line of Credit

In April 2012, the University entered into a $10 million line-of-credit borrowing arrangement with a local bank. This short-term borrowing facility is renewable annually and carries an interest rate of the one-month London Interbank Offered Rate (approximately 0.25% at June 30, 2012) plus 1.45% on outstanding borrowings. No amounts were borrowed under this facility during the year ended June 30, 2012.

(Continued)

(In thousands of dollars)

(6) Temporarily Restricted Net Assets

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

		2012	2011
Investment gains on donor endowments subject to time restrictions under Pennsylvania law	$	185,329	213,508
Pledges receivable subject to time and/or purpose restrictions		11,402	17,320
Unexpended donor-restricted funds available for:			
Scholarship and financial aid		10,300	9,600
Other university activities		26,838	20,333
Total temporarily restricted net assets	$	233,869	260,761

(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:

		2012	2011
Donor-contributed principal invested to support:			
Scholarship and financial aid	$	126,586	122,991
Instruction and academic programs		51,877	46,535
Library and related services		7,731	7,374
Other		31,178	31,093
Total permanently restricted net assets	$	217,372	207,993

(8) Defined Contribution Retirement Plan

Retirement benefits for staff, faculty, and administration are provided under the University's defined contribution retirement program administered by the Teachers' Insurance and Annuity Association. The University's policy is to pay its share of contributions (which are 10% of eligible salaries and wages) to the plan each month; there are no unfunded benefits. University contributions to the plan were $6,890 and $6,723 for the years ended June 30, 2012 and 2011, respectively.

(9) Postretirement Healthcare Benefits

Certain current and former employees are covered by a postretirement healthcare plan. The University accrues the cost of these postretirement benefits over the employee's service period. Participants must have 15 years of continuous service after the later of: a) age 47 or b) date of hire to be eligible for postretirement healthcare benefits. Those benefits are limited per participant to a multiple of calendar year 2006 healthcare premiums. Furthermore, participants retiring after September 1, 2000 are required to contribute up to 25% of retiree health care premiums. The percent of retiree co-payment is based on the participant's annual salary at the time of retirement.

(In thousands of dollars)

The following table sets forth the plan's funded status and amounts recognized in the University's consolidated statement of financial position at June 30:

		2012	2011
Change in benefit obligation during year:			
Benefit obligation at beginning of year	$	50,365	48,439
Service cost		2,278	2,202
Interest cost		2,781	2,602
Benefit payments		(1,999)	(2,062)
Actuarial (gain) loss		9,145	(816)
Benefit obligation at end of year	$	62,570	50,365
Change in plan assets during year:			
Fair value of plan assets at beginning of year	$	—	—
Employer contributions		1,999	2,062
Benefit payments		(1,999)	(2,062)
Fair value of plan assets at end of year	$	—	—
Net periodic benefit cost recognized for year:			
Service cost	$	2,278	2,202
Interest cost		2,781	2,602
Amortization of prior service costs		(187)	(187)
Amortization of net loss		—	35
Net periodic benefit cost reported as operating expenses	$	4,872	4,652
Effect of a 1% increase in medical cost trend rate:			
Change in total of service cost and interest cost	$	629	721
Change in benefit obligation		5,222	5,722
Effect of a 1% decrease in medical cost trend rate:			
Change in total of service cost and interest cost	$	(530)	(508)
Change in benefit obligation		(4,502)	(4,454)
Weighted average assumptions at end of year:			
Discount rate		4.14%	5.65%
Initial healthcare cost trend rate		9.00	9.00
Ultimate healthcare cost trend rate		5.00	5.00
Years remaining to attain ultimate healthcare cost trend rate		5	5
Measurement date		June 30, 2012	June 30, 2011

(Continued)

(In thousands of dollars)

Estimated actuarial gain (loss) and prior service credit that will be amortized over the fiscal year June 30, 2013 are $(529) and $187, respectively.

Expected cash outflow information for fiscal years ending after June 30, 2012:

Year ending June 30:		
2013	$	2,273
2014		2,462
2015		2,665
2016		2,891
2017		3,086
2018 – 2022		18,881

Additionally, the following items were recognized during the years ended June 30, 2012 and 2011 and are presented in the consolidated statement of activities as nonoperating activities:

		2012	2011
Nonoperating activities include:			
Change in unrecognized prior service credits	$	(187)	(187)
Net actuarial gain (loss) during the year		(9,145)	850
Total nonoperating gain (loss) activities related to retiree healthcare	$	(9,332)	663

Amounts recognized in unrestricted net assets in the consolidated statement of financial position include the following:

		June 30	
		2012	2011
Unrecognized prior service credits	$	1,124	1,311
Unrecognized actuarial loss		(13,665)	(4,520)
	$	(12,541)	(3,209)

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 healthcare insurance provider, pays insurance premiums that are billed net of the federal subsidy.

(In thousands of dollars)

(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 $1,284 and $1,322 at June 30, 2012 and 2011, respectively. No guaranteed mortgages were in default as of June 30, 2012 and 2011.

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 consolidated financial position of the University.

The University is obligated for certain construction and other commitments totaling approximately $21,972 at June 30, 2012.

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 matters will not have a material effect on the financial statements of the University.

(11) Operating Expenses

Operating expenses by natural classification for the years ended June 30, 2012 and 2011 follow:

		2012	2011
Compensation and benefits	$	111,098	108,003
Purchased services and supplies		42,245	40,437
Utilities and fuel		8,812	8,788
Depreciation		15,667	14,405
Interest		1,434	1,219
Total operating expenses	$	179,256	172,852

(a) Fund-Raising

Fund-raising expenses totaled $7,682 and $7,615 for the years ended June 30, 2012 and 2011, respectively. These fund-raising expenses are reported as institutional support in the consolidated statement of activities and include salaries and wages, fringe benefits, supplies, purchased services, publications, travel, and allocable costs such as depreciation, information technology, and operation and maintenance of facilities' expenses. Fund-raising expenses do not include alumni relations costs.

(b) Related-Party Transaction

A member of the University's Board of Trustees is president and chief operating officer of a healthcare organization providing certain healthcare insurance and other services to the University. Amounts paid for healthcare insurance and other services totaled $5,257 and $4,837 for the years ended June 30, 2012 and 2011, respectively.

(12) Fair Value of Financial Instruments

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

A reasonable estimate of the fair value of loans and notes receivable (with carrying values of $5,656 and $6,171 at June 30, 2012 and 2011, respectively) could not be made because the notes are not salable. Bonds payable, with a carrying value of $62,151 and $34,892 at June 30, 2012 and 2011, respectively, had a fair value of approximately $63,140 and $35,696 at June 30, 2012 and 2011, respectively.