

**SUSQUEHANNA UNIVERSITY**

Selinsgrove, Pennsylvania

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

June 30, 2009 and 2008

# 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, 2009 and 2008 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of 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, 2009 and 2008 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.

As described in Note 13 to the financial statements, Susquehanna University adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* and FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*, as of July 1, 2008. As described in Note 14 to the financial statements, Susquehanna University also adopted the provisions of 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*, for the year ended June 30, 2009.



Oak Brook, Illinois  
September 30, 2009

# SUSQUEHANNA UNIVERSITY

## STATEMENTS OF FINANCIAL POSITION June 30, 2009 and 2008

| <b>ASSETS</b>                                |                              |                              |
|----------------------------------------------|------------------------------|------------------------------|
|                                              | <b>2009</b>                  | <b>2008</b>                  |
| Cash and cash equivalents                    | \$ 4,958,950                 | \$ 11,930,806                |
| Contributions receivable, net                | 13,418,363                   | 10,378,989                   |
| Accounts receivable, net                     | 1,349,989                    | 1,305,743                    |
| Inventories and prepaid expenses             | 1,376,843                    | 1,091,877                    |
| Student loans receivable, net                | 3,466,767                    | 3,386,140                    |
| Investments                                  | 119,401,793                  | 153,393,795                  |
| Deposits with trustees under debt agreements | 8,957,292                    | 2,744,740                    |
| Funds held in trust by others                | 2,669,622                    | 3,132,644                    |
| Other assets                                 | 2,620,323                    | 2,022,854                    |
| Property, plant, and equipment, net          | 116,522,371                  | 87,574,965                   |
| <b>TOTAL ASSETS</b>                          | <b><u>\$ 274,742,313</u></b> | <b><u>\$ 276,962,553</u></b> |
| <br><b>LIABILITIES AND NET ASSETS</b>        |                              |                              |
| <b>LIABILITIES</b>                           |                              |                              |
| Accounts payable and other accrued expenses  | \$ 7,359,716                 | \$ 8,555,854                 |
| Student deposits and other liabilities       | 3,301,439                    | 3,485,477                    |
| Annuities payable                            | 1,475,316                    | 1,444,483                    |
| Long-term debt                               | 72,114,756                   | 44,138,008                   |
| U.S. government advances refundable          | 1,830,528                    | 1,858,370                    |
| Funds held in custody for others             | 1,167,623                    | 1,448,859                    |
| Total Liabilities                            | <u>87,249,378</u>            | <u>60,931,051</u>            |
| <b>NET ASSETS</b>                            |                              |                              |
| Unrestricted                                 | 98,823,291                   | 110,295,116                  |
| Temporarily restricted                       | 32,587,887                   | 52,028,538                   |
| Permanently restricted                       | 56,081,757                   | 53,707,848                   |
| Total Net Assets                             | <u>187,492,935</u>           | <u>216,031,502</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>      | <b><u>\$ 274,742,313</u></b> | <b><u>\$ 276,962,553</u></b> |

See accompanying notes to financial statements.

**SUSQUEHANNA UNIVERSITY**

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2009  
(with comparative June 30, 2008 totals)

|                                                       | 2009                 |                           |                           | 2008<br>Total         |
|-------------------------------------------------------|----------------------|---------------------------|---------------------------|-----------------------|
|                                                       | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted |                       |
| <b>OPERATING REVENUES AND OTHER ADDITIONS</b>         |                      |                           |                           |                       |
| Tuition and fees                                      | \$ 64,498,779        | \$ -                      | \$ -                      | \$ 64,498,779         |
| Less: Scholarships and grants                         | (25,330,317)         | -                         | -                         | (25,330,317)          |
| Net tuition and fees                                  | 39,168,462           | -                         | -                         | 39,168,462            |
| Government grants                                     | 1,567,330            | -                         | -                         | 1,796,152             |
| Private gifts and grants                              | 1,572,321            | 451,963                   | -                         | 3,082,464             |
| Endowment income                                      | 5,073,885            | 15,307                    | -                         | 4,495,853             |
| Investment income                                     | 399,133              | -                         | -                         | 1,953,357             |
| Other sources                                         | 1,022,718            | -                         | -                         | 1,185,864             |
| Auxiliary enterprises                                 | 13,914,898           | -                         | -                         | 12,596,681            |
| Net assets released from restrictions                 | 862,464              | (862,464)                 | -                         | -                     |
| Total Operating Revenues and Other Additions          | 63,581,211           | (395,194)                 | -                         | 60,947,604            |
| <b>OPERATING EXPENSES</b>                             |                      |                           |                           |                       |
| Program expenses                                      |                      |                           |                           |                       |
| Instruction                                           | 21,282,812           | -                         | -                         | 20,458,983            |
| Research                                              | 431,838              | -                         | -                         | 192,412               |
| Public service                                        | 515,231              | -                         | -                         | 463,889               |
| Academic support                                      | 4,376,710            | -                         | -                         | 4,250,301             |
| Student services                                      | 13,215,199           | -                         | -                         | 12,709,929            |
| Auxiliary enterprises                                 | 11,232,420           | -                         | -                         | 10,569,253            |
| Support expenses                                      |                      |                           |                           |                       |
| Institutional support                                 | 10,464,653           | -                         | -                         | 10,504,076            |
| Total Operating Expenses                              | 61,518,863           | -                         | -                         | 59,148,843            |
| <b>Change in Net Assets from Operating Activities</b> | 2,062,348            | (395,194)                 | -                         | 1,798,761             |
| <b>NONOPERATING ACTIVITIES</b>                        |                      |                           |                           |                       |
| Investment return, net of spending policy             | (14,288,477)         | (23,256,208)              | -                         | (11,647,844)          |
| Change in split interest and other agreements         | -                    | (134,669)                 | (670,163)                 | (555,270)             |
| Gifts-endowment and other                             | 262,153              | 4,837,571                 | 3,044,072                 | 5,260,069             |
| Net assets released from restrictions                 | 492,151              | (492,151)                 | -                         | -                     |
| Total Nonoperating Expenses                           | (13,534,173)         | (19,045,457)              | 2,373,909                 | (6,943,045)           |
| <b>Change in Net Assets</b>                           | (11,471,825)         | (19,440,651)              | 2,373,909                 | (5,144,284)           |
| NET ASSETS - Beginning of Year                        | 110,295,116          | 52,028,538                | 53,707,848                | 221,175,786           |
| <b>NET ASSETS - END OF YEAR</b>                       | <b>\$ 98,823,291</b> | <b>\$ 32,587,887</b>      | <b>\$ 56,081,757</b>      | <b>\$ 216,031,502</b> |

# SUSQUEHANNA UNIVERSITY

## STATEMENT OF ACTIVITIES Year Ended June 30, 2008

|                                                | 2008                  |                           |                           | Total                 |
|------------------------------------------------|-----------------------|---------------------------|---------------------------|-----------------------|
|                                                | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted |                       |
| <b>OPERATING REVENUES AND OTHER ADDITIONS</b>  |                       |                           |                           |                       |
| Tuition and fees                               | \$ 58,675,389         | \$ -                      | \$ -                      | \$ 58,675,389         |
| Less: Scholarships and grants                  | (22,838,156)          | -                         | -                         | (22,838,156)          |
| Net tuition and fees                           | 35,837,233            | -                         | -                         | 35,837,233            |
| Government grants                              | 1,796,152             | -                         | -                         | 1,796,152             |
| Private gifts and grants                       | 1,962,597             | 1,119,867                 | -                         | 3,082,464             |
| Endowment income                               | 4,482,273             | 13,580                    | -                         | 4,495,853             |
| Investment income                              | 1,953,357             | -                         | -                         | 1,953,357             |
| Other sources                                  | 1,185,864             | -                         | -                         | 1,185,864             |
| Auxiliary enterprises                          | 12,596,681            | -                         | -                         | 12,596,681            |
| Net assets released from restrictions          | 1,026,389             | (1,026,389)               | -                         | -                     |
| Total Operating Revenues and Other Additions   | 60,840,546            | 107,058                   | -                         | 60,947,604            |
| <b>OPERATING EXPENSES</b>                      |                       |                           |                           |                       |
| Program expenses                               |                       |                           |                           |                       |
| Instruction                                    | 20,458,983            | -                         | -                         | 20,458,983            |
| Research                                       | 192,412               | -                         | -                         | 192,412               |
| Public service                                 | 463,889               | -                         | -                         | 463,889               |
| Academic support                               | 4,250,301             | -                         | -                         | 4,250,301             |
| Student services                               | 12,709,929            | -                         | -                         | 12,709,929            |
| Auxiliary enterprises                          | 10,569,253            | -                         | -                         | 10,569,253            |
| Support expenses                               |                       |                           |                           |                       |
| Institutional support                          | 10,504,076            | -                         | -                         | 10,504,076            |
| Total Operating Expenses                       | 59,148,843            | -                         | -                         | 59,148,843            |
| Change in Net Assets from Operating Activities | 1,691,703             | 107,058                   | -                         | 1,798,761             |
| <b>NONOPERATING ACTIVITIES</b>                 |                       |                           |                           |                       |
| Investment return, net of spending policy      | (2,876,784)           | (8,771,060)               | -                         | (11,647,844)          |
| Change in split interest and other agreements  |                       | (3,330)                   | (551,940)                 | (555,270)             |
| Gifts-endowment and other                      | 791,323               | 1,810,466                 | 2,658,280                 | 5,260,069             |
| Net assets released from restrictions          | 388,288               | (388,288)                 | -                         | -                     |
| Total Nonoperating Expenses                    | (1,697,173)           | (7,352,212)               | 2,106,340                 | (6,943,045)           |
| Change in Net Assets                           | (5,470)               | (7,245,154)               | 2,106,340                 | (5,144,284)           |
| NET ASSETS - Beginning of Year                 | 110,300,586           | 59,273,692                | 51,601,508                | 221,175,786           |
| <b>NET ASSETS - END OF YEAR</b>                | <b>\$ 110,295,116</b> | <b>\$ 52,028,538</b>      | <b>\$ 53,707,848</b>      | <b>\$ 216,031,502</b> |

See accompanying notes to financial statements.

# SUSQUEHANNA UNIVERSITY

## STATEMENTS OF CASH FLOWS Years Ended June 30, 2009 and 2008

|                                                                                           | 2009            | 2008           |
|-------------------------------------------------------------------------------------------|-----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                               |                 |                |
| Change in net assets                                                                      | \$ (28,538,567) | \$ (5,144,284) |
| Adjustments to reconcile change in net assets to net cash flows from operating activities |                 |                |
| Depreciation and amortization                                                             | 6,737,134       | 6,325,606      |
| Net realized and unrealized losses on investments                                         | 34,069,662      | 10,183,167     |
| Contributions restricted for endowment and plant projects                                 | (8,026,418)     | (4,226,702)    |
| Actuarial adjustment on annuities payable                                                 | 352,568         | 56,392         |
| Loss on dispositions of property, plant and equipment                                     | -               | 59,890         |
| (Increases) decreases in                                                                  |                 |                |
| Contributions receivable                                                                  | 836,347         | (743,426)      |
| Accounts receivable                                                                       | (44,246)        | (297)          |
| Inventories and prepaid expenses                                                          | (284,966)       | (36,324)       |
| Funds held in trust by others                                                             | 463,022         | 119,046        |
| Other assets                                                                              | (348,782)       | (231,615)      |
| Increases (decreases) in                                                                  |                 |                |
| Accounts payable and other accrued liabilities                                            | (344,752)       | 774,570        |
| Student deposits and other liabilities                                                    | (184,038)       | (278,884)      |
| Funds held in custody for others                                                          | (281,236)       | 79,676         |
| Net Cash Flows from Operating Activities                                                  | 4,405,728       | 6,936,815      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                               |                 |                |
| Purchases of property, plant and equipment                                                | (36,448,522)    | (12,224,333)   |
| Purchases of investments                                                                  | (64,545,346)    | (37,746,695)   |
| Proceeds from sales of investments                                                        | 64,467,686      | 36,156,428     |
| Disbursements of loans to students                                                        | (394,162)       | (753,061)      |
| Repayments of loans by students                                                           | 313,535         | 368,629        |
| (Increase) decrease in deposits with trustees                                             | (6,212,552)     | 8,269,369      |
| Net Cash Flows from Investing Activities                                                  | (42,819,361)    | (5,929,663)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                               |                 |                |
| Principal repayments of indebtedness                                                      | (2,048,000)     | (970,000)      |
| Proceeds from issuance of long-term debt                                                  | 29,990,252      | -              |
| Cash payments for bond issuance costs                                                     | (301,595)       | -              |
| Contributions received for endowment and plant projects                                   | 4,150,697       | 4,772,619      |
| Proceeds from issuance of split interest agreements                                       | 32,894          | 231,468        |
| Decrease in U.S. government grants refundable, net                                        | (27,842)        | (295,288)      |
| Payments to annuitants                                                                    | (354,630)       | (290,168)      |
| Net Cash Flows from Financing Activities                                                  | 31,441,777      | 3,448,631      |
| <b>Net Change in Cash and Cash Equivalents</b>                                            | (6,971,856)     | 4,455,783      |
| CASH AND CASH EQUIVALENTS - Beginning of Year                                             | 11,930,806      | 7,475,023      |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>                                            | \$ 4,958,950    | \$ 11,930,806  |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                                   |                 |                |
| Cash paid during the year for interest on long-term debt                                  | \$ 3,208,295    | \$ 1,943,728   |
| <b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>                                         |                 |                |
| Property, plant and equipment acquired through accounts payable                           | 1,773,817       | 2,625,203      |

See accompanying notes to financial statements.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

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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 2,200 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.

**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.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

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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 14.

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 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, 2009 and 2008

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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, 2009 and 2008 statements of financial position net of allowances for doubtful accounts of approximately \$65,000 and \$101,000, respectively.

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

**Student Loans Receivable** - Loans receivable consist principally of loans made from the federal Perkins Loan Program and institutional revolving loan funds. Loans receivable are presented in the June 30, 2009 and 2008 statements of financial position net of allowances for doubtful loans of approximately \$184,000 and \$174,000, 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.

**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 \$845,000 and \$597,000 at June 30, 2009 and 2008, respectively. Bond issuance costs are amortized over the life of the related bond issue. Amortization expense was approximately \$57,000 and \$44,000 for the years ended June 30, 2009 and 2008, respectively. Works of art totaled approximately \$889,000 and \$881,000 for the years ended June 30, 2009 and 2008, respectively. These assets have been recorded at fair value at the time of the donation. Cash surrender value of donated life insurance was approximately \$382,000 and \$350,000 at June 30, 2009 and 2008, 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.

**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.

# SUSQUEHANNA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

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

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**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 \$1,233,694 and \$1,606,691 at June 30, 2009 and 2008, 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. 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 \$82,000 and \$89,000 for the years ended June 30, 2009 and 2008, 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 reloaned 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:

|                | 2009         | 2008         |
|----------------|--------------|--------------|
| State grants   | \$ 1,575,388 | \$ 1,778,000 |
| Federal grants | 1,369,088    | 1,068,904    |

**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.

**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.

