

**SUSQUEHANNA UNIVERSITY**

Selinsgrove, Pennsylvania

FINANCIAL STATEMENTS

Including Independent Auditors' Report

June 30, 2008 and 2007

# SUSQUEHANNA UNIVERSITY

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Susquehanna University  
Selinsgrove, Pennsylvania

We have audited the accompanying statements of financial position of Susquehanna University (the University) as of June 30, 2008 and 2007 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Susquehanna University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Virchow, Krause + Company, LLP*

Madison, Wisconsin  
October 14, 2008

# SUSQUEHANNA UNIVERSITY

## STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,930,806	\$ 7,475,023
Contributions receivable, net	10,378,989	10,181,480
Accounts receivable, net	1,305,743	1,305,446
Inventories and prepaid expenses	1,091,877	1,055,553
Student loans receivable, net	3,386,140	3,001,708
Investments	153,393,795	161,986,695
Deposits with trustees under debt agreements	2,744,740	11,014,109
Funds held in trust by others	3,132,644	3,251,690
Other assets	2,022,854	1,835,118
Property, plant, and equipment, net	87,574,965	80,148,523
Total assets	<u>\$ 276,962,553</u>	<u>\$ 281,255,345</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and other accrued expenses	\$ 8,555,854	\$ 6,254,586
Student deposits and other liabilities	3,485,477	3,764,361
Annuities payable	1,444,483	1,446,791
Long-term debt	44,138,008	45,090,980
U.S. government advances refundable	1,858,370	2,153,658
Funds held in custody for others	1,448,859	1,369,183
Total liabilities	<u>60,931,051</u>	<u>60,079,559</u>
Net assets:		
Unrestricted	110,295,116	110,300,586
Temporarily restricted	52,028,538	59,273,692
Permanently restricted	53,707,848	51,601,508
Total net assets	<u>216,031,502</u>	<u>221,175,786</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 276,962,553</u>	<u>\$ 281,255,345</u>

See accompanying notes to financial statements.

**SUSQUEHANNA UNIVERSITY**

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2008  
(with comparative June 30, 2007 totals)

	2008			2007 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>OPERATING REVENUES AND OTHER ADDITIONS</b>				
Tuition and fees	\$ 58,675,389	\$ -	\$ -	\$ 58,675,389
Less: Scholarships and grants	(22,838,156)	-	-	(20,526,144)
Net tuition and fees	35,837,233	-	-	32,785,813
Government grants	1,796,152	-	-	1,618,393
Private gifts and grants	1,962,597	1,119,867	-	2,521,594
Endowment income	4,482,273	13,580	-	4,060,999
Investment income	1,953,357	-	-	3,139,486
Other sources	1,185,864	-	-	887,583
Auxiliary enterprises	12,596,681	-	-	11,357,945
Net assets released from restrictions	1,026,389	(1,026,389)	-	-
Total Operating Revenues and Other Additions	60,840,546	107,058	-	56,371,813
<b>OPERATING EXPENSES</b>				
Program expenses				
Instruction	20,458,983	-	-	19,071,263
Research	192,412	-	-	273,931
Public service	463,889	-	-	436,827
Academic support	4,503,842	-	-	3,879,347
Student services	12,709,929	-	-	11,517,382
Auxiliary enterprises	10,569,253	-	-	10,100,102
Support expenses				
Institutional support	10,250,535	-	-	9,405,144
Total Operating Expenses	59,148,843	-	-	54,683,996
<b>Change in Net Assets from Operating Activities</b>	1,691,703	107,058	-	1,687,817
<b>NONOPERATING ACTIVITIES</b>				
Investment return, net of spending policy	(2,876,784)	(8,771,060)	-	17,033,786
Change in split interest and other agreements		(3,330)	(551,940)	78,259
Gifts-endowment and other	791,323	1,810,466	2,658,280	3,317,995
Net assets released from restrictions	388,288	(388,288)	-	-
Total Nonoperating Expenses	(1,697,173)	(7,352,212)	2,106,340	20,430,040
<b>Change in Net Assets</b>	(5,470)	(7,245,154)	2,106,340	22,117,857
NET ASSETS - Beginning of Year	110,300,586	59,273,692	51,601,508	199,057,929
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 110,295,116</u>	<u>\$ 52,028,538</u>	<u>\$ 53,707,848</u>	<u>\$ 221,175,786</u>

See accompanying notes to financial statements.

# SUSQUEHANNA UNIVERSITY

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES AND OTHER ADDITIONS</b>				
Tuition and fees	\$ 53,311,957	\$ -	\$ -	\$ 53,311,957
Less: Scholarships and grants	(20,526,144)	-	-	(20,526,144)
Net tuition and fees	32,785,813	-	-	32,785,813
Government grants	1,618,393	-	-	1,618,393
Private gifts and grants	1,384,233	1,137,361	-	2,521,594
Endowment income	4,048,433	12,566	-	4,060,999
Investment income	3,139,486	-	-	3,139,486
Other sources	887,583	-	-	887,583
Auxiliary enterprises	11,357,945	-	-	11,357,945
Net assets released from restrictions	668,183	(668,183)	-	-
Total Operating Revenues and Other Additions	55,890,069	481,744	-	56,371,813
<b>OPERATING EXPENSES</b>				
Program expenses				
Instruction	19,071,263	-	-	19,071,263
Research	273,931	-	-	273,931
Public service	436,827	-	-	436,827
Academic support	3,879,347	-	-	3,879,347
Student services	11,517,382	-	-	11,517,382
Auxiliary enterprises	10,100,102	-	-	10,100,102
Support expenses				
Institutional support	9,405,144	-	-	9,405,144
Total Operating Expenses	54,683,996	-	-	54,683,996
<b>Change in Net Assets from Operating Activities</b>	1,206,073	481,744	-	1,687,817
<b>NONOPERATING ACTIVITIES</b>				
Investment return, net of spending policy	4,273,585	12,760,201	-	17,033,786
Change in split interest and other agreements	-	(20,818)	99,077	78,259
Gifts-endowment and other	824,746	1,080,090	1,413,159	3,317,995
Net assets released from restrictions	276,718	(276,718)	-	-
Total Nonoperating Expenses	5,375,049	13,542,755	1,512,236	20,430,040
<b>Change in Net Assets</b>	6,581,122	14,024,499	1,512,236	22,117,857
NET ASSETS - Beginning of Year	103,719,464	45,249,193	50,089,272	199,057,929
<b>NET ASSETS - END OF YEAR</b>	\$ 110,300,586	\$ 59,273,692	\$ 51,601,508	\$ 221,175,786

See accompanying notes to financial statements.

# SUSQUEHANNA UNIVERSITY

## STATEMENTS OF CASH FLOWS Years Ended June 30, 2008 and 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (5,144,284)	\$ 22,117,857
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	6,325,606	5,819,702
Net realized and unrealized losses (gains) on investments	10,183,167	(18,620,526)
Contributions restricted for endowment and plant projects	(4,226,702)	(2,506,579)
Actuarial adjustment on annuities payable	56,392	271,086
Change in asset retirement obligation	59,890	2,450
(Increases) decreases in:		
Contributions receivable	(743,426)	(349,850)
Accounts receivable	(297)	(413,848)
Inventories and prepaid expenses	(36,324)	(12,546)
Funds held in trust by others	119,046	(117,541)
Other assets	(231,615)	(98,562)
Increases (decreases) in:		
Accounts payable and other accrued liabilities	774,570	1,272,179
Student deposits and other liabilities	(278,884)	(277,433)
Funds held in custody for others	79,676	70,002
Net Cash Flows from Operating Activities	6,936,815	7,156,391
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(12,224,333)	(9,376,255)
Purchases of investments	(37,746,695)	(62,874,548)
Proceeds from sales of investments	36,156,428	56,400,961
Disbursements of loans to students	(753,061)	(743,031)
Repayments of loans by students	368,629	665,670
Decrease in deposits with trustees	8,269,369	3,281,298
Net Cash Flows from Investing Activities	(5,929,663)	(12,645,905)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal repayments of indebtedness	(970,000)	(895,000)
Contributions received for endowment and plant projects	4,772,619	2,338,963
Proceeds from issuance of split interest agreements	231,468	110,221
Increase (decrease) in U.S. government grants refundable, net	(295,288)	(39,173)
Payments to annuitants	(290,168)	(333,350)
Net Cash Flows from Financing Activities	3,448,631	1,181,661
<b>Net Change in Cash and Cash Equivalents</b>	4,455,783	(4,307,853)
CASH AND CASH EQUIVALENTS - Beginning of Year	7,475,023	11,782,876
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 11,930,806	\$ 7,475,023
 Supplemental disclosure of cash flow information		
Cash paid during the year for interest on long-term debt	\$ 1,943,728	\$ 1,732,395
Noncash investing and financing activities		
Property, plant and equipment acquired through accounts payable	2,625,203	1,098,505

See accompanying notes to financial statements.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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Susquehanna University (the University) is a national liberal arts college currently enrolling approximately 2,000 full-time students. Founded in 1858, the University grants bachelor of arts, bachelor of music and bachelor of science degrees. The University's mission is to educate undergraduate students for productive, creative and reflective lives of achievement, leadership and service in a diverse and interconnected world. The University accomplishes this mission by offering students strong liberal arts and sciences programs, enhanced by equally strong professional programs. The accounting policies of the University reflect practices common to universities and colleges and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

**General** - The University maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets - permanently restricted, temporarily restricted and unrestricted, as follows:

**Permanently Restricted Net Assets** - 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 income earned on related investments for general or specific purposes.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time.

Commonwealth of Pennsylvania law permits the University to allocate a maximum of 7% of a three-year moving average of the market value of the endowed assets to income. Since donor endowment net realized and unrealized gains may be spent by the University, such gains are recorded on the financial statements as temporarily restricted net assets until transferred to unrestricted net assets. The University only transfers to unrestricted net assets endowment income and gains required to annually fund its spending policy as described in Note 4.

**Unrestricted Net Assets** - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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Income and net gains on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or if such income and gains are in excess of the University's spending rate;
- as increases in unrestricted net assets based on the spending policy as described in Note 4.

Losses from investments on permanently restricted endowment funds are reported as reductions in temporarily restricted assets to the extent of prior accumulated earnings reported as such, if any, with the remaining net losses reported as reductions in the unrestricted quasi-endowment funds.

Non-operating activities reflect transactions affecting the net assets associated with endowment and capital campaign contributions, gains or losses on investments, change in value of split interest agreements, and other activities of a nonoperating nature.

**Temporarily Restricted Net Assets** - With respect to temporarily restricted net assets, the University has adopted the following accounting policies:

**Reporting as Temporarily Restricted Revenues** - Contributions received with donor-imposed restrictions that are met in the same year are reported as revenues of the unrestricted net asset class.

**Release of Restrictions on Net Assets for Acquisition of Plant and Equipment** - The University reports contributions of plant and equipment as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets when the related assets are placed into service.

**Cash Equivalents** - The University considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents.

**Contributions** - Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of the fund raising activity.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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**Receivables** - Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts and loans receivable are written-off when deemed uncollectible. Recoveries of student accounts and loans receivable previously written-off are recorded when received. Receivables are generally unsecured. Accounts receivable are presented in the June 30, 2008 and 2007 statements of financial position net of allowances for doubtful accounts of approximately \$101,000 and \$152,000, respectively.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on Perkins student loans receivable and is recognized as it is charged. Perkins student loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

**Inventories** - Inventories consist of office and maintenance supplies, coal, fuel oil, and gasoline. Coal, fuel oil, and gasoline are valued at market value. All other inventories are valued at cost, determined on a first-in, first-out basis.

**Student Loans Receivable** - Loans receivable consist principally of the federal Perkins Loan Program and institutional revolving loan funds. Loans receivable are presented in the June 30, 2008 and 2007 statements of financial position net of allowances for doubtful loans of approximately \$174,000 and \$170,000, respectively.

**Other Assets** - Other assets primarily include works of art received by the University, bond issuance costs, and cash surrender value of University owned life insurance policies. Unamortized bond issuance costs totaled approximately \$597,000 and \$641,000 at June 30, 2008 and 2007, respectively. Bond issuance costs are amortized over the life of the related bond issue. Amortization expense was approximately \$44,000 and \$39,000 for the years ended June 30, 2008 and 2007, respectively. Works of art totaled approximately \$881,000 and \$692,000 for the years ended June 30, 2008 and 2007, respectively. These assets have been recorded at fair value at the time of the donation. Cash surrender value of donated life insurance was approximately \$350,000 and \$403,000 at June 30, 2008 and 2007, respectively. The University is both the owner and beneficiary of these policies.

**Deposits With Trustees Under Debt Agreements** - Deposits with trustees under debt agreements represent debt service and other funds held by third-party trustees as required by various debt agreements. These funds are generally invested in short-term securities and will be used for debt service, capital projects, and/or repair and replacement of specific University debt-financed properties.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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**Property, Plant, and Equipment** - Property, plant, and equipment are stated at cost at date of acquisition or fair value at date of donation. Significant improvements are capitalized while routine maintenance, repairs, and minor renewals are expensed as incurred. The University depreciates its assets on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years. The University capitalizes equipment additions of \$3,000 or more.

**Annuity Agreements and Funds Held in Trust by Others** - The University's annuity agreements with donors consist primarily of charitable remainder trusts and annuity agreements for which the University serves as trustee. Assets held in these trusts, recorded at fair value, are included in investments. These assets amounted to \$1,606,691 and \$2,148,548 at June 30, 2008 and 2007, respectively. 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 assumptions used in determining the liabilities include the annuitants' life expectancies and discount rates ranging from 4% to 6.2%. Adjustments to annuities payable are included in nonoperating activities on the statements of activities.

The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Generally, the present values of the estimated future cash receipts approximate the University's share of the fair value of the underlying investments of the trusts held by others. Distributions from the trusts are recorded as investment income and the carrying value of funds held in trust by others is adjusted for changes in the fair value of trusts. Distributions received from funds held in trust by others were approximately \$89,000 and \$88,000 for the years ended June 30, 2008 and 2007, respectively.

**U.S. Government Grants Refundable** - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be relaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position.

**Grants to Specified Students** - Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University. The amounts of such grants at June 30 were as follows:

	<u>2008</u>	<u>2007</u>
State grants	\$ 1,778,000	\$ 1,786,237
Federal grants	1,068,904	923,844

**Income Tax Status** - The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The University is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

**Advertising Expenses** - Advertising costs are expensed when incurred.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** - Certain amounts appearing in the 2007 financial statements have been reclassified to conform with 2008 presentation. The reclassifications have no effect on reported amounts of total net assets or the change in total net assets.

**Asset Retirement Obligations** - Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets.

The estimate of the losses that are probable from environmental remediation liabilities for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation. It is reasonably possible that changes in this estimate could occur and that actual results could differ from this estimate and could have a significant effect on the financial statements.

**Fair Value of Financial Instruments** - The University records financial instruments at cost, with the exception of investments which are reflected in the financial statements at market value and those items received as gifts which are valued at fair value at the date of gift. The carrying amounts of cash and cash equivalents, accounts receivable, amounts held for others, accounts payable and accrued liabilities, student deposits and other liabilities approximate fair value because of the short maturity of these financial instruments. The carrying amounts of contributions receivable and funds held in trust are recorded using appropriate discount rates.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U. S. Government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the present value discount included in the carrying amount. The fair value of long term debt instruments at June 30, 2008 was approximately \$43,788,000. This estimate is based on discounted cash flows at rates currently available for similar debt instruments of comparable maturities.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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Investments in securities traded on national or international securities exchanges are carried at fair value based on values provided by external investment managers or quoted market values. Investments in private equity funds and real estate funds consist primarily of investments that are not readily marketable. Investments in these categories, which are managed externally, are valued utilizing the most current information provided by the general partner or investment manager. These valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. Where applicable, independent appraisers are utilized to assist in the valuation. These values are determined under the direction of, and subject to approval by, management and the investment committee of the University.

The preparation of financial statements requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The accounting policies considered potentially significant in this respect are the valuation of private equity funds and real estate funds. Values for the nonmarketable equity interests are often estimated using techniques such as discounted cash flow analysis and comparisons to similar instruments. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a significant effect on the fair value of the instruments. It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates.

***New Accounting Pronouncements*** - In February 2007, the FASB issued Statement on Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*, which provides all entities with an option to report selected financial assets and liabilities at fair value. Certain specified items are eligible for the irrevocable fair value measurement option as established by SFAS 159. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The University is currently evaluating the impact that the adoption of this Statement will have on its financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement on Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, however in February 2008, the FASB issued FASB Staff Position SFAS 157-2 which deferred the effective date of certain provisions of SFAS 157 until fiscal years beginning after November 15, 2008. The University has not yet completed its analysis of the effects of this interpretation and has not determined if the adoption of SFAS 157 will have a material impact on the financial statements.

In August 2008, the FASB issued FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures*. The FSP provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. FSP 117-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The University is currently evaluating the impact that the adoption of this Statement will have on its net assets.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### NOTE 2 – RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

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At June 30, 2008 and 2007, the University's unrestricted net assets were allocated as follows:

	<u>2008</u>	<u>2007</u>
Investment in plant	\$ 46,181,697	\$ 46,071,652
Quasi-endowment	26,884,491	29,669,174
Reserves and operating funds	<u>37,228,928</u>	<u>34,559,760</u>
	<u>\$ 110,295,116</u>	<u>\$ 110,300,586</u>

Temporarily restricted net assets consist of the following at June 30, 2008 and 2007:

Net investment gains on donor endowments restricted for future periods, scholarship and educational	\$ 38,498,358	\$ 47,202,675
Contributions receivable restricted for future periods:		
Capital purposes	5,374,728	3,556,775
Other	3,489,903	5,094,328
Donor purpose restrictions - fixed assets	4,221,150	2,848,286
Other donor purpose and time restrictions	<u>444,399</u>	<u>571,628</u>
	<u>\$ 52,028,538</u>	<u>\$ 59,273,692</u>

Permanently restricted net assets consist of the following at June 30, 2008 and 2007:

Endowment funds	\$ 50,832,174	\$ 48,962,272
Student loan funds	689,565	688,065
Donor contributions and annuities for endowments	<u>2,186,109</u>	<u>1,951,171</u>
	<u>\$ 53,707,848</u>	<u>\$ 51,601,508</u>

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### NOTE 3 – CONTRIBUTIONS RECEIVABLE

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Contributions receivable include the following unconditional promises to give at June 30:

	<u>2008</u>	<u>2007</u>
Temporarily restricted - operations	\$ 4,164,157	\$ 6,086,783
Temporarily restricted - plant projects	6,798,884	4,650,492
Permanently restricted - endowment	<u>1,737,120</u>	<u>1,776,659</u>
Gross unconditional promises to give	12,700,161	12,513,934
Less: Unamortized discount	(1,608,384)	(1,629,129)
Allowance for uncollectible promises	<u>(712,788)</u>	<u>(703,325)</u>
	<u>\$ 10,378,989</u>	<u>\$ 10,181,480</u>

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

### NOTE 3 – CONTRIBUTIONS RECEIVABLE (cont.)

Contributions receivable as of June 30, 2008 of \$3,146,718 are expected to be collected in less than one year, \$7,937,750 in one to five years, and \$1,615,693 in more than five years. Contributions receivable have been discounted using a rate ranging from 2.75% to 5.75%. Contributions receivable at June 30, 2008 and 2007 from related parties were \$2,446,853 and \$2,540,586, respectively.

### NOTE 4 – INVESTMENTS

A summary of investments, at market value, as of June 30, 2008 follows:

	Endowment	Other	Total
Short term investments	\$ 1,235,460	\$ 37,021,130	\$ 38,256,590
Fixed income	1,829,242	696,040	2,525,282
Equity funds and common stocks	96,449,828	927,195	97,377,023
Real Estate	15,234,900	-	15,234,900
 Total investments	 114,749,430	 \$ 38,644,365	 \$ 153,393,795
 Accrued investment income	 51,618		
Funds held in trust by others	3,132,644		
Cash due from operating fund	675,622		
 Total endowment market value	 \$ 118,609,314		

A summary of investments, at market value, as of June 30, 2007 follows:

	Endowment	Other	Total
Short term investments	\$ 1,444,328	\$ 35,747,790	\$ 37,192,118
Fixed income	1,872,497	721,807	2,594,304
Equity funds and common stocks	106,860,225	1,104,653	107,964,878
Real Estate	14,235,395	-	14,235,395
 Total investments	 124,412,445	 \$ 37,574,250	 \$ 161,986,695
 Accrued investment income	 27,416		
Funds held in trust by others	3,251,690		
Cash due from operating fund	215,281		
 Total endowment market value	 \$ 127,906,831		

Included in equity funds and common stocks are alternative investments in private equity funds of \$1,451,246 and \$1,515,753 at June 30, 2008 and June 30, 2007, respectively. The amount of investment income and realized and unrealized gains and losses from these investments totaled \$275,166 and \$384,745 for the years ended June 30, 2008 and 2007, respectively, and are included in the following gains (losses) on investments.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### NOTE 4 – INVESTMENTS (cont.)

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Assets of endowment funds (both true and quasi endowment), except those separately invested by donor request, are pooled on a market value basis. The University's spending policy regarding endowment income allows for spending from endowment of 4.5% of a three year moving average of the market value of endowment fund investments calculated as of September 30th for the next fiscal year.

Alternative investments include private equity funds and real estate funds that are not readily marketable. The alternative investments were entered into to diversify the University's portfolio, to provide predictability in overall earnings and to provide market neutral holdings. The University's management, the investment committee of the Board of Trustees and the University's external investment consultants review reports provided by the general partners and fund managers, and the University's external investment consultants attend meetings of the various general partners and fund managers in order to evaluate the risk associated with these investments. In addition, the University monitors its portfolio mix to ensure that it is in accordance with Board policy.

Operating revenue includes as endowment income unrestricted investment gains from the endowment fund required to fund the spending policy mentioned above. The table below details the comparison of operating endowment income for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Dividends and interest, net	\$ 3,031,176	\$ 2,474,260
Cumulative gains used to fund spending policy	<u>1,464,677</u>	<u>1,586,739</u>
Endowment Income	<u>\$ 4,495,853</u>	<u>\$ 4,060,999</u>

The components of total investment income return for the years ended June 30, 2008 and 2007 are reflected below:

Dividends and interest, net	\$ 4,984,533	\$ 5,613,745
Net realized and unrealized gains (losses)	<u>(10,183,167)</u>	<u>18,620,526</u>
Total	<u>\$ (5,198,634)</u>	<u>\$ 24,234,271</u>

Investment income is shown net of investment fees of approximately \$954,000 and \$841,000 for the years ended June 30, 2008 and 2007, respectively.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### NOTE 4 – INVESTMENTS (cont.)

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Investment returns, as reflected in the statements of activities, consist of the following components at June 30:

	<u>2008</u>	<u>2007</u>
Operating:		
Endowment spending distribution	\$ 4,495,853	\$ 4,060,999
Other investment earnings	<u>1,953,357</u>	<u>3,139,486</u>
Total operating	6,449,210	7,200,485
Nonoperating:		
Net realized and unrealized gains (losses) in excess of spending policy	<u>(11,647,844)</u>	<u>17,033,786</u>
Total investment return	<u>\$ (5,198,634)</u>	<u>\$ 24,234,271</u>

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### NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

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At June 30, 2008 and 2007 property, plant and equipment consisted of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 2,068,250	\$ 2,068,250
Improvements other than buildings	9,924,972	9,857,032
Buildings and improvements	107,407,616	98,847,008
Equipment and furnishings	17,738,480	16,173,028
Vehicles	1,118,366	1,081,190
Library materials	7,110,666	6,857,125
Construction in progress	<u>8,542,980</u>	<u>5,398,151</u>
	153,911,330	140,281,784
Less: Accumulated depreciation	<u>(66,336,365)</u>	<u>(60,133,261)</u>
	<u>\$ 87,574,965</u>	<u>\$ 80,148,523</u>

Depreciation expense totaled \$6,264,699 and \$5,762,631 for the years ended June 30, 2008 and 2007, respectively.

Construction in progress includes construction of the second phase of West Village, design costs associated with the construction of a new Science Building, campus-wide installation of a fire protection and detection system, a greenhouse, renovations to Fisher Hall, and costs related to the redesign of the University's web page. The University has outstanding commitments related to these projects of approximately \$6,800,000 at June 30, 2008.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### NOTE 6 – RETIREMENT PLANS

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For eligible employees, the University makes defined contributions to a national teachers' retirement plan which is administered by an independent organization. Total pension expense related to this plan amounted to approximately \$1,820,000 and \$1,596,000 for the year ended June 30, 2008 and 2007, respectively.

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### NOTE 7 – FUND RAISING EXPENSES

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University Relations has primary responsibilities to raise endowment, capital, and operating funds from the University's supporters. Fund raising expenses of approximately \$2,414,000 and \$2,580,000 were incurred for the years ended June 30, 2008 and 2007, respectively.

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### NOTE 8 – RELATED PARTIES

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The University has entered into a number of transactions with organizations with which members of the Board of Trustees or management have relationships. The transactions include legal services, physician services, and the management of a portion of the investment portfolio.

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### NOTE 9 – LONG-TERM DEBT

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Long-term debt at June 30 consisted of the following:

	<u>2008</u>	<u>2007</u>
Housing-Dining-Student Center Bonds 1963/64	\$ 318,000	\$ 368,000
SCHEA University Revenue Bonds 1999 (net of bond discount of \$102,535 and \$120,716, respectively)	7,242,465	7,769,284
PHEFA 2001	5,300,000	5,400,000
SCHEA University Revenue Bonds 2006 (including bond premium of \$22,543 and \$23,697, respectively)	<u>31,277,543</u>	<u>31,553,696</u>
	<u>\$ 44,138,008</u>	<u>\$ 45,090,980</u>

The Housing Dining Student Center Bonds bearing interest of 3% to 3.625%, require future annual debt service payments ranging from approximately \$32,000 to \$68,000 with final payment due in 2014.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### NOTE 9 – LONG-TERM DEBT (cont.)

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During the fiscal year ended June 30, 1999, the University borrowed \$23,000,000 through the issuance of tax exempt revenue bonds through the Snyder County Higher Education Authority (SCHEA). A portion of the proceeds from this bond issuance was used to refund previously issued bonds. The remainder of the proceeds was used for the renovation and expansion of residence halls, construction of a sports and fitness facility, other capital projects on the University's campus, and to pay bond issuance costs. The bonds mature in various amounts through 2018 and bear interest ranging from 3.5% to 5%. The bonds require future annual debt service payments ranging from approximately \$905,000 to \$975,000. SCHEA has an unsecured interest in the University's unrestricted net revenues.

Amortization of the SCHEA bond discount was approximately \$18,000 and \$19,000 for the years ended June 30, 2008 and 2007, respectively. The bond discount is amortized over the life of the bonds using the interest rate method.

During the fiscal year ended June 30, 2001, the University borrowed \$6,000,000 by issuing tax exempt bonds through the Pennsylvania Higher Educational Facilities Authority (PHEFA). The debt proceeds were used for various construction and renovation projects. In 2003, the University fixed the rate on the bonds, and the bonds carried a fixed rate of 2.55% for a period of three years ending in May of 2007. At that time, the bonds reverted to a variable rate. At June 30, 2008, the rate was 3.75%. The bonds require future annual debt service payments ranging from \$288,000 to \$430,000 with final maturity in 2031.

During the fiscal year ended June 30, 2006, the University borrowed \$31,755,000 through the issuance of tax exempt revenue bonds through SCHEA. Proceeds from this bond issuance were used to refund previously issued bonds (SCHEA 1998), construct a student activity center, and renovate the Degenstein Campus Center. The remainder of the proceeds are to be used for the renovation and expansion of residence halls, the renovation and replacement of the University's central heating and distribution system, and the acquisition or construction of an academic building (including furnishings and equipment), as well as to pay bond issuance costs. Unexpended bond proceeds were \$1,252,222 at June 30, 2008. The bonds mature in various amounts through 2035 and bear interest ranging from 3.375% to 5%. The bonds require future annual debt service payments ranging from approximately \$1,613,000 to \$2,625,000. SCHEA has an unsecured interest in the University's unrestricted net revenues.

Pursuant to the bond agreements and bond insurance agreements, various funds are held in reserve by the debt issuer and are classified as deposits with trustees under debt agreements. These reserves totaled \$2,744,740 at June 30, 2008 and \$11,014,109 at June 30, 2007. Covenants related to debt require the University to maintain expendable funds of at least 100% of long term indebtedness, maximum annual debt service of no more than 15% of unrestricted revenue, and income available for debt service equal to the annual debt service requirement. For additional indebtedness, the University must provide income available for debt service, as defined in a Bond Issuance Agreement, of at least 120% of debt service.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### NOTE 9 – LONG-TERM DEBT (cont.)

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The following sets forth principal maturities for long term debt for the next five years:

Year ending June 30:	
2009	\$ 1,030,000
2010	1,125,000
2011	1,170,000
2012	1,208,000
2013	1,135,000

The University incurred interest costs of \$1,945,000 and \$2,045,000 at June 30, 2008 and 2007, respectively.

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### NOTE 10 – COMMITMENTS AND CONTINGENCIES

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#### ***Guarantees***

The University has guaranteed certain debt obligations of two associated organizations. The maximum indebtedness guaranteed by the University is \$466,000 at June 30, 2008 as compared to \$529,000 at June 30, 2007. The University has a security interest in the organization's property, the fair value of which is not less than the obligation.

#### ***Federal Awards***

Amounts received and expended by the University under various federal and state programs (principally related to student financial aid) are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of results of activities of the University.

#### ***Litigation***

The University is involved in various claims and litigation in the ordinary course of business. In the opinion of management, the outcome of such claims and litigation will not materially affect the University's financial position, results of its activities, or liquidity.

#### ***Private Equity***

The University has committed \$2,750,000 into private equity investment funds. As of June 30, 2008, \$2,301,996 has been invested into the funds, which does not include distributions, income or losses after the initial investment.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### NOTE 11 – LEASES

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The University has several non-cancelable operating leases, primarily for network equipment and copiers that expire over the next five years. Rental expense for operating leases during 2008 and 2007 was \$300,000 and \$320,000, respectively.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2008 are:

Year ending June 30:	
2009	\$ 390,000
2010	318,000
2011	107,000
2012	95,000
2013	95,000

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### NOTE 12 – CONCENTRATION OF CREDIT RISK

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Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, short-term investments, marketable securities and other investments, accounts, and notes receivable. The University places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the notes receivable are limited due to the University holding a secured position in these agreements. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the eastern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

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### NOTE 13 – SUBSEQUENT EVENT

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Subsequent to year end June 30, 2008, the University borrowed \$30,400,000 through the issuance of tax exempt revenue bonds through the Snyder County Higher Educational Authority (SCHEA). Proceeds from the bond issuance will be used to construct three new residence halls, renovate/refurbish existing academic and administrative buildings, construct a new academic building, and renovate and replace the University's central heating and distribution system, as well as pay bond issuance costs and fund any necessary reserves and other funds. The bonds will mature in various amounts through 2038 and bear interest ranging from 2.35% to 5.00%. SCHEA has an unsecured interest in the University's unrestricted net revenues.

The University also completed its commitment to purchase the former church, rectory and grounds of the congregation of St. Pius X. The purchase price was \$1,100,000 of which \$100,000 had been deposited in escrow prior to year end.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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### **NOTE 13 – SUBSEQUENT EVENT (cont.)**

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Subsequent to June 30, 2008, the investment markets have experienced a significant decline in value. It is highly likely that the values of the University' investments have decreased by material amounts since June 30, 2008.

In addition, effective September 29, 2008, participants in the Commonfund Short Term Fund (the "Short Term Fund") have had their liquidity in the Short Term Fund substantially restricted. Wachovia Bank, as trustee, is initiating the termination of the Short Term Fund, no longer accepting deposits, establishing procedures for liquidation and distribution of the Short Term Fund's assets and is resigning as trustee. Wachovia Bank has limited the ability of institutions to withdraw funds from the Short Term Fund and has established a timeline for liquidation based on the maturities of the underlying securities. Participants have not to date incurred any losses to the invested principal, and the Commonfund is seeking a successor trustee for the Short Term Fund in order to re-establish the program in largely the same form. At June 30, 2008, the University had \$933,883 invested in the Short Term Fund, which was included in Cash and Cash Equivalents on the Statements of Financial Position. This amount represented 1.9% of the total \$48,951,936 in cash and short-term investments as of that date. However, as of September 29, 2008, the date liquidity was restricted, the University had \$5,991,076 invested in the Short Term Fund. This amount represented 11.9% of \$50,314,831 in cash and short-term investments. As a result of liquidations arising from maturities of the underlying investments, the amount still invested in the Commonfund was reduced, as of October 14, 2008 to \$3,320,255. The University believes that it had sufficient cash reserves available from other resources to cover operating costs.