BUCKNELL UNIVERSITY

Consolidated Financial Statements

June 30, 2011
(with comparative information as of June 30, 2010)

(With Independent Auditors' Report Thereon)

BUCKNELL UNIVERSITY

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KPMG LLP
Suite 200
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

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, 2011, 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 2010 consolidated financial statements and, in our report dated November 2, 2010, 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, 2011, 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

November 8, 2011

BUCKNELL UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2011
(with comparative information as of June 30, 2010)

(In thousands)

Assets		**2011**	**2010**
Cash and cash equivalents	$	20,110	12,101
Inventories, prepaid expenses, and other assets		2,187	2,201
Accounts and other receivables, net (note 2)		4,134	5,254
Contributions receivable, net (note 2)		30,695	19,171
Loans and notes receivable, net (note 2)		6,171	8,384
Investments (note 3)		661,079	575,397
Funds held in trust by others (note 3)		10,987	10,445
Funds held for construction (note 5)		10,590	—
Property and equipment, net (notes 4, 5, and 10)		234,260	222,994
Total assets	$	980,213	855,947
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	19,779	19,570
Student deposits and deferred revenues		8,850	8,179
Funds held for the accounts of others		2,166	2,037
Postretirement healthcare (note 9)		50,365	48,439
Annuities payable		14,747	14,567
Advances from federal government		4,402	4,330
Long-term debt (note 5)		42,010	40,649
Total liabilities		142,319	137,771
Net assets:			
Unrestricted		369,140	323,221
Temporarily restricted (note 6)		260,761	202,398
Permanently restricted (note 7)		207,993	192,557
Total net assets		837,894	718,176
Total liabilities and net assets	$	980,213	855,947

See accompanying notes to consolidated financial statements.

BUCKNELL UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2011
(with comparative information for the year ended June 30, 2010)

(In thousands)

	2011				2010
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:					
Tuition and fees	$ 147,845	—	—	147,845	142,965
Institutional scholarships	(44,725)	—	—	(44,725)	(43,455)
Net tuition and fees	103,120	—	—	103,120	99,510
Sales and services of auxiliary enterprises	29,991	—	—	29,991	29,046
Government grants and contracts	4,795	—	—	4,795	5,026
Private gifts, grants, and contributions	7,872	3,162	—	11,034	9,589
Net investment income (note 3)	10,086	19,888	—	29,974	29,562
Other	5,586	—	—	5,586	4,755
Net assets released from restrictions	21,084	(21,084)	—	—	—
Total operating revenues	182,534	1,966	—	184,500	177,488
Operating expenses (notes 8, 9, and 11):					
Education and general:					
Instruction	63,981	—	—	63,981	63,057
Research and public service	3,454	—	—	3,454	3,377
Academic support	21,824	—	—	21,824	21,556
Student services	30,891	—	—	30,891	30,556
Institutional support	26,882	—	—	26,882	27,458
Auxiliary enterprises	25,820	—	—	25,820	26,659
Total operating expenses	172,852	—	—	172,852	172,663
Change in net assets from operating revenues, net of expenses	9,682	1,966	—	11,648	4,825
Nonoperating activities:					
Investment gains, net of endowment spending (note 3)	26,999	46,231	2,759	75,989	40,434
Capital gifts and grants	4,179	14,562	12,677	31,418	13,413
Postretiree costs other than net periodic credits (costs) (note 9)	663	—	—	663	(3,129)
Net assets released from restrictions	4,396	(4,396)	—	—	—
Increase in net assets from nonoperating activities	36,237	56,397	15,436	108,070	50,718
Change in net assets	45,919	58,363	15,436	119,718	55,543
Net assets, beginning of year	323,221	202,398	192,557	718,176	662,633
Net assets, end of year	$ 369,140	260,761	207,993	837,894	718,176

See accompanying notes to consolidated financial statements.

BUCKNELL UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

(In thousands)

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	119,718	55,543
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)		(663)	3,129
Depreciation		14,405	13,956
Loss on disposal of fixed assets		31	—
Contributions restricted for long-term investment		(27,239)	(13,259)
Net investment appreciation		(100,714)	(63,575)
Change in asset and liabilities:			
Inventories, prepaid expenses, and other assets		14	19
Accounts and other receivables		1,120	(860)
Loans and notes receivable		101	61
Accounts payable and accrued expenses		529	582
Postretirement healthcare		2,589	2,507
Net cash (used in) provided by operating activities		9,891	(1,897)
Cash flows from investing activities:			
Sales of investments		194,659	180,124
Purchases of investments		(178,267)	(174,346)
Loans and notes issued		(328)	(564)
Loans and notes collected		2,440	620
Deposits to funds held for construction		(16,189)	—
Withdrawals from funds held for construction		5,599	—
Purchase of property and equipment		(25,150)	(12,146)
Net cash used in investing activities		(17,236)	(6,312)
Cash flows from financing activities:			
Payment of bonds and notes payable		(2,806)	(15,799)
Proceeds from issuance of debt		4,167	14,816
Receipts under annuity liability arrangements		238	315
Payments to annuitants		(1,960)	(1,915)
Proceeds from private gifts restricted for long-term investment		15,715	13,305
Net cash provided by financing activities		15,354	10,722
Net increase in cash and cash equivalents		8,009	2,513
Cash and cash equivalents – beginning of year		12,101	9,588
Cash and cash equivalents – end of year	$	20,110	12,101
Supplemental disclosure of cash flow information:			
Noncash financing and investing activities – property acquired	$	—	512
Cash paid for interest during the year		1,473	1,704

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.

(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) 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 such 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 2.8% to 7.0% as of June 30, 2011 and 2010.

(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, 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; however, no audits are currently in progress.

(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, 2010, 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 November 8, 2011, 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:

		2011	2010
Accounts and other receivables:			
Students	$	910	1,049
Other		510	817
Less allowance for doubtful accounts		(327)	(307)
		1,093	1,559
Accrued grants/contracts revenue		3,041	3,695
	$	4,134	5,254
Loans and notes receivable:			
Student loans	$	5,479	5,950
Employee loans		948	1,049
Notes receivable		—	1,668
Less allowance for doubtful accounts		(256)	(283)
	$	6,171	8,384

(b) Contributions Receivable

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

		2011	2010
Unconditional promises expected to be collected:			
One year or less	$	20,046	9,495
One year to five years		9,855	8,743
Over five years		3,414	2,908
		33,315	21,146
Less allowance for uncollectible contributions		(2,620)	(1,975)
Total contributions receivable	$	30,695	19,171

(In thousands of dollars)

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

		2011	2010
Temporarily restricted (donor use and time restrictions)	$	17,320	6,967
Permanently restricted (donor endowment funds)		13,375	12,204
Total contributions receivable	$	30,695	19,171

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, 2011 and 2010 ranged from 2.8% to 6.5%. The discount to present value amounted to approximately $2,802 and $2,820 at June 30, 2011 and 2010, 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:

		2011	2010
U.S. government agency bonds and notes	$	10,000	12,904
Publicly traded mutual funds		93,227	80,967
Certificates of deposit		2,048	3,298
Commingled or custodial bond funds		17,811	16,819
Total fixed income investments		123,086	113,988
Publicly traded equity securities and mutual funds		190,600	171,046
Redeemable alternative funds		147,599	134,826
Private funds		198,796	154,877
Total alternative investment funds		346,395	289,703
Other investments		998	660
Total investments		661,079	575,397
Funds held in trust by others		10,987	10,445
Total	$	672,066	585,842

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, 2011 and 2010, the University has used an estimate of fair value of commingled or custodial bond funds of $17,811 and $16,819, respectively, and redeemable alternative funds of $147,599 as of June 30, 2011 and $134,826 as of June 30, 2010 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, 2011, $28,293 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, 2010, $12,100 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 $90,434 at June 30, 2011. Remaining commitments at June 30, 2010 were approximately $92,588.

(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, 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.

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.

(Continued)

(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	—
Commingled 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 – U.S. equities	41,239	41,239	—	—	Daily (1)		—
Publicly traded mutual funds – international equities	89,760	89,760	—	—	Daily (1)		—
Publicly traded equity investments	190,600	190,600	—	—			—
Multistrategy	73,824	—	48,868	24,956	Quarterly-annually	30-90	—
Long/short equity strategy	35,386	—	29,375	6,011	Monthly-annually	30-60	—
Other strategies	38,389	—	17,710	20,679	Monthly-bi-annually	30-90	—
Redeemable alternative funds	147,599	—	95,953	51,646			—
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	—	95,953	250,442			— 90,434
Other investments	998	—	—	998	Illiquid		—
Total investments	$ 661,079	283,827	125,812	251,440			$ 90,434
Funds held in trust by others	$ 10,987	—	5,495	5,492	Illiquid (3)		$ —

(In thousands of dollars)

The following table presents fair value information at June 30, 2010 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	$	12,904	—	12,904	—	Daily (1)		$	—
Publicly traded mutual funds:									
U.S. fixed income		70,171	70,171	—	—	Daily (1)			—
International fixed income		10,796	10,796	—	—	Daily (1)			—
Certificates of deposit		3,298	—	3,298	—	Monthly (2)	30		—
Commingled investment funds – bond funds		16,819	—	16,819	—	Weekly-monthly	5		—
Fixed income investments		113,988	80,967	33,021	—				—
Publicly traded equity securities		63,536	63,536	—	—	Daily (1)			—
Publicly traded mutual funds – U.S. equities		36,846	36,846	—	—	Daily (1)			—
Publicly traded mutual funds – international equities		70,664	70,664	—	—	Daily (1)			—
Publicly traded equity investments		171,046	171,046	—	—				—
Multistrategy		62,384	—	35,884	26,500	Quarterly-annually	45-90		—
Long/short equity strategy		37,575	—	32,363	5,212	Monthly-annually	30-90		—
Other strategies		34,867	—	15,307	19,560	Monthly-bi-annually	30-90		—
Redeemable alternative funds		134,826	—	83,554	51,272				—
Private real estate		9,105	—	—	9,105	Illiquid			19,250
Private energy		17,047	—	—	17,047	Illiquid			26,281
Private – other		128,725	—	—	128,725	Illiquid			47,027
Private funds		154,877	—	—	154,877				92,558
Alternative investment funds		289,703	—	83,554	206,149				— 92,558
Other investments		660	—	—	660	Illiquid			—
Total investments	$	575,397	252,013	116,575	206,809			$	92,558
Funds held in trust by others	$	10,445	—	4,738	5,707	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 applies.

(3) Funds held in trust by others include $5,495 and $4,738 at June 30, 2011 and 2010, respectively, for which the University irrevocably receives investment income from the trusts and the trust assets are held in perpetuity; whereas, $5,492 and $5,707 at June 30, 2011 and 2010, 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.

(Continued)

(In thousands of dollars)

Publicly Traded Mutual Funds and Equity Securities

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

		2011	2010
Publicly traded mutual funds – fixed income:			
U.S. fixed income	$	81,109	70,171
International fixed income		12,118	10,796
		93,227	80,967
Publicly traded U.S. equity securities by general industry sector:			
Consumer related		18,582	18,970
Information technology		21,101	18,835
Other sectors		19,918	25,731
		59,601	63,536
Publicly traded mutual funds:			
Domestic equity mutual funds by capitalization objective:			
Large capitalization		37,274	32,967
Small and mid sized capitalization		3,965	3,879
		41,239	36,846
International mutual funds		89,760	70,664
Publicly traded mutual funds and equity securities	$	283,827	252,013

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, 2011 and 2010 certain of these funds had redemption restrictions or illiquid side pocket investments totaling $3,657 and $3,700, 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, 2011 and 2010

(Continued)

approximately $9,887 and $8,000, 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.

The University divested its interest in one of these funds by giving timely notice during the year ended June 30, 2010 and received in July 2010 the June 30, 2010 net asset value of $16,465.

Other Strategies

Other strategies' funds invest on both the long and short side in fixed income arbitrage, master limited partnerships, and senior secured bank loans. At June 30, 2011 and 2010 approximately $314 and $400, respectively, of certain illiquid side-pocket investments are included in this category. Furthermore, at June 30, 2011 $14,435 of these funds cannot be redeemed because the funds have restrictions that do not allow for redemptions in the first 12 months after acquisition.

The University divested its interest in one of these funds by giving timely notice during the year ended June 30, 2010 and received in July 2010 the June 30, 2010 net asset value of $3,800.

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 3 to 10 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 4 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 $35,234 and $24,000 and at June 30, 2011 and 2010, 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, 2010	Purchases	Sales, redemptions, or distributions	Net appreciation (depreciation)	Transfer into (out of) Level 3	Balance at June 30, 2011
Investments:							
Redeemable alternative funds	$	51,272	397	(3,693)	3,670	—	51,646
Private funds		154,877	30,345	(21,933)	35,507	—	198,796
Other investments		660	495	(157)	—	—	998
Total	$	206,809	31,237	(25,783)	39,177	—	251,440
Funds held in trust by others	$	5,707	—	(1,593)	1,378	—	5,492

		Balance at June 30, 2009	Purchases	Sales, redemptions, or distributions	Net appreciation (depreciation)	Transfer into (out of) Level 3	Balance at June 30, 2010
Investments:							
Fixed income	$	10,274	—	(2,984)	197	(7,487)	—
Redeemable alternative funds		48,008	—	(5,373)	8,637	—	51,272
Private funds		119,843	21,507	(13,007)	26,534	—	154,877
Other investments		542	162	(20)	(24)	—	660
Total	$	178,667	21,669	(21,384)	35,344	(7,487)	206,809
Funds held in trust by others	$	5,051	—	—	656	—	5,707

(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, 2011			June 30, 2010		
	Endowment	**Other**	**Total**	**Endowment**	**Other**	**Total**
Fixed income investments	$ 47,338	75,748	123,086	39,018	74,970	113,988
Publicly traded equity securities and mutual funds	175,659	14,941	190,600	158,036	13,010	171,046
Alternative investment funds	346,395		346,395	289,703	—	289,703
Other investments	480	518	998	—	660	660
Total investments	569,872	91,207	661,079	486,757	88,640	575,397
Funds held in trust by others	5,495	5,492	10,987	4,738	5,707	10,445
Total	$ 575,367	96,699	672,066	491,495	94,347	585,842
Other funds are held for the following:						
Investments held for operations and facilities		$ 65,830			65,582	
Investments held for split-interest agreements		25,377			23,058	
Funds held in trust by others – split-interest agreements		5,492			5,707	
		$ 96,699			94,347	

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

	2011	**2010**
Interest and dividends	$ 6,946	7,871
Net appreciation	100,714	63,575
Investment expenses	(1,697)	(1,450)
Total investment income	$ 105,963	69,996

Net appreciation includes unrealized and realized gains 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

(Continued)

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 consolidated statement of activities as follows:

		2011	2010
Operating investment income, including endowment income	$	29,974	29,562
Nonoperating investment income, net of endowment income withdrawals		75,989	40,434
Total investment income	$	105,963	69,996

(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 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 a 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.

(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.

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

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(434)	213,539	186,535	399,640
Board-designated endowment funds		175,024	703	—	175,727
Total endowment net assets	$	174,590	214,242	186,535	575,367

Endowment net assets consisted of the following at June 30, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(4,600)	168,416	173,593	337,409
Board-designated endowment funds		152,004	2,082	—	154,086
Total endowment net assets	$	147,404	170,498	173,593	491,495

(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 $434 and $4,600 as of June 30, 2011 and 2010, 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, 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
Total contributions and other additions		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
Total investment return		34,744	64,744	1,041	100,529
Withdrawal of endowment assets 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

(In thousands of dollars)

Changes in endowment net assets for the year ended June 30, 2010 follow:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2009	$ 129,900	150,903	162,023	442,826
Contributions received	87	164	10,579	10,830
Proceeds from expired split-interest agreements	—	—	598	598
Total contributions and other additions	87	164	11,177	11,428
Investment return:				
Interest and dividends	1,999	3,230	—	5,229
Net appreciation	22,599	36,077	393	59,069
Total investment return	24,598	39,307	393	64,298
Withdrawal of endowment assets for operating activities under the University's spending policy	(8,482)	(19,099)	—	(27,581)
Withdrawal of board-designated endowment for operating activities	(101)	—	—	(101)
Total support to operating activities	(8,583)	(19,099)	—	(27,682)
Transfers to board-designated funds	—	625	—	625
Release from donor restrictions	1,402	(1,402)	—	—
Endowment net assets, June 30, 2010	$ 147,404	170,498	173,593	491,495

(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.

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%

(In thousands of dollars)

(4) Property and Equipment

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

		2011	2010
Land	$	5,293	5,293
Buildings and improvements		289,861	280,558
Equipment, furniture, and fixtures		111,371	105,616
Library books and materials		45,766	43,664
Construction in progress		11,340	3,108
		463,631	438,239
Less accumulated depreciation:			
Buildings and improvements		96,989	89,786
Equipment, furniture, and fixtures		97,392	92,673
Library books and materials		34,990	32,786
		229,371	215,245
Property and equipment, net	$	234,260	222,994

(5) Long-Term Debt

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

		2011	2010
University revenue bonds, Series 2002 A	$	17,790	18,115
University revenue bonds, Series 2002 B		5,065	5,440
University revenue bonds, Series 2010		10,830	12,445
		33,685	36,000
Bond premium – Series 2002 A		371	420
Bond premium – Series 2010		836	1,157
Total bonds payable		34,892	37,577
Notes payable		5,293	1,168
Capital lease obligation		1,825	1,904
Total long-term debt	$	42,010	40,649

(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 2002 A. 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 (0.05% at June 30, 2011) 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 2002 B 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 are not subject to call or early redemption.

(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, 2011 and 2010, 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 $904 and $946 at June 30, 2011 and 2010, respectively.

In December 2010, the University, through its title holding company (a 501(c)(2) entity), 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. At June 30, 2011 Project disbursements to date totaled $5,600 and the remaining unexpended construction proceeds of $10,590 held in a separate interest bearing bank account are presented in the statement of financial position as deposits held for construction.

(In thousands of dollars)

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, 2011, the carrying amount of the community development loan was $4,167.

(c) Future Principal Maturities

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

2012	$	2,416
2013		2,511
2014		2,627
2015		2,753
2016		2,829

(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 $132 for the year ended June 30, 2012 to $936 for the year ended June 30, 2016. At June 30, 2011 and 2010, property and equipment (net of accumulated depreciation) under the capital lease was $6,073 and $6,286, respectively.

(e) Subsequent Event

In September 2011, the Board of Trustees authorized the University to borrow up to $40 million for various building projects.

(In thousands of dollars)

(6) Temporarily Restricted Net Assets

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

		2011	2010
Investment gains on donor endowments subject to time restrictions under Pennsylvania law	$	213,539	168,416
Pledges receivable subject to time and/or purpose restrictions		17,320	6,967
Unexpended donor-restricted funds available for:			
Scholarship and financial aid		9,569	8,045
Other university activities		20,333	18,970
Total temporarily restricted net assets	$	260,761	202,398

(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:

		2011	2010
Donor-contributed principal invested to support:			
Scholarship and financial aid	$	122,991	115,041
Instruction and academic programs		46,535	41,278
Library and related services		7,374	7,369
Other		31,093	28,869
Total permanently restricted net assets	$	207,993	192,557

(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 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 $6,723 and $6,573 for 2011 and 2010, 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.

(Continued)

(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:

		2011	2010
Change in benefit obligation during year:			
Benefit obligation at beginning of year	$	48,439	42,803
Service cost		2,202	1,926
Interest cost		2,602	2,614
Benefit payments		(2,062)	(1,846)
Actuarial (gain) loss		(816)	2,942
Benefit obligation at end of year	$	50,365	48,439
Change in plan assets during year:			
Fair value of plan assets at beginning of year	$	—	—
Employer contributions		2,062	1,846
Benefit payments		(2,062)	(1,846)
Fair value of plan assets at end of year	$	—	—

(Continued)

(In thousands of dollars)

		2011	2010
Net periodic benefit cost recognized for year:			
Service cost	$	2,202	1,926
Interest cost		2,602	2,614
Amortization of prior service costs		(187)	(187)
Amortization of net loss		35	—
Net periodic benefit cost reported as operating expenses	$	4,652	4,353
Effect of a 1% increase in medical cost trend rate:			
Change in total of service cost and interest cost	$	721	653
Change in benefit obligation		5,722	4,874
Effect of a 1% decrease in medical cost trend rate:			
Change in total of service cost and interest cost	$	(508)	(467)
Change in benefit obligation		(4,454)	(3,839)
Weighted average assumptions at end of year:			
Discount rate		5.65%	5.50%
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, 2011	June 30, 2010

Estimated actuarial loss and prior service credit that will be amortized over the fiscal year June 30, 2012 are $0 and $187, respectively.

Expected cash outflow information for fiscal years ending after June 30, 2011:

Year ending June 30:		
2012	$	2,272
2013		2,464
2014		2,671
2015		2,859
2016		3,068
2017 – 2021		18,638

(In thousands of dollars)

Additionally, the following items were recognized during the years ended June 30, 2011 and 2010 and are presented in the consolidated statement of activities as nonoperating activities:

		2011	2010
Nonoperating activities include:			
Change in unrecognized prior service credits	$	(187)	(187)
Net actuarial gain (loss) during the year		850	(2,942)
Total nonoperating gain (loss) activities related to retiree healthcare	$	663	(3,129)

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

		June 30	
		2011	2010
Unrecognized prior service credits	$	1,311	1,498
Unrecognized actuarial loss		(4,520)	(5,370)
	$	(3,209)	(3,872)

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.

(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 $1,322 and $1,407 at June 30, 2011 and 2010, respectively. No guaranteed mortgages were in default as of June 30, 2011 and 2010.

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 $25,310 at June 30, 2011.

(Continued)

(In thousands of dollars)

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, 2011 and 2010 follow:

		2011	2010
Compensation and benefits (a)	$	108,003	108,878
Purchased services and supplies		40,437	39,495
Utilities and fuel		8,788	8,752
Depreciation		14,405	13,956
Interest		1,219	1,582
Total operating expenses	$	172,852	172,663

(a) Compensation and benefits for the year ended June 30, 2010 includes $2,438 of retirement incentive costs for those employees that accepted a retirement incentive offer by May 2010. The retirement incentive was offered during the year ended June 30, 2010 to those full-time employees age 62 or older with at least 15 years of service on or before June 30, 2010.

Fund-Raising

Fund-raising expenses totaled $7,615 and $7,528 for the years ended June 30, 2011 and 2010, 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.

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 services to the University. Amounts paid for those insurance services totaled $4,837 and $3,519 for the years ended June 30, 2011 and 2010, 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.

(Continued)

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

A reasonable estimate of the fair value of loans and notes receivable (with carrying values of $8,384 at June 30, 2010) could not be made because the notes are not salable. Bonds payable, with a carrying value of $37,577 at June 30, 2010, had a fair value of approximately $38,523.

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