**BUCKNELL UNIVERSITY**

Consolidated Financial Statements

June 30, 2018
(with comparative information as of June 30, 2017)

(With Independent Auditors' Report Thereon)

**BUCKNELL UNIVERSITY**

## Table of Contents

KPMG LLP
Suite 1000
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 financial statements of Bucknell University and its subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2018 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bucknell University and its subsidiaries as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

***Report on Summarized Comparative Information***

We have previously audited the 2017 consolidated financial statements of Bucknell University and its subsidiaries, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 16, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

Harrisburg, Pennsylvania
November 12, 2018

**BUCKNELL UNIVERSITY**

Consolidated Statement of Financial Position

June 30, 2018
(with comparative information as of June 30, 2017)

(In thousands)

| **Assets** | | **2018** | **2017** |
|---|---|---|---|
| Cash and cash equivalents | $ | 9,438 | 13,092 |
| Inventories, prepaid expenses, and other assets | | 3,905 | 3,181 |
| Accounts and other receivables, net (note 2) | | 2,818 | 3,281 |
| Contributions receivable, net (note 2) | | 63,468 | 58,233 |
| Loans and notes receivable, net (note 2) | | 2,962 | 3,168 |
| Investments (note 3) | | 932,105 | 886,473 |
| Funds held in trust by others (note 3) | | 13,772 | 13,051 |
| Property and equipment, net (notes 4 and 10) | | 357,991 | 345,609 |
| Total assets | $ | 1,386,459 | 1,326,088 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | $ | 31,293 | 27,321 |
| Deferred revenue and student deposits | | 13,651 | 13,374 |
| Funds held for the accounts of others | | 2,530 | 2,547 |
| Postretirement healthcare (note 9) | | 68,267 | 77,075 |
| Annuities payable | | 16,317 | 16,637 |
| Advances from federal government | | 2,289 | 2,640 |
| Long-term debt (note 5) | | 141,728 | 149,544 |
| Total liabilities | | 276,075 | 289,138 |
| Net assets: | | | |
| Unrestricted | | 460,239 | 427,004 |
| Temporarily restricted (note 6) | | 297,622 | 290,151 |
| Permanently restricted (note 7) | | 352,523 | 319,795 |
| Total net assets | | 1,110,384 | 1,036,950 |
| Total liabilities and net assets | $ | 1,386,459 | 1,326,088 |

See accompanying notes to consolidated financial statements.

**BUCKNELL UNIVERSITY**

Consolidated Statement of Activities

Year ended June 30, 2018
(with comparative information for the year ended June 30, 2017)

(In thousands)

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | Total |
| Operating revenue: | | | | | |
| Tuition and fees | $ 191,917 | — | — | 191,917 | 182,776 |
| Institutional scholarships | (59,452) | — | — | (59,452) | (56,178) |
| Net tuition and fees | 132,465 | — | — | 132,465 | 126,598 |
| Sales and services of auxiliary enterprises | 39,045 | — | — | 39,045 | 37,299 |
| Grants and contracts | 4,234 | — | — | 4,234 | 3,714 |
| Gifts and contributions | 6,061 | 6,425 | — | 12,486 | 11,168 |
| Net investment income (note 3) | 17,573 | 26,782 | — | 44,355 | 43,397 |
| Other | 7,963 | — | — | 7,963 | 7,965 |
| Net assets released from restrictions | 31,589 | (31,589) | — | — | — |
| Total operating revenue | 238,930 | 1,618 | — | 240,548 | 230,141 |
| Operating expenses (notes 8, 9, and 11): | | | | | |
| Education and general: | | | | | |
| Instruction | 87,189 | — | — | 87,189 | 85,707 |
| Research and public service | 3,195 | — | — | 3,195 | 2,880 |
| Academic support | 31,437 | — | — | 31,437 | 29,465 |
| Student services | 45,420 | — | — | 45,420 | 42,776 |
| Institutional support | 38,972 | — | — | 38,972 | 38,156 |
| Auxiliary enterprises | 35,040 | — | — | 35,040 | 32,849 |
| Total operating expenses | 241,253 | — | — | 241,253 | 231,833 |
| Change in net assets from operating revenue, net of expenses | (2,323) | 1,618 | — | (705) | (1,692) |
| Nonoperating activities: | | | | | |
| Nonoperating net investment income (note 3) | 8,724 | 18,660 | 786 | 28,170 | 59,845 |
| Gifts and grants for capital or endowment | 271 | 3,451 | 26,316 | 30,038 | 52,738 |
| Postretiree gains other than net periodic expense (note 9) | 11,820 | — | — | 11,820 | 7,228 |
| Other | 4,111 | (5,626) | 5,626 | 4,111 | — |
| Net assets released from restrictions | 10,632 | (10,632) | — | — | — |
| Change in net assets from nonoperating activities | 35,558 | 5,853 | 32,728 | 74,139 | 119,811 |
| Change in net assets | 33,235 | 7,471 | 32,728 | 73,434 | 118,119 |
| Net assets, beginning of year | 427,004 | 290,151 | 319,795 | 1,036,950 | 918,831 |
| Net assets, end of year | $ 460,239 | 297,622 | 352,523 | 1,110,384 | 1,036,950 |

See accompanying notes to consolidated financial statements.

**BUCKNELL UNIVERSITY**

Consolidated Statement of Cash Flows

Year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(In thousands)

| | | 2018 | 2017 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 73,434 | 118,119 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | | |
| Postretiree gains other than net periodic expense | | (11,820) | (7,228) |
| Gain on acquisition of subsidiary's debt obligations | | (4,167) | — |
| Amortization of net bond premium | | (693) | (749) |
| Depreciation | | 22,713 | 21,177 |
| Loss on disposal of fixed assets | | 44 | 165 |
| Contributions restricted for long-term investment | | (29,767) | (52,640) |
| Net investment appreciation | | (64,908) | (98,787) |
| Changes in asset and liabilities: | | | |
| Inventories, prepaid expenses, and other assets | | (724) | (676) |
| Accounts and other receivables | | 388 | 864 |
| Accounts payable, accrued expenses, and other liabilities | | 1,980 | 3,465 |
| Postretirement healthcare | | 3,012 | 4,220 |
| Net cash used in operating activities | | (10,508) | (12,070) |
| Cash flows from investing activities: | | | |
| Sales of investments | | 375,474 | 536,059 |
| Purchases of investments | | (350,969) | (496,574) |
| Loans and notes issued | | (267) | (223) |
| Loans and notes collected | | 548 | 600 |
| Purchase of property and equipment | | (32,835) | (35,472) |
| Net cash (used in) provided by investing activities | | (8,049) | 4,390 |
| Cash flows from financing activities: | | | |
| Payment of long-term debt obligations | | (2,956) | (2,840) |
| Payment to federal government – Perkins loan program | | (403) | (707) |
| Receipts under annuity liability arrangements | | 156 | 884 |
| Payments to annuitants | | (1,914) | (1,867) |
| Gifts and grants received for capital or endowment | | 20,020 | 13,773 |
| Net cash provided by financing activities | | 14,903 | 9,243 |
| Net (decrease) increase in cash and cash equivalents | | (3,654) | 1,563 |
| Cash and cash equivalents – beginning of year | | 13,092 | 11,529 |
| Cash and cash equivalents – end of year | $ | 9,438 | 13,092 |
| Supplemental disclosure of cash flow information: | | | |
| Gifts of securities | $ | 4,512 | 20,782 |
| Cash paid for interest during the year | | 6,234 | 6,350 |

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 revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

Financial reporting standards require that net assets, revenue, 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.

Revenue from sources other than contributions is 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 revenue 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.

Nonoperating activities include the following:

- Endowment investment income earned in excess of the University's spending policy;
- Gift and grants restricted or designated for capital expenditures or long-term investment (e.g., endowment gifts);
- Split-interest agreements' net investment earnings and other gains or losses primarily related to annuity liabilities determined at net present value;
- Other gains or losses such as sale, exchange, disposal, or retirement of long lived assets (e.g. property and equipment) or long term liabilities (e.g., notes payable):
- Donor modifications of gift restrictions, such as gifts restricted for long-term investment that, by agreement, are then required to be permanently invested;
- Actuarial gains or losses of the postretirement healthcare plan.

### *(b) Fair Value*

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

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

### *(c) Cash and Cash Equivalents*

Cash and cash equivalents include cash on deposit with financial institutions and other highly liquid investments with original 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 expedient to 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.

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.

### *(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.

Property and equipment, at cost includes capitalized interest, when applicable. Interest is capitalized during the period required to ready the asset for its intended use, expenditures for the asset are being paid, and interest costs as incurred.



(Continued)

***(g) 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 revenue is 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 as of June 30, 2018 and 2017 ranged from 1.2% to 7.0%.

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

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

***(i) Debt – Original Issue Premium or Discount***

A premium or discount (including the costs of issuance such as underwriting, bond rating, and legal) resulting from the issuance of long-term debt (typically the difference between the par amount of University Revenue Bonds and similar instruments versus the proceeds received) is amortized to interest expense over the life of the debt instrument using the interest rate method.

***(j) Self-insurance***

The University is primarily self-insured for healthcare fringe benefits of active employees and under age 65 retirees. Certain claims in excess of maximum amounts on a per claim and aggregate claim basis are insured under stop loss policies. The University includes a liability in accounts payable and accrued expenses for unpaid claims and an estimate for claims incurred but not reported.

### *(k) Tax Status*

Bucknell University, recognized by the Internal Revenue Service as a not-for-profit educational institution, qualifies under Section 501(c)(3) of the Internal Revenue Code and thus is exempt from federal income tax on activities related to its exempt purpose. Bison Ventures, Inc., a wholly owned for-profit, taxable subsidiary, operates a bookstore in Lewisburg, Pennsylvania. Bucknell Real Estate, Inc., a title holding company formed for the benefit of Bucknell University, qualifies under Section 501(c)(2) of the Internal Revenue Code and thus is exempt from federal income tax on activities related to its exempt purpose.

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

### *(l) 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, 2017, from which the summarized information was derived.

### *(m) Subsequent Events*

Management has evaluated subsequent events through November 12, 2018, the date the financial statements were issued and identified no matters requiring disclosure.



(Continued)

(In thousands)

## (2) Receivables

### *(a) Accounts, Notes, and Loans Receivable*

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

| | | 2018 | 2017 |
|---|---|---|---|
| Accounts and other receivables: | | | |
| Students | $ | 908 | 872 |
| Other | | 555 | 458 |
| Less allowance for doubtful accounts | | (325) | (325) |
| | | 1,138 | 1,005 |
| Accrued grants/contracts revenue | | 1,680 | 2,276 |
| Total | $ | 2,818 | 3,281 |
| Loans and notes receivable: | | | |
| Student loans | $ | 2,572 | 2,896 |
| Employee loans | | 628 | 510 |
| Less allowance for doubtful accounts | | (238) | (238) |
| Total | $ | 2,962 | 3,168 |

### *(b) Contributions Receivable*

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

| | | 2018 | 2017 |
|---|---|---|---|
| Unconditional promises expected to be collected: | | | |
| One year or less | $ | 16,118 | 12,407 |
| Over one year to five years | | 24,737 | 29,061 |
| Over five years | | 27,747 | 22,460 |
| | | 68,602 | 63,928 |
| Less allowance for uncollectible contributions | | (5,134) | (5,695) |
| Total contributions receivable | $ | 63,468 | 58,233 |

(In thousands)

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

| | | 2018 | 2017 |
|---|---|---|---|
| Temporarily restricted (donor imposed purpose and time restrictions) | $ | 15,695 | 19,631 |
| Permanently restricted (donor endowment funds) | | 47,773 | 38,602 |
| Total contributions receivable | $ | 63,468 | 58,233 |

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, 2018 and 2017 ranged from 1.2% to 6.5%. The discount to present value amounted to approximately $6,941 and $6,722 at June 30, 2018 and 2017, 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:

| | | 2018 | 2017 |
|---|---|---|---|
| U.S. government agency bonds and notes | $ | 3,559 | 1,725 |
| Publicly traded mutual funds | | 218,576 | 216,459 |
| Total fixed-income investments | | 222,135 | 218,184 |
| Publicly traded equity securities and mutual funds | | 159,696 | 157,067 |
| Redeemable alternative funds | | 307,203 | 275,624 |
| Private funds | | 241,921 | 234,443 |
| Total alternative investment funds | | 549,124 | 510,067 |
| Other investments | | 1,150 | 1,155 |
| Total investments | | 932,105 | 886,473 |
| Funds held in trust by others | | 13,772 | 13,051 |
| Total investments and funds held in trust by others | $ | 945,877 | 899,524 |

### *(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 and funds held in trust by others are 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 or published 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.

Level 3: Significant unobservable inputs. This category includes financial instruments whose fair value requires significant management judgment or estimation.

The University's policy is to recognize the transfers in or transfers out of Level 3 (or any other Level) on the date circumstances have changed or the defined event has occurred.

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

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

(In thousands)

The following tables present fair value information at June 30, 2018 and 2017 of the University's investments and funds held in trust by others:

| June 30, 2018 | | Total | Level 1 | Level 2 | Level 3 | Redemption or liquidation |
|---|---|---|---|---|---|---|
| U.S. govt bonds and notes | $ | 3,559 | — | 3,559 | — | Daily (1) |
| Publicly traded mutual funds: | | | | | | |
| U.S. fixed-income | | 205,883 | 205,883 | — | — | Daily (1) |
| International fixed-income | | 12,693 | 12,693 | — | — | Daily (1) |
| Fixed-income investments | | 222,135 | 218,576 | 3,559 | — | |
| Publicly traded equity securities | | 92,084 | 92,084 | — | — | Daily (1) |
| Publicly traded mutual funds | | 47,416 | 47,416 | — | — | Daily (1) |
| Publicly traded index funds | | 20,196 | 20,196 | — | — | Daily (1) |
| Equity investments | | 159,696 | 159,696 | — | — | |
| Private funds -energy | | 13,420 | — | — | 13,420 | Illiquid |
| Other investments | | 1,150 | — | — | 1,150 | Illiquid |
| | | 396,401 | 378,272 | 3,559 | 14,570 | |
| Plus investments recorded at NAV (3) | | 535,704 | | | | |
| Total investments | $ | 932,105 | | | | |
| Funds held in trust by others | $ | 13,772 | — | — | 13,772 | Illiquid (2) |

(In thousands)

| June 30, 2017 | | Total | Level 1 | Level 2 | Level 3 | Redemption or liquidation |
|---|---|---|---|---|---|---|
| U.S. govt bonds and notes | $ | 1,725 | — | 1,725 | — | Daily (1) |
| Publicly traded mutual funds: | | | | | | |
| U.S. fixed-income | | 202,683 | 202,683 | — | — | Daily (1) |
| International fixed-income | | 13,776 | 13,776 | — | — | Daily (1) |
| Fixed-income investments | | 218,184 | 216,459 | 1,725 | — | |
| Publicly traded equity securities | | 80,940 | 80,940 | — | — | Daily (1) |
| Publicly traded mutual funds | | 57,112 | 57,112 | — | — | Daily (1) |
| Publicly traded index funds | | 19,015 | 19,015 | — | — | Daily (1) |
| Equity investments | | 157,067 | 157,067 | — | — | |
| Private funds -energy | | 15,773 | — | — | 15,773 | Illiquid |
| Other investments | | 1,155 | — | — | 1,155 | Illiquid |
| | | 392,179 | 373,526 | 1,725 | 16,928 | |
| Plus investments recorded at NAV (3) | | 494,294 | | | | |
| Total investments | $ | 886,473 | | | | |
| Funds held in trust by others | $ | 13,051 | — | — | 13,051 | Illiquid (2) |

Notes regarding redemption or liquidation on pages 14 and 15:

(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) Funds held in trust by others include $6,891 and $6,634 at June 30, 2018 and 2017, respectively, for which the University irrevocably receives investment income from the trusts and the trust assets are held by others in perpetuity; whereas, $6,881 and $6,417 at June 30, 2018 and 2017, 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.

(3) Investments reported at Net Asset Value (NAV), are excluded from the three-level hierarchy.

(In thousands)

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, 2017 | Acquisitions/ purchases | Sales, redemptions, or distributions | Net appreciation (depreciation) | Transfer into (out of) Level 3 | Balance at June 30, 2018 |
|---|---|---|---|---|---|---|---|
| Investments: | | | | | | | |
| Private equity | $ | 15,773 | — | (2,073) | (280) | — | 13,420 |
| Other investments | | 1,155 | — | (5) | — | — | 1,150 |
| Funds held in trust by others | | 13,051 | — | (250) | 971 | — | 13,772 |

| | | Balance at June 30, 2016 | Acquisitions/ purchases | Sales, redemptions, or distributions | Net appreciation (depreciation) | Transfer into (out of) Level 3 | Balance at June 30, 2017 |
|---|---|---|---|---|---|---|---|
| Investments: | | | | | | | |
| Private equity | $ | — | 426 | (816) | 1,399 | 14,764 | 15,773 |
| Other investments | | 1,142 | — | (13) | 26 | — | 1,155 |
| Funds held in trust by others | | 12,282 | — | (253) | 1,022 | — | 13,051 |

For the year ended June 30, 2017, the University determined certain investments in private equity funds are more appropriately reported as a Level 3 investment rather than at NAV as a practical expedient. The private equity funds do report fair value/NAV information to the University, and, the private equity funds' underlying investments are reported at cost in their audited financial statements and therefore the practical expedient is not available.

*(i) Publicly Traded Mutual Funds and Equity Securities*

The following Level 1 securities have daily quoted prices in active markets:

| | | June 30, 2018 | June 30, 2017 |
|---|---|---|---|
| Publicly traded mutual funds – fixed income: | | | |
| U.S. fixed income | $ | 205,883 | 202,683 |
| International fixed income | | 12,693 | 13,776 |
| Fixed income investments | | 218,576 | 216,459 |
| Publicly traded U.S. equity securities by general industry sector: | | | |
| Consumer related | | 18,900 | 18,296 |
| Information technology | | 25,043 | 21,514 |
| Other sectors | | 48,141 | 41,130 |
| | | 92,084 | 80,940 |

(In thousands)

| | | June 30, 2018 | June 30, 2017 |
|---|---|---|---|
| Publicly traded mutual funds-equities: | | | |
| Domestic equities – by capitalization objective: | | | |
| Large capitalization | $ | 38,458 | 36,834 |
| Small and mid sized capitalization | | 3,488 | 3,343 |
| International equities: | | | |
| Developed markets: | | | |
| Large capitalization | | 2,846 | 2,962 |
| Small and mid sized capitalization | | 1,672 | 1,717 |
| Emerging markets | | 952 | 12,256 |
| | | 47,416 | 57,112 |
| Publicly traded index funds: | | | |
| International equities | | 20,196 | 19,015 |
| | | 20,196 | 19,015 |
| Equity investments | | 159,696 | 157,067 |
| Total – publicly traded securities | $ | 378,272 | 373,526 |

(In thousands)

*(ii) Investments recorded at Net Asset Value (NAV)*

Certain investments are measured at NAV as a practical expedient and are not categorized in the three-level hierarchy. The amounts presented in the table below are intended to provide information, when combined with the three-level hierarchy disclosures, to reconcile investment amounts presented in statement of financial position.

| | June 30, 2018 | June 30, 2017 | Redemption or liquidation | Days' notice | Outstanding commitments at June 30, 2018 |
|---|---|---|---|---|---|
| Redeemable alternative funds: | | | | | |
| Long only equity securities in commingled investment funds | 149,631 | 124,545 | Daily – monthly | 5–30 days | — |
| Multistrategy | 47,719 | 46,149 | Quarterly – Semi-annually | 60 days | — |
| Long/short equity strategy | 30,440 | 33,883 | Quarterly – Semi-annually | 60 days | — |
| Other strategies | 79,413 | 71,047 | Monthly – Annually | 15–45 days | — |
| | 307,203 | 275,624 | | | — |
| Private funds: | | | | | |
| Real estate | 31,118 | 36,321 | Illiquid | n/a | 32,130 |
| Energy | 27,347 | 28,816 | Illiquid | n/a | 12,582 |
| Other | 170,036 | 153,533 | Illiquid | n/a | 120,693 |
| | 228,501 | 218,670 | | | 165,405 |
| Total | $ 535,704 | 494,294 | | | $ 165,405 |

Outstanding commitments at June 30, 2018 total $166,153 (including commitments of $748 to private energy funds classified as Level 3 investments). Remaining commitments at June 30, 2017 were approximately $146,591.

The University has used an estimate of fair value of commingled investment funds and redeemable alternative funds based on the net asset value per share of the respective investment fund consistent with the measurement provisions as described in note 1(d). These investments are redeemable, generally at each month, calendar quarter-end or anniversary date, at net asset value, under the terms of the underlying investment agreements or subscription documents. However, it is possible that these redemption rights may be restricted in the future. At June 30, 2018 and 2017, $5,188 and $6,331, respectively, of certain redeemable alternative 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 (e.g., side pocket investments).



(Continued)

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.

*(iii)* *Redeemable Alternative Funds*

*Long only Equity Securities*

These investments in third party managed commingled investment funds invest in long-only public equity securities. The University can redeem these funds on a monthly or more frequent basis.

*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, 2018 and 2017, certain funds had redemption restrictions or illiquid side pocket investments totaling $3,423 and $4,410, 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, 2018 and 2017, all of these funds were redeemable.

*Other Strategies*

Other strategies' funds invest on both the long and short side in fixed-income arbitrage, master limited partnerships, and securities in the healthcare sector. At June 30, 2018 and 2017, approximately $1,765 and $1,921, respectively, of these funds could not be redeemed because of certain illiquid side pocket investments or the investment manager has restricted the amount of annual redemptions.

*(iv)* *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 10 years.

(In thousands)

*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 10 years.

*Private – Other*

These funds invest primarily in equity or debt securities of U.S. and non-U.S. private corporations in multiple industries and locations and in other private funds (e.g., fund of funds). Approximately $29,330 and $38,387 at June 30, 2018 and 2017, 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.

***(b) Purposes and designations***

The following is a summary of the purpose or designation of investments and funds held in trust by others:

| | | June 30, 2018 | | | June 30, 2017 |
|---|---|---|---|---|---|
| | | Investments | Funds held in trust by others | Total | Total |
| Endowment | $ | 844,418 | 6,891 | 851,309 | 800,765 |
| Split interest | | 25,988 | 6,881 | 32,869 | 32,748 |
| Held for capital project | | 59,083 | — | 59,083 | 58,222 |
| Operations | | 2,616 | — | 2,616 | 7,789 |
| Total | $ | 932,105 | 13,772 | 945,877 | 899,524 |

***(c) 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)

Net investment income (loss) for the years ended June 30, 2018 and 2017 consisted of the following:

| | | 2018 | 2017 |
|---|---|---|---|
| Interest and dividends | $ | 10,615 | 7,252 |
| Net appreciation | | 64,908 | 98,787 |
| Investment expenses | | (2,998) | (2,797) |
| Total investment income | $ | 72,525 | 103,242 |

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

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

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

| | | 2018 | 2017 |
|---|---|---|---|
| Endowment income available for operations | $ | 42,987 | 42,161 |
| Other interest and investment income | | 1,368 | 1,236 |
| Net investment income – operating | | 44,355 | 43,397 |
| Endowment investment income and net appreciation | | 70,725 | 101,088 |
| Endowment income withdrawn for operations | | (42,987) | (42,161) |
| Net endowment income provided | | 27,738 | 58,927 |
| Other gains – principally related to split-interest agreements | | 432 | 918 |
| Net investment income – nonoperating | | 28,170 | 59,845 |
| Total investment income | $ | 72,525 | 103,242 |



(Continued)

### *(d) 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.

### *(e) Interpretation of Relevant Law Regarding Donor Endowments and Spending Policy*

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

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

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

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 2.0% increment over the previous fiscal year spendable amount, the determined amount may be further adjusted to the 2.0% incremental level, but not exceeding 5.5% of the 12-quarter moving average of the fair value of pooled assets. In accordance with this policy, the rate for each of the years ended June 30, 2018 and 2017 was 5.4% of the applicable 12-quarter moving average of the fair value of pooled endowment assets.

(In thousands)

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

Endowment net assets consisted of the following at June 30, 2018 and 2017:

| | | June 30, 2018 | | | |
|---|---|---|---|---|---|
| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor-restricted endowments | $ | (164) | 245,843 | 296,130 | 541,809 |
| Board-designated endowments | | 309,500 | — | — | 309,500 |
| Total endowment net assets | $ | 309,336 | 245,843 | 296,130 | 851,309 |

| | | June 30, 2017 | | | |
|---|---|---|---|---|---|
| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor-restricted endowments | $ | (512) | 226,797 | 273,172 | 499,457 |
| Board-designated endowments | | 301,308 | — | — | 301,308 |
| Total endowment net assets | $ | 300,796 | 226,797 | 273,172 | 800,765 |

Temporarily restricted endowment funds include the following:

| | | June 30, 2018 | June 30, 2017 |
|---|---|---|---|
| Accumulated investment gains on permanently restricted donor endowments | $ | 238,009 | 220,187 |
| Donor endowments (and accumulated gains) thereon that permit, with restrictions, future expenditure | | 7,834 | 6,610 |
| | $ | 245,843 | 226,797 |

(In thousands)

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Endowment net assets, July 1, 2017 | $ | 300,796 | 226,797 | 273,172 | 800,765 |
| Contributions received | | 86 | — | 22,712 | 22,798 |
| Proceeds from expired split-interest agreements | | — | — | 8 | 8 |
| | | 86 | — | 22,720 | 22,806 |
| Investment return: | | | | | |
| Interest and dividends | | 2,704 | 5,022 | — | 7,726 |
| Net appreciation | | 21,969 | 40,792 | 238 | 62,999 |
| | | 24,673 | 45,814 | 238 | 70,725 |
| Withdrawal for operating activities under the University's spending policy | | (16,219) | (26,768) | — | (42,987) |
| Endowment net assets, June 30, 2018 | $ | 309,336 | 245,843 | 296,130 | 851,309 |

(In thousands)

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Endowment net assets, July 1, 2016 | $ | 272,381 | 196,299 | 253,745 | 722,425 |
| Contributions received | | 98 | — | 18,539 | 18,637 |
| Proceeds from expired split-interest agreements | | — | — | 304 | 304 |
| Transfer to board-designated endowment funds | | 472 | — | — | 472 |
| | | 570 | — | 18,843 | 19,413 |
| Investment return: | | | | | |
| Interest and dividends | | 2,246 | 2,876 | — | 5,122 |
| Net appreciation | | 42,098 | 53,284 | 584 | 95,966 |
| | | 44,344 | 56,160 | 584 | 101,088 |
| Withdrawal for operating activities under the University’s spending policy | | (16,499) | (25,662) | — | (42,161) |
| Endowment net assets, June 30, 2017 | $ | 300,796 | 226,797 | 273,172 | 800,765 |

### *(g) 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 $164 and $512 as of June 30, 2018 and 2017, 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.

### *(h) 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 ten-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, real estate, 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. Real estate assets (principally private real estate funds) are expected to provide both current income and capital appreciation. 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 in October 2018, are as follows:

| | **Range** |
|---|---|
| Growth assets | 50%–85% |
| Hybrid assets | 10–50 |
| Real Estate assets | 0–20 |
| Low-volatility assets | 0–20 |

(In thousands)

## (4) Property and Equipment, Net

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

| | | 2018 | 2017 |
|---|---|---|---|
| Land | $ | 5,326 | 5,326 |
| Buildings and improvements | | 495,745 | 465,820 |
| Equipment, furniture, and fixtures | | 148,753 | 139,911 |
| Library books and materials | | 50,216 | 49,992 |
| Construction in progress | | 13,091 | 17,294 |
| | | 713,131 | 678,343 |
| Less accumulated depreciation: | | | |
| Buildings and improvements | | 176,955 | 161,253 |
| Equipment, furniture, and fixtures | | 131,126 | 125,601 |
| Library books and materials | | 47,059 | 45,880 |
| | | 355,140 | 332,734 |
| Property and equipment, net | $ | 357,991 | 345,609 |

## (5) Long-term Debt

The tables below summarize long-term debt obligations as of June 30, 2018 and 2017.

| | June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | | Par outstanding | Unamortized premium (discount) | | Carrying value |
| University Revenue Bonds: | | | | | |
| Series 2002 B | $ | 2,050 | (5) | | 2,045 |
| Series 2012 A | | 26,715 | 2,166 | | 28,881 |
| Series 2013 A | | 10,745 | 616 | | 11,361 |
| Series 2015 A | | 25,000 | (139) | | 24,861 |
| Series 2015 B | | 21,960 | 2,158 | | 24,118 |
| Series 2015 C (taxable) | | 50,000 | (209) | | 49,791 |
| Total University Revenue Bonds outstanding | $ | 136,470 | 4,587 | | 141,057 |
| Notes payable | | | | | 671 |
| Total long-term debt | | | | $ | 141,728 |

(In thousands)

| | June 30, 2017 | | |
|---|---|---|---|
| | **Par outstanding** | **Unamortized premium (discount)** | **Carrying value** |
| University Revenue Bonds: | | | |
| Series 2002 B | $ 2,525 | (8) | 2,517 |
| Series 2010 | 925 | 10 | 935 |
| Series 2012 A | 26,715 | 2,301 | 29,016 |
| Series 2013 A | 12,265 | 929 | 13,194 |
| Series 2015 A | 25,000 | (148) | 24,852 |
| Series 2015 B | 21,960 | 2,415 | 24,375 |
| Series 2015 C (taxable) | 50,000 | (219) | 49,781 |
| Total University Revenue Bonds outstanding | $ 139,390 | 5,280 | 144,670 |
| Notes payable | | | 4,874 |
| Total long-term debt | | | $ 149,544 |

The original premium (discount), which includes debt issuance costs, is amortized to interest expense over the term of the bonds using the interest rate method.

***(a) Bonds Payable***

The University Revenue Bonds, unless otherwise noted as taxable, are subject to Internal Revenue Code requirements to ensure interest paid to bondholders by the University qualifies as interest exempt from federal income tax.

In 2002, the University entered into various agreements with the Union County Higher Educational Facilities Financing Authority (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 (1.52% and 0.93% at June 30, 2018 and 2017, respectively) as determined by the remarketing agent. The Series 2002B bonds are callable at any time in whole or in part by the Authority upon direction of the University.

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

In April 2012, the University entered into various agreements with the Authority that provided for the issuance of University Revenue Bonds, Series 2012A, at a par value of $26,715. The proceeds of the bonds were used for the construction of academic and other facilities as well as improvements to existing facilities.

(In thousands)

Gross proceeds from the issuance of the Series 2012A bonds were $30,000 (including original issue premium of $3,285 and issuance costs of $289). The bonds mature annually beginning on April 1, 2023 with final maturity on April 1, 2042. The outstanding bonds bear interest ranging from 4% to 5%.

In April 2013, the University entered into various agreements with the Authority that provided for the issuance of $14,630 University Revenue Bonds, Series 2013A. Net proceeds were $17,100 (including original issue premium of $2,664 and issuance costs of $194). The proceeds of the bonds were used to redeem the Series 2002A bonds. The outstanding Series 2013A bonds bear interest ranging from 2% to 5% with annual principal payments made on April 1. These bonds mature in various amounts through April 1, 2022 and are not subject to call or early redemption.

In 2015, the University entered into various agreements with the Authority that provided issuance of the following University Revenue Bonds:

| | Interest rates based on par | Par | Original Issue premium (discount) | Proceeds | Principal maturities | |
|---|---|---|---|---|---|---|
| | | | | | **Begin** | **Final** |
| Series 2015 A | 2.9 % | $ 25,000 | (168) | 24,832 | August 2022 | February 2045 |
| Series 2015 B | 3.0%–5.0% | 21,960 | 2,931 | 24,891 | April 2023 | April 2033 |
| Series 2015 C (taxable) | 4.9%–5.0% | 50,000 | (238) | 49,762 | April 2033 | April 2045 |
| | | $ 96,960 | 2,525 | 99,485 | | |

The Series 2015 A, B, C bonds were issued to finance the cost of student housing, academic, and other building construction and renovations.

The Series 2015A bond, issued in January 2015, was purchased by a financial institution and is callable at the purchaser's option, at par, on February 1, 2035.

### *(b) Notes Payable*

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 $671 and $707 at June 30, 2018 and 2017, respectively.

In December 2010, Bucknell Real Estate, Inc. entered into a financing arrangement with a bank and its related community development entities for the acquisition and construction of improvements to several buildings in Lewisburg, Pennsylvania (collectively, the Project). Under the terms of the Project, the University advanced $12,022 and the community development entity loaned $4,167 for the acquisition of the properties and construction of the improvements.

(In thousands)

During 2018, the community development entities opted to unwind, or effectively sell the $4,167 loan to the University for $12 (including closing costs) resulting in a nonoperating gain of $4,155 during the year ended June 30, 2018. At June 30, 2018 and 2017, the carrying amount of the community development loan was $0 and $4,167 respectively.

### *(c) Future Principal Maturities*

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

| | | |
|---|---|---|
| 2019 | $ | 3,407 |
| 2020 | | 3,539 |
| 2021 | | 3,701 |
| 2022 | | 2,829 |
| 2023 | | 3,406 |

### *(d) Line of Credit*

In June 2018 the University renewed its line-of credit arrangement increasing the borrowing limit from $10 million to $20 million. This short-term borrowing facility is renewable annually and carries an interest rate on outstanding borrowings of the one-month London Interbank Offered Rate (approximately 2.10% at June 30, 2018 plus 1.45%). No amounts were borrowed under this facility during the years ended June 30, 2018 and 2017.

## (6) Temporarily Restricted Net Assets

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

| | | 2018 | 2017 |
|---|---|---|---|
| Donor endowments subject to time restrictions (use of investment gains) under Pennsylvania law or donor use restriction | $ | 238,009 | 220,187 |
| Contributions receivable subject to time and/or purpose restrictions | | 15,695 | 19,631 |
| Unexpended donor-restricted funds available for: | | | |
| Scholarship and financial aid | | 9,986 | 13,961 |
| Instruction and academic programs | | 8,999 | 12,126 |
| Capital improvements | | 14,533 | 12,317 |
| Other University activities | | 10,400 | 11,929 |
| Total temporarily restricted net assets | $ | 297,622 | 290,151 |

(In thousands)

## (7) Permanently Restricted Net Assets

Permanently restricted net assets are donor restricted funds to be held in perpetuity and invested to benefit the following activities:

| | | 2018 | 2017 |
|---|---|---|---|
| Donor-contributed principal: | | | |
| Scholarship and financial aid | $ | 203,364 | 188,905 |
| Instruction and academic programs | | 76,990 | 76,014 |
| Library and related services | | 7,740 | 7,738 |
| Other university activities | | 64,429 | 47,138 |
| Total permanently restricted net assets | $ | 352,523 | 319,795 |

Permanently restricted net assets are principally donor endowment funds as illustrated below:

| | | 2018 | 2017 |
|---|---|---|---|
| Donor endowment funds-contributed value | $ | 296,130 | 273,172 |
| Contributions receivable with endowment restrictions | | 47,773 | 38,602 |
| Split interest and other donor funds | | 8,620 | 8,021 |
| | $ | 352,523 | 319,795 |

## (8) Defined-Contribution Retirement Plan

Retirement benefits for faculty and staff provided under the University's defined contribution retirement program are administered by TIAA-CREF. The University's policy is to pay its share of contributions (which are 10% of eligible salaries and wages) to the plan each month; there are no unfunded benefits. University contributions to the plan were $8,927 and $8,579 for the years ended June 30, 2018 and 2017, respectively.

## (9) Postretirement Healthcare Benefits

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

(In thousands)

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:

| | | 2018 | 2017 |
|---|---|---|---|
| Change in benefit obligation during the year: | | | |
| Benefit obligation at beginning of year | $ | 77,075 | 80,083 |
| Service cost | | 3,788 | 3,804 |
| Interest cost | | 2,766 | 2,630 |
| Benefit payments | | (3,451) | (2,824) |
| Actuarial gain | | (11,911) | (6,618) |
| Benefit obligation at end of year | $ | 68,267 | 77,075 |
| Change in plan assets during year: | | | |
| Fair value of plan assets at beginning of year | $ | — | — |
| Employer contributions | | 3,451 | 2,824 |
| Benefit payments | | (3,451) | (2,824) |
| Fair value of plan assets at end of year | $ | — | — |

| | | 2018 | 2017 |
|---|---|---|---|
| Net periodic benefit cost recognized for year: | | | |
| Service cost | $ | 3,788 | 3,804 |
| Interest cost | | 2,766 | 2,630 |
| Amortization of prior service costs | | (187) | (187) |
| Amortization of net loss | | 96 | 797 |
| Net periodic benefit cost reported as operating expense | $ | 6,463 | 7,044 |
| Effect of a 1% increase in medical cost trend rate: | | | |
| Change in total of service cost and interest cost | $ | 1,165 | 1,100 |
| Change in benefit obligation | | 9,258 | 9,358 |
| Effect of a 1% decrease in medical cost trend rate: | | | |
| Change in total of service cost and interest cost | $ | (764) | (805) |
| Change in benefit obligation | | (6,451) | (7,222) |
| Weighted average assumptions for year: | | | |
| Discount rate | | 3.66 % | 3.34 % |
| Initial healthcare cost trend rate | | 7.50 | 8.00 |
| Ultimate healthcare cost trend rate | | 5.00 | 5.00 |
| Years remaining to attain ultimate healthcare cost trend rate | | 6 | 7 |
| Weighted average assumptions at end of year: | | | |
| Discount rate | | 4.03 % | 3.66 % |
| Initial healthcare cost trend rate | | 7.00 | 7.50 |
| Ultimate healthcare cost trend rate | | 5.00 | 5.00 |
| Years remaining to attain ultimate healthcare cost trend rate | | 5 | 6 |
| Measurement date | | June 30 | June 30 |
| Mortality table | | RP-2014 Scale MP-2017 | RP-2014 Scale MP-2016 |

(In thousands)

Expected cash outflow information for fiscal years ending after June 30, 2018:

| | | |
|---|---|---|
| Year ending June 30: | | |
| 2019 | $ | 2,851 |
| 2020 | | 3,054 |
| 2021 | | 3,237 |
| 2022 | | 3,378 |
| 2023 | | 3,521 |
| 2024–2028 | | 21,141 |

Additionally, the following items were recognized during the years ended June 30, 2018 and 2017 and are presented in the consolidated statement of activities as nonoperating activities:

| | | 2018 | 2017 |
|---|---|---|---|
| Nonoperating activities include: | | | |
| Change in unrecognized prior service credits | $ | (187) | (187) |
| Net actuarial gain during the year | | 11,911 | 6,618 |
| Amortization of actuarial loss | | 96 | 797 |
| Total nonoperating gain activities related to retiree healthcare | $ | 11,820 | 7,228 |

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

| | | June 30 | |
|---|---|---|---|
| | | 2018 | 2017 |
| Unrecognized prior service credits | $ | — | 187 |
| Unrecognized actuarial gain (loss) | | 3,436 | (8,571) |
| | $ | 3,436 | (8,384) |

No actuarial gain or loss requires amortization during the year ending June 30, 2019.

(In thousands)

## (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 $1,422 and $1,369 at June 30, 2018 and 2017, respectively. No guaranteed mortgages were in default as of June 30, 2018 and 2017.

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 future payments under construction and similar agreements of approximately $31,163 at June 30, 2018.

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, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Compensation and benefits | $ | 148,828 | 142,750 |
| Purchased services and supplies | | 58,453 | 57,000 |
| Utilities and fuel | | 5,745 | 5,503 |
| Depreciation | | 22,713 | 21,177 |
| Interest | | 5,514 | 5,403 |
| Total operating expenses | $ | 241,253 | 231,833 |

### *(a) Fund-Raising*

Fund-raising expenses totaled $8,060 and $8,955 for the years ended June 30, 2018 and 2017, respectively. 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.



(Continued)

***(b) Related-Party Transactions***

A member of the University's Board of Trustees is the chief operating officer of a healthcare system providing certain health insurance services and other health care services to the University. In addition the President of the University and another member of the University's Board of Trustees serve on the healthcare organization's board of directors, with the President serving as chair of that board.

Amounts paid to the healthcare organization and its affiliates for these services totaled $3,067 and $3,213 for the years ended June 30, 2018 and 2017, respectively.

Also, the University and the healthcare system engage in certain programs whereby the University's faculty, staff and students, with the healthcare system's physicians and researchers, participate in academic and research endeavors consistent with the University's mission.