BUCKNELL UNIVERSITY

Consolidated Financial Statements

June 30, 2009
(with comparative information as of June 30, 2008)

(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 subsidiary as of June 30, 2009, 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 2008 financial statements and, in our report dated October 27, 2008, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bucknell University and subsidiary as of June 30, 2009, 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.

As discussed in notes 1(b) and 3 to the consolidated financial statements, the University adopted the provisions of FASB Statement No. 157, *Fair Value Measurements*, as of July 1, 2008. As discussed in notes 1(b) and 3 to the consolidated financial statements, the University adopted the provisions of FSP No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*.

KPMG LLP

October 23, 2009

BUCKNELL UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2009
(with comparative information as of June 30, 2008)

(In thousands)

Assets		**2009**	**2008**
Cash and cash equivalents	$	9,588	8,000
Inventories, prepaid expenses, and other assets		2,220	2,473
Accounts and other receivables, net (note 2)		4,394	3,454
Contributions receivable, net (note 2)		19,217	19,178
Loans and notes receivable, net (note 2)		9,013	6,088
Investments (note 3)		517,107	631,307
Funds held in trust by others (note 3)		9,531	12,343
Property and equipment, net (notes 4, 5, and 11)		223,747	216,441
Total assets	$	794,817	899,284
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 11)	$	18,268	16,806
Student deposits and deferred revenues		8,583	7,173
Postretirement healthcare (note 9)		42,803	39,915
Annuities payable		14,760	14,977
Funds held for the accounts of others		1,861	1,771
Advances from federal government		4,277	4,221
Long-term debt (note 5)		41,632	42,209
Total liabilities		132,184	127,072
Net assets:			
Unrestricted		301,161	346,161
Temporarily restricted (note 6)		179,280	250,316
Permanently restricted (note 7)		182,192	175,735
Total net assets		662,633	772,212
Total liabilities and net assets	$	794,817	899,284

See accompanying notes to consolidated financial statements.

BUCKNELL UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2009
(with comparative information for the year ended June 30, 2008)

(In thousands)

		2009				2008
		Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:						
Tuition and fees	$	139,538	—	—	139,538	131,765
Institutional scholarships		(41,569)	—	—	(41,569)	(39,060)
Net tuition and fees		97,969	—	—	97,969	92,705
Sales and services of auxiliary enterprises		32,054	—	—	32,054	30,306
Government grants and contracts		4,249	—	—	4,249	3,796
Private gifts, grants, and contributions		7,572	2,612	—	10,184	9,605
Net investment income (note 3)		11,832	17,532	—	29,364	30,355
Other		4,190	204	—	4,394	3,823
Net assets released from restrictions		18,381	(18,381)	—	—	—
Total operating revenues		176,247	1,967	—	178,214	170,590
Operating expenses (notes 8, 9, and 12):						
Education and general:						
Instruction		61,089	—	—	61,089	57,150
Sponsored research and community service		2,924	—	—	2,924	2,371
Academic support		21,134	—	—	21,134	19,750
Student services		30,084	—	—	30,084	30,581
Institutional support		27,778	—	—	27,778	26,771
Auxiliary enterprises		30,601	—	—	30,601	30,138
Total operating expenses		173,610	—	—	173,610	166,761
Change in net assets from operating revenues, net of expenses		2,637	1,967	—	4,604	3,829
Nonoperating activities:						
Investment losses, net of endowment spending (note 3)		(50,453)	(75,130)	(2,785)	(128,368)	(51,461)
Capital gifts		1,561	3,896	9,242	14,699	14,810
Postretiree healthcare credits (costs) other than net periodic costs (note 9)		(514)	—	—	(514)	(1,329)
Net assets released from restrictions		1,769	(1,769)	—	—	—
Increase (decrease) in net assets from nonoperating activities		(47,637)	(73,003)	6,457	(114,183)	(37,980)
Change in net assets		(45,000)	(71,036)	6,457	(109,579)	(34,151)
Net assets, beginning of year		346,161	250,316	175,735	772,212	806,363
Net assets, end of year	$	301,161	179,280	182,192	662,633	772,212

See accompanying notes to consolidated financial statements.

BUCKNELL UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2009
(with comparative information for the year ended June 30, 2008)

(In thousands)

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	(109,579)	(34,151)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Postretiree healthcare costs other than net periodic costs (note 9)		514	1,329
Depreciation		13,728	14,005
Contributions restricted for long-term investment		(13,138)	(14,701)
Net investment depreciation		111,811	30,104
Change in asset and liabilities:			
Accounts and other receivables		(940)	(239)
Inventories, accrued interest, and other assets		253	171
Loans and notes receivable		(127)	81
Accounts payable and accrued expenses		4,154	2,433
Postretirement healthcare		2,374	2,165
Net cash provided by operating activities		9,050	1,197
Cash flows from investing activities:			
Sales of investments		248,705	395,439
Purchases of investments		(242,733)	(386,579)
Loans and notes issued		(3,383)	(843)
Loans and notes collected		585	703
Purchase of property and equipment		(20,529)	(17,224)
Net cash used in investing activities		(17,355)	(8,504)
Cash flows from financing activities:			
Payment of bonds and notes payable		(2,218)	(2,126)
Receipts under annuity liability arrangements		952	1,319
Payments to annuitants		(1,940)	(2,012)
Proceeds from private gifts and grants restricted for long-term investment		13,099	8,876
Net cash provided by financing activities		9,893	6,057
Net increase (decrease) in cash and cash equivalents		1,588	(1,250)
Cash and cash equivalents – beginning of year		8,000	9,250
Cash and cash equivalents – end of year	$	9,588	8,000
Supplemental disclosures of cash flow information:			
Noncash financing and investing activities – capital lease obligation	$	1,641	—
Cash paid for interest during the year		1,846	2,014

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 and Bison Ventures, Inc., a wholly owned subsidiary, formed in May 2009 (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.

(Continued)

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.

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 consolidated statement of activities.

(b) Adoption of New Accounting Pronouncements for the Year Ended June 30, 2009

i) On July 1, 2008, the University adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), which establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. SFAS 157 defines fair value 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. SFAS 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs as described in note 3. SFAS 157 applies to assets and liabilities for which other accounting pronouncements require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements. The adoption of SFAS 157 had no impact on the University's beginning net asset balance as of July 1, 2008. Subsequent changes in fair value are recognized in the consolidated statement of activities when they occur.

ii) In conjunction with the implementation of SFAS No. 157, the University elected to early adopt the measurement provisions included in the amendment entitled *Fair Value Measurements and Disclosures: Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. These provisions apply to investments that do not have a readily determinable fair value and for which it is industry practice for the investee to calculate net asset value per share (or its equivalent), and to issue financial statements in which investment assets are valued at fair value on a recurring basis. For these investments, the amendment generally permits investor entities, as a practical expedient, to estimate fair value using the net asset value per share as reported by the investee. Investor entities should consider 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 reporting entity's measurement date or if the investee's investment assets are not valued at fair value on a recurring basis. As permitted by the amendment, the University elected to defer the adoption of its disclosure provisions until its fiscal year ending June 30, 2010.

iii) In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* (SFAS 159), which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The University did not elect fair value accounting for any such assets (accounts, loans, notes, and contributions receivable) or liabilities (long-term debt, postretirement healthcare obligations, annuities payable) that are not otherwise required to be measured at fair value.

iv) Issued on August 6, 2008, FSP No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1), addresses endowment accounting and disclosure requirements. Because Pennsylvania has not enacted the Uniform Prudent Management of Institutional Funds Act, there was no change to University's accounting as a result of the adoption of FSP 117-1 for the year ended June 30, 2009. Note 3 includes the enhanced disclosures required for all endowment funds under the standard.

v) In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 requires management to evaluate subsequent events through the date the financial statements were issued or the date the financial statements were available to be issued.

(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 in accordance with SFAS 157 and FSP 157-g as described in notes 1(b) and 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 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. 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 in accordance with SFAS 157 as described in note 1(b).

(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 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 2.8% to 7.0% as of June 30, 2009 and 2008, respectively.

(i) Advances from Federal Government for Student Loans

Funds provided by the U.S. 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.

(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 subsidiary, was formed during 2009. Bison Ventures, Inc. was formed to operate a bookstore currently being constructed in Lewisburg, Pennsylvania. Other than the formation of Bison Ventures, Inc. and the execution of certain agreements described in note 5, no other transactions have occurred in Bison Ventures, Inc. and, therefore, no income tax related costs or liabilities have been recorded for Bison Ventures, Inc. as of or for the year ended June 30, 2009.

Effective July 1, 2007, the University adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also recognizes related guidance on measurement, classification, interest and penalties, and disclosure. The University does not believe that there are any unrecognized tax benefits or costs that should be recorded.

(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 June 30, 2008, 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 23, 2009, the date the financial statements were available to be issued.

(In thousands of dollars)

(2) Receivables

(a) Accounts, Notes, and Loans Receivable

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

		2009	2008
Accounts and other receivables:			
Students	$	907	875
Other		474	404
Less allowance for doubtful accounts		(261)	(238)
		1,120	1,041
Accrued interest income		197	85
Accrued grants/contracts revenue		3,077	2,328
	$	4,394	3,454
Loans and notes receivable:			
Student loans	$	6,039	5,406
Employee loans		1,053	943
Notes receivable		2,180	—
Less allowance for doubtful accounts		(259)	(261)
	$	9,013	6,088

(b) Contributions Receivable

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

		2009	2008
Unconditional promises expected to be collected:			
One year or less	$	6,515	7,736
One year to five years		11,110	10,416
Over five years		2,946	2,430
		20,571	20,582
Less allowance for uncollectible contributions		1,354	1,404
Total contributions receivable	$	19,217	19,178

(In thousands of dollars)

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

		2009	2008
Temporarily restricted (donor use and time restrictions)	$	5,378	7,961
Permanently restricted (donor endowment funds)		13,839	11,217
Total contributions receivable	$	19,217	19,178

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, 2009 and 2008, respectively, ranged from 2.8% to 6.5%. The discount to present value amounted to approximately $2,054 and $2,428 at June 30, 2009 and 2008, respectively.

(3) Investments and Funds Held in Trust by Others

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

		2009	2008
Fixed income investments:			
U.S. government agency bonds and notes	$	23,997	10,033
Certificates of deposit and other interest-bearing investments		2,519	2,788
Total fixed income investments		26,516	12,821
Publicly traded securities and mutual funds:			
Equity securities and mutual funds		162,059	230,923
Fixed income mutual funds		54,827	54,371
Total publicly traded securities and mutual funds		216,886	285,294
Other investment funds:			
Commingled or custodial investment funds		32,025	67,309
Hedge funds		117,649	138,838
Private equity funds		124,031	127,045
Total other investment funds		273,705	333,192
Total investments	$	517,107	631,307

Other 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.

At June 30, 2009, the University has used an estimate of fair value of commingled or custodial investment funds (consisting primarily of bond funds) of $32,025 and hedge funds of $117,649 based on the net asset value per share of the respective investment fund consistent with the measurement provisions in the SFAS 157 amendment, as described in note 1. 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, 2009, $17,079 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 hedge funds that segregate certain underlying securities as currently nonredeemable (i.e., side-pocket investments).

Private equity 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 equity 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 equity funds, individual transactions are typically not observable. When such secondary market transactions do occur, they may occur at discounts to 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 hedge funds and private equity funds, the University has remaining commitments to invest in these funds of approximately $113,500 at June 30, 2009.

(a) Investment Fair Value Accounting and Reporting

Effective July 1, 2008, the University adopted SFAS 157 as described in note 1. SFAS 157 defines fair value 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. SFAS 157 also establishes a framework for measuring fair value, and a three-level hierarchy for fair value measurement based upon the transparency of inputs to the valuation of an asset or liability.

(In thousands of dollars)

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 private equity funds and hedge 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. Includes hedge funds redeemable at net asset value unless restrictions on redemptions exist.

Level 3: Significant unobservable inputs. This category includes financial instruments whose fair value requires significant management judgment or estimation. This category generally includes private equity funds and certain other nonmarketable investments.

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 investment fund or fund held in trust by others.

The following table presents fair value information at June 30, 2009 about the University's investments and funds held in trust by others:

		Level 1	Level 2	Level 3	Total
Fixed income investments	$	—	25,974	542	26,516
Publicly traded securities/ mutual funds		216,886	—	—	216,886
Other investment funds		—	95,580	178,125	273,705
Total investments	$	216,886	121,554	178,667	517,107
Funds held in trust by others	$	—	4,480	5,051	9,531

(In thousands of dollars)

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

		Level 3	
		Investments	**Funds held in trust by others**
Balance at June 30, 2008	$	182,327	6,596
Realized and unrealized losses, net		(31,484)	(1,545)
Purchases (sales), net		(8,330)	—
Transfers to Level 3 classification		36,154	—
Balance at June 30, 2009	$	178,667	5,051

(b) Additional Investment and Investment Income Information

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. These charitable trusts are not perpetual instruments but entitle the University to a remainder interest upon the expiration of the trust.

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

		June 30, 2009			**June 30, 2008**
		Endowment funds	**Other funds**	**Total**	**Total**
Investments in pooled funds	$	432,609	—	432,609	541,092
Remaining investments		5,737	78,761	84,498	90,215
Total investments		438,346	78,761	517,107	631,307
Funds held in trust by others		4,480	5,051	9,531	12,343
Total	$	442,826	83,812	526,638	643,650

(In thousands of dollars)

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

		2009	**2008**
Interest and dividends	$	15,892	10,861
Net appreciation (depreciation)		(111,811)	(30,104)
Investment expenses		(3,085)	(1,863)
Total investment loss	$	(99,004)	(21,106)

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 equity funds, hedge 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, private equity funds, and hedge 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.

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

		2009	**2008**
Operating investment income, including endowment income	$	29,364	30,355
Nonoperating investment loss, including endowment income withdrawals		(128,368)	(51,461)
Total investment loss	$	(99,004)	(21,106)

(c) Endowment Accounting and Reporting

Effective July 1, 2008, the University adopted the provisions of FSP 117-1. FSP 117-1 provides guidance for required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

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.

(In thousands of dollars)

(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 the original gift as of the gift date of the donor-restricted endowment funds 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 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 or more 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 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. The spendable return is distributed to the pooled funds each quarter based on the units owned by each fund in the pool.

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

Endowment net assets consisted of the following at June 30, 2009:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(8,695)	147,934	162,023	301,262
Board-designated endowment funds		138,595	2,969	—	141,564
Total endowment net assets	$	129,900	150,903	162,023	442,826

(In thousands of dollars)

Endowment net assets consisted of the following at June 30, 2008:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(251)	221,577	156,920	378,246
Board-designated endowment funds		175,449	897	—	176,346
Total endowment net assets	$	175,198	222,474	156,920	554,592

(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 $8,695 and $251 as of June 30, 2009 and 2008, 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, 2009 follow:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2008	$ 175,198	222,474	156,920	554,592
Contributions received	87	242	6,150	6,479
Proceeds from expired split-interest agreements	—	—	156	156
Total contributions and other additions	87	242	6,306	6,635
Investment return:				
Investment income	4,980	7,646	—	12,626
Net depreciation	(41,578)	(63,828)	(1,203)	(106,609)
Total investment return	(36,598)	(56,182)	(1,203)	(93,983)
Appropriation of endowment assets for operating activities under the University's spending policy	(8,244)	(17,531)	—	(25,775)
Additional appropriation of board-designated endowment for operating activities	(2,143)	—	—	(2,143)
Total support to operating activities	(10,387)	(17,531)	—	(27,918)
Transfers to board-designated funds	—	3,500	—	3,500
Release from donor restrictions	1,600	(1,600)	—	—
Endowment net assets, June 30, 2009	$ 129,900	150,903	162,023	442,826

(In thousands of dollars)

Changes in endowment net assets for the year ended June 30, 2008 follow:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2007	$ 195,609	253,370	150,420	599,399
Contributions received	96	—	5,857	5,953
Proceeds from expired split-interest agreements	—	—	1,214	1,214
Total contributions and other additions	96	—	7,071	7,167
Investment return:				
Investment income	2,408	4,989	—	7,397
Net depreciation	(8,922)	(19,479)	(571)	(28,972)
Total investment return	(6,514)	(14,490)	(571)	(21,575)
Appropriation of endowment assets for operating activities under the University's spending policy	(7,846)	(16,406)	—	(24,252)
Additional appropriation of board-designated endowment for operating activities	(3,100)	—	—	(3,100)
Total support to operations	(10,946)	(16,406)	—	(27,352)
Transfers to board-designated funds	453	—	—	453
Transfers from board-designated endowments for capital equipment	(3,500)	—	—	(3,500)
Endowment net assets, June 30, 2008	$ 175,198	222,474	156,920	554,592

(Continued)

(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 are intended to produce equity-like returns, while Hybrid assets are meant to produce returns that are less correlated with Growth assets. Inflation-protection assets are expected to provide reasonable returns but are likely to perform better during periods of rising inflation. Lastly, Low-volatility assets should produce modest returns in most environments and provide stability for the endowment.

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

	Range
Growth assets	40% – 75%
Inflation protection assets	0% – 20%
Low-volatility assets	0% – 20%
Hybrid assets	10% – 30%

(In thousands of dollars)

(4) Property and Equipment

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

		2009	2008
Land	$	5,293	5,050
Buildings and improvements		268,855	260,701
Equipment, furniture, and fixtures		101,860	96,516
Library books and materials		41,571	39,404
Construction in progress		7,499	2,539
		425,078	404,210
Less accumulated depreciation:			
Buildings and improvements		82,970	76,678
Equipment, furniture, and fixtures		87,753	82,618
Library books and materials		30,608	28,473
		201,331	187,769
Property and equipment, net	$	223,747	216,441

(5) Long-Term Debt

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

		2009	2008
University revenue bonds, Series 1996	$	6,535	7,285
University revenue bonds, Series 1998		8,535	9,295
University revenue bonds, Series 2002 A		18,425	18,730
University revenue bonds, Series 2002 B		5,805	6,160
		39,300	41,470
Bond premium – University revenue bonds, Series 2002 A		469	517
Total bonds payable		39,769	41,987
Notes payable		222	222
Capital lease obligation		1,641	—
Total long-term debt	$	41,632	42,209

(Continued)

(In thousands of dollars)

The University entered into various agreements with the Union County Higher Education Facilities Financing Authority (Authority) that provided issuance of $13,060 University Revenue Bonds, Series 1996. The 1996 bonds carry an interest rate of 5.50% with annual principal payments made on April 1. These bonds mature in various amounts through April 1, 2016 and are callable at any time in whole or in part by the Authority upon direction of the University.

The University entered into various agreements with the Authority that provided issuance of $15,000 University Revenue Bonds, Series 1998. The 1998 bonds carry interest rates ranging from 4.20% to 4.50% with annual principal payments made on April 1. These bonds mature in various amounts through April 1, 2018 and are callable at any time in whole or in part by the Authority upon direction of the University.

The University entered into various agreements with the Authority that provided issuance of $20,325 University Revenue Bonds, Series 2002 A. The Series 2002 A bonds carry interest rates ranging from 3.50% 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 2002 B. The Series 2002 B bonds require annual principal payments each April 1 (with final payment on April 1, 2022) and bear variable rate interest (0.30% at June 30, 2009) as determined by the remarketing agent. The Series 2002 B bonds are callable at any time in whole or in part by the Authority upon direction of the University.

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

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, 2009, 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%.

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

2010	$	2,260
2011		2,360
2012		2,470
2013		2,590
2014		2,710

(In thousands of dollars)

In May 2009, the University entered into various agreements with entities owned or controlled by one or more of the following parties to finance and construct a bookstore for the exclusive use of the University in Lewisburg, Pennsylvania: a community development entity (CDE), a community development corporation owned by a national bank (CDC), and a real estate corporation (REC). The agreements provide for the University and the CDC to fund various community development loans to the REC totaling $8,730 to finance the bookstore construction. As of June 30, 2009, the University had advanced $6,757 to the project, of which $1,667 will be repaid to the University by the CDC by May 2011, provided the completed construction project meets the requirements of the CDE. The loans financed by the CDC are expected to be repaid to it through tax incentives as provided through the CDE. The community development loans owed to the University bear interest of 2.81%.

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 REC. The agreements provide that the REC may sell its ownership interest in the project to the University, net of the community development loans owed to the University described above, for approximately $800, including closing costs, in May 2016. If the REC does not exercise its sell option, the University can exercise an option to purchase the ownership interest at the then fair value, net of the loans described above. The University estimates that its purchase option at net present value approximates the REC's sell option. Because of the interdependent loan agreements, lease agreements, and sell/purchase options described above, the University has accounted for the transaction as a capital lease.

At June 30, 2009, the University has included the following amounts in its consolidated statement of financial position as a result of these agreements: loans and notes receivable (the note receivable due from CDC) – $1,667; property plant and equipment (construction in progress) – $6,731; and long-term debt (capital lease obligation) – $1,641. The capital lease obligation includes the net present value of the following: annual gross lease payments ranging from $282 beginning in August 2010 to $457 for the year ended June 30, 2016; interest owed to the University on the community development loans ranging from $190 for the year ended June 30, 2010 to $128 for the year ended June 30, 2016; and the University's purchase option described above.

(6) Temporarily Restricted Net Assets

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

		2009	2008
Investment gains on donor endowments subject to time restrictions under Pennsylvania law	$	147,934	221,577
Pledges receivable subject to time and/or purpose restrictions		5,378	7,961
Unexpended donor-restricted funds available for:			
Scholarship and financial aid		7,530	6,788
Other university activities		18,438	13,990
Total temporarily restricted net assets	$	179,280	250,316

(In thousands of dollars)

(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:

		2009	2008
Donor-contributed principal invested to support:			
Scholarship and financial aid	$	109,600	106,236
Instruction and academic programs		37,043	35,123
Library and related services		7,366	7,371
Other		28,183	27,005
Total permanently restricted net assets	$	182,192	175,735

(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 $6,524 and $5,929 for 2009 and 2008, respectively.

(9) Postretirement Healthcare Benefits

Certain current and former employees are covered by a postretirement healthcare plan. The University accrues the cost of postretirement benefits other than pensions 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.

(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:

		2009	2008
Change in benefit obligation during year:			
Benefit obligation at beginning of year	$	39,915	36,421
Service cost		1,811	1,701
Interest cost		2,438	2,223
Benefit payments		(1,688)	(1,572)
Actuarial loss		327	1,142
Benefit obligation at end of year	$	42,803	39,915
Change in plan assets during year:			
Fair value of plan assets at beginning of year	$	—	—
Employer contributions		1,688	1,572
Benefit payments		(1,688)	(1,572)
Fair value of plan assets at end of year	$	—	—
Net periodic benefit cost recognized for year:			
Service cost	$	1,811	1,701
Interest cost		2,438	2,223
Amortization of prior service costs		(187)	(187)
Net periodic benefit cost reported as operating expenses	$	4,062	3,737
Effect of a 1% increase in medical cost trend rate:			
Change in total of service cost and interest cost	$	604	446
Change in benefit obligation		4,604	2,540
Effect of a 1% decrease in medical cost trend rate:			
Change in total of service cost and interest cost	$	(481)	(516)
Change in benefit obligation		(3,835)	(4,744)
Weighted average assumptions at end of year:			
Discount rate		6.25%	6.25%
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, 2009	June 30, 2008

(In thousands of dollars)

Estimated actuarial loss and prior service cost that will be amortized over the fiscal year June 30, 2010 are $0 and $187, respectively.

Expected cash outflow information for fiscal years ending after June 30, 2009:

Year ending June 30:		
2010	$	1,969
2011		2,152
2012		2,329
2013		2,526
2014		2,717
2015 – 2019		16,504

Additionally, the following items were recognized during the years ended June 30, 2009 and 2008 and are presented in the consolidated statement of activities as nonoperating activities:

		2009	2008
Nonoperating activities include:			
Change in unrecognized prior service credits	$	(187)	(187)
Change in unrecognized actuarial loss		(327)	(1,142)
Total nonoperating activities related to retiree healthcare	$	(514)	(1,329)

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

		June 30	
		2009	2008
Unrecognized prior service credits	$	1,685	1,872
Unrecognized actuarial loss		(2,428)	(2,101)
	$	(743)	(229)

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.

(Continued)

(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 $1,296 and $1,112 at June 30, 2009 and 2008, respectively. No guaranteed mortgages were in default as of June 30, 2009 and 2008.

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 $1,300 at June 30, 2009.

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) Conditional Asset Retirement Obligations

The University's conditional asset retirement obligation relates primarily to asbestos abatement. Asbestos abatement costs, in most cases, are 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. The estimated net present value of the conditional asset retirement obligation at June 30, 2009 and 2008 was $2,028 and $1,927, respectively, and is included in accounts payable and accrued expenses.

(12) Operating Expenses

Operating expenses by natural classification for the years ended June 30, 2009 and 2008 follow:

		2009	2008
Compensation, including benefits	$	104,914	97,536
Purchased services and supplies		44,193	44,642
Utilities and fuel		8,991	8,610
Depreciation		13,728	14,005
Interest		1,784	1,968
Total operating expenses	$	173,610	166,761

(a) Fund-Raising

Fund-raising expenses, including alumni relations costs, totaled $11,740 and $11,042 for the years ended June 30, 2009 and 2008, respectively. These fund-raising and alumni relations expenses are reported as institutional support in the consolidated statement of activities and include salaries and wages, fringe benefits, supplies, purchased services, and allocable costs such as depreciation, information technology, and operation and maintenance of facilities expenses.

(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 competitively bid healthcare insurance services to the University. Amounts paid for those insurance services totaled $2,740 and $2,669 for the years ended June 30, 2009 and 2008, respectively. Since September 2006, the University's president serves on the board of directors of the healthcare organization referred to above.

(13) 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(c) and 3.

A reasonable estimate of the fair value of loans receivable from students under government loan programs (with carrying values of $6,039 at June 30, 2009) could not be made because the notes are not salable and can only be assigned to the U.S. government or its designees. Long-term debt, with a carrying value of $41,632 at June 30, 2009, has a fair value of approximately $41,447. Annuities payable include amounts owed to annuitants under certain charitable gift annuity contracts with a carrying value of $9,762 at June 30, 2009. Based on discounted cash flows, management estimates the fair value of these charitable gift annuity contract liabilities is $12,530 at June 30, 2009. The fair value of remaining annuities payable related to charitable remainder trust agreements are estimated to approximate their carrying value of $4,998.