

SUSQUEHANNA UNIVERSITY

Selinsgrove, Pennsylvania

FINANCIAL STATEMENTS

Including Independent Auditors' Report

June 30, 2010 and 2009

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, 2010 and 2009 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, 2010 and 2009 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 1 to the financial statements, in fiscal year 2009, the University adopted authoritative literature guidance on Fair Value Measurements and Endowment Funds Net Asset Classifications.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
October 22, 2010

SUSQUEHANNA UNIVERSITY

STATEMENTS OF FINANCIAL POSITION June 30, 2010 and 2009

	ASSETS	
	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 3,755,877	\$ 4,958,950
Contributions receivable, net	13,059,660	13,418,363
Accounts receivable, net	1,351,916	1,349,989
Inventories and prepaid expenses	889,492	1,376,843
Student loans receivable, net	3,397,928	3,466,767
Investments	126,691,017	119,401,793
Deposits with trustees under debt agreements	-	8,957,292
Funds held in trust by others	2,997,412	2,669,622
Other assets	2,648,101	2,620,323
Property, plant, and equipment, net	131,498,957	116,522,371
TOTAL ASSETS	<u>\$ 286,290,360</u>	<u>\$ 274,742,313</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other accrued expenses	\$ 7,963,483	\$ 7,359,716
Student deposits and other liabilities	3,086,923	3,301,439
Annuities payable	1,695,260	1,475,316
Long-term debt	70,922,276	72,114,756
U.S. government advances refundable	1,855,400	1,830,528
Funds held in custody for others	1,025,732	1,167,623
Total Liabilities	<u>86,549,074</u>	<u>87,249,378</u>
NET ASSETS		
Unrestricted	101,957,907	98,823,291
Temporarily restricted	35,627,040	32,587,887
Permanently restricted	62,156,339	56,081,757
Total Net Assets	<u>199,741,286</u>	<u>187,492,935</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 286,290,360</u>	<u>\$ 274,742,313</u>

SUSQUEHANNA UNIVERSITY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2010
(with comparative June 30, 2009 totals)

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES AND OTHER ADDITIONS				
Tuition and fees	\$ 70,574,806	\$ -	\$ -	\$ 70,574,806
Less: Scholarships and grants	(28,605,349)	-	-	(28,605,349)
Net tuition and fees	41,969,457	-	-	39,168,462
Government grants	1,473,664	-	-	1,567,330
Private gifts and grants	1,423,573	841,702	-	2,024,284
Endowment income	4,490,554	41,907	-	5,089,192
Investment income	141,422	-	-	399,133
Other sources	1,020,967	-	-	1,022,718
Auxiliary enterprises	15,609,664	-	-	13,914,898
Net assets released from restrictions	740,541	(740,541)	-	-
Total Operating Revenues and Other Additions	66,869,842	143,068	-	63,186,017
OPERATING EXPENSES				
Program expenses				
Instruction	23,279,256	-	-	21,370,732
Research	75,553	-	-	372,084
Public service	398,676	-	-	515,391
Academic support	4,293,947	-	-	4,164,218
Student services	14,241,162	-	-	13,227,552
Auxiliary enterprises	12,279,196	-	-	11,117,560
Support expenses				
Institutional support	11,563,377	-	-	10,751,326
Total Operating Expenses	66,131,167	-	-	61,518,863
Change in Net Assets from Operating Activities	738,675	143,068	-	1,667,154
NONOPERATING ACTIVITIES				
Investment return, net of spending policy	1,823,486	2,051,860	-	(37,544,685)
Change in split interest and other agreements	-	(48,789)	132,752	(804,832)
Gifts-endowment and other	286,823	1,178,646	5,941,830	8,143,796
Net assets released from restrictions	285,632	(285,632)	-	-
Total Nonoperating Expenses	2,395,941	2,896,085	6,074,582	(30,205,721)
Change in Net Assets	3,134,616	3,039,153	6,074,582	(28,538,567)
NET ASSETS - Beginning of Year	98,823,291	32,587,887	56,081,757	216,031,502
NET ASSETS - END OF YEAR	\$ 101,957,907	\$ 35,627,040	\$ 62,156,339	\$ 187,492,935

SUSQUEHANNA UNIVERSITY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES AND OTHER ADDITIONS				
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	-	-	1,567,330
Private gifts and grants	1,572,321	451,963	-	2,024,284
Endowment income	5,073,885	15,307	-	5,089,192
Investment income	399,133	-	-	399,133
Other sources	1,022,718	-	-	1,022,718
Auxiliary enterprises	13,914,898	-	-	13,914,898
Net assets released from restrictions	862,464	(862,464)	-	-
Total Operating Revenues and Other Additions	63,581,211	(395,194)	-	63,186,017
OPERATING EXPENSES				
Program expenses				
Instruction	21,370,732	-	-	21,370,732
Research	372,084	-	-	372,084
Public service	515,391	-	-	515,391
Academic support	4,164,218	-	-	4,164,218
Student services	13,227,552	-	-	13,227,552
Auxiliary enterprises	11,117,560	-	-	11,117,560
Support expenses				
Institutional support	10,751,326	-	-	10,751,326
Total Operating Expenses	61,518,863	-	-	61,518,863
Change in Net Assets from Operating Activities	2,062,348	(395,194)	-	1,667,154
NONOPERATING ACTIVITIES				
Investment return, net of spending policy	(14,288,477)	(23,256,208)	-	(37,544,685)
Change in split interest and other agreements	-	(134,669)	(670,163)	(804,832)
Gifts-endowment and other	262,153	4,837,571	3,044,072	8,143,796
Net assets released from restrictions	492,151	(492,151)	-	-
Total Nonoperating Expenses	(13,534,173)	(19,045,457)	2,373,909	(30,205,721)
Change in Net Assets	(11,471,825)	(19,440,651)	2,373,909	(28,538,567)
NET ASSETS - Beginning of Year	110,295,116	52,028,538	53,707,848	216,031,502
NET ASSETS - END OF YEAR	\$ 98,823,291	\$ 32,587,887	\$ 56,081,757	\$ 187,492,935

See accompanying notes to financial statements.

SUSQUEHANNA UNIVERSITY

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,248,351	\$ (28,538,567)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	7,260,512	6,737,134
Net realized and unrealized (gains) losses on investments	(6,805,624)	34,069,662
Contributions restricted for endowment and plant projects	(5,319,114)	(8,026,418)
Actuarial adjustment on annuities payable	399,690	352,568
Loss on dispositions of property, plant and equipment	68,912	-
(Increases) decreases in		
Contributions receivable	(968,802)	836,347
Accounts receivable	(1,927)	(44,246)
Inventories and prepaid expenses	487,351	(284,966)
Funds held in trust by others	(327,790)	463,022
Other assets	(68,013)	(348,782)
Decreases in		
Accounts payable and other accrued liabilities	(537,329)	(344,752)
Student deposits and other liabilities	(214,516)	(184,038)
Funds held in custody for others	(141,891)	(281,236)
Net Cash Flows from Operating Activities	<u>6,079,810</u>	<u>4,405,728</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(20,928,927)	(36,448,522)
Purchases of investments	(13,590,207)	(64,545,346)
Proceeds from sales of investments	13,106,606	64,467,686
Disbursements of loans to students	(310,571)	(394,162)
Repayments of loans by students	379,410	313,535
(Increase) decrease in deposits with trustees	8,957,292	(6,212,552)
Net Cash Flows from Investing Activities	<u>(12,386,397)</u>	<u>(42,819,361)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of indebtedness	(1,297,500)	(2,048,000)
Proceeds from issuance of long-term debt	-	29,990,252
Cash payments for bond issuance costs	(90,731)	(301,595)
Contributions received for endowment and plant projects	6,646,619	4,150,697
Proceeds from issuance of split interest agreements	27,137	32,894
Increase (decrease) in U.S. government grants refundable, net	24,872	(27,842)
Payments to annuitants	(206,883)	(354,630)
Net Cash Flows from Financing Activities	<u>5,103,514</u>	<u>31,441,777</u>
Net Change in Cash and Cash Equivalents	(1,203,073)	(6,971,856)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>4,958,950</u>	<u>11,930,806</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,755,877	\$ 4,958,950
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest on long-term debt	\$ 3,008,717	\$ 3,208,295
NONCASH INVESTING AND FINANCING ACTIVITIES		
Refinancing of bonds	6,492,500	-
Property, plant and equipment acquired through accounts payable	2,914,913	1,773,817

See accompanying notes to financial statements.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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:

Net Asset Classifications: For the purposes of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

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 from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Investment income received with donor-imposed restrictions that are met in the same year as received is reported as revenues of the unrestricted net asset class.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. 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 received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. 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 property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets. Losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

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.

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 Receivable – Unconditional promises to give are recognized in the period received. 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. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

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. Loans receivable consist principally of loans made from the federal Perkins Loan Program and institutional revolving loan funds. 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, 2010 and 2009 statements of financial position net of allowances for doubtful accounts of approximately \$62,000 and \$65,000, respectively. Loans receivable are presented in the June 30, 2010 and 2009 statements of financial position net of allowances for doubtful loans of approximately \$236,000 and \$184,000, respectively. Receivables also include approximately \$38,000 and \$21,000 due from employees at June 30, 2010 and 2009, 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.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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 \$805,000 and \$845,000 at June 30, 2010 and 2009, respectively. Bond issuance costs are amortized over the life of the related bond issue. Amortization expense was approximately \$131,000 and \$57,000 for the years ended June 30, 2010 and 2009, respectively. Works of art totaled approximately \$889,000 for the years ended June 30, 2010 and 2009. These assets have been recorded at fair value at the time of the donation. Cash surrender value of donated life insurance was approximately \$412,000 and \$382,000 at June 30, 2010 and 2009, 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.

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 \$1,261,729 and \$1,233,694 at June 30, 2010 and 2009, 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 2.8% to 6.2%. Adjustments to annuities payable are included in nonoperating activities on the statements of activities. The University maintains a segregated gift annuity reserve fund with a balance of \$2,000,000 at June 30, 2010.

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 \$74,000 and \$82,000 for the years ended June 30, 2010 and 2009, respectively.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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:

	2010	2009
State grants	\$ 1,665,104	\$ 1,575,388
Federal grants	2,050,769	1,369,088

Tuition and Fees and Auxiliary Revenues - Tuition revenue is recognized in the period in which the majority of the class is taught. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

Deferred Revenue - Certain revenue related to summer courses and programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

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.

In accordance with the accounting standard on *Accounting for Uncertainty in Income Taxes*, the University addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the University may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the University and various positions related to the potential sources of unrelated business taxable income. There were no significant unrecognized tax benefits identified or recorded as liabilities during fiscal year 2010. Open tax years subject to examination by the U.S. and state taxing authorities are for the years 2007 to 2009, which statutes expire in 2010 to 2012, respectively.

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.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Self-Funded Insurance - The University maintains a self-funded health plan. Specific and aggregate stop loss coverage on the health plan is provided to limit the ultimate exposure of the University. An asset is recorded in Other Assets on the Statement of Financial Position to the extent that funds paid in exceed adjusted claims and administrative expenses.

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 2009 financial statements have been reclassified to conform with 2010 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 carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and student deposits are reasonable estimates of fair value due to the short-term maturity of these financial instruments. The carrying amounts of contributions receivable are recorded using the applicable discount rate in effect at the date of the gifts.

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 annuities payable are based on life expectancies, quoted market prices and the present value discount included in the carrying amount. The carrying amounts of long-term debt approximate fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results. The fair value for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 13.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

New Accounting Pronouncements

The University adopted the provisions of Financial Accounting Standards Board (FASB) ASC Topics 958-205-45, 958-205-50 and 958-205-55 (formerly 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. The Topics provide 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). The Topics also require enhanced disclosures for all not-for-profit organizations, not just those subject to UPMIFA. Since the Commonwealth of Pennsylvania has not adopted UPMIFA, the only impact to the University is expanded disclosures about all endowment funds.

The University adopted the provisions of FASB ASC Topic 820 (formerly FAS No. 157, *Fair Value Measurements and Disclosures*) effective July 1, 2008. The Topic defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measures that are required under other accounting pronouncements, but did not change existing guidance as to whether or not a financial instrument is carried at fair value.

The University's adoption of ASC Topic 820 in fiscal year 2009, with respect to financial assets and liabilities measured at fair value on a recurring basis, resulted in increased disclosures in the financial statements about fair value measurements. The University's adoption in fiscal year 2010 of the provisions of this Topic with respect to nonrecurring fair value measurements of nonfinancial assets and liabilities did not have a material impact on the University's financial statements. Additionally, from time to time, the University may be required to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. These adjustments to fair value would usually result from the application of the lower-of-cost-or-market accounting or write-down of individual assets. The University did not measure any assets or liabilities at fair value on a nonrecurring basis during the years ended June 30, 2010 or 2009.

The University also adopted the provisions of FASB ASC Topic 825 (formerly FAS No. 159, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*) effective July 1, 2008. ASC Topic 825 provides, among other things, an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The University did not elect fair value accounting for any assets or liabilities that were not currently required to be measured at fair value.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective for fiscal year 2011. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation, which is effective for fiscal year 2012. The adoption of this guidance is not expected to have a material impact on the University's financial statements.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 2 – RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

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

	2010	2009
Investment in plant	\$ 60,576,681	\$ 52,201,990
Other endowment	14,719,686	12,935,136
Reserves and operating funds	26,661,540	33,686,165
	\$ 101,957,907	\$ 98,823,291

Temporarily restricted net assets consist of the following at June 30, 2010 and 2009:

Net investment gains on donor endowments restricted for future periods, scholarship and educational	\$ 16,824,035	\$ 14,793,392
Contributions receivable restricted for future periods:		
Capital purposes	7,952,631	8,893,884
Other	3,305,383	3,151,281
Donor purpose restrictions - fixed assets	6,807,953	4,926,239
Other donor purpose and time restrictions	737,038	823,091
	\$ 35,627,040	\$ 32,587,887

Permanently restricted net assets consist of the following at June 30, 2010 and 2009:

Endowment funds	\$ 59,432,052	\$ 53,530,627
Student loan funds	690,166	689,665
Donor contributions and annuities for endowments	2,034,121	1,861,465
	\$ 62,156,339	\$ 56,081,757

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 3 – CONTRIBUTIONS RECEIVABLE

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

	<u>2010</u>	<u>2009</u>
Temporarily restricted - operations	\$ 4,000,818	\$ 3,710,387
Temporarily restricted - plant projects	9,130,082	10,536,053
Permanently restricted - endowment	<u>1,939,687</u>	<u>1,861,221</u>
Gross unconditional promises to give	15,070,587	16,107,661
Less: Unamortized discount	(896,707)	(1,368,379)
Allowance for uncollectible promises	<u>(1,114,220)</u>	<u>(1,320,919)</u>
	<u>\$ 13,059,660</u>	<u>\$ 13,418,363</u>

Contributions receivable as of June 30, 2010 of \$7,185,263 are expected to be collected in less than one year, \$7,497,018 in one to five years, and \$388,306 in more than five years. Contributions receivable have been discounted using a rate ranging from 1.8% to 5%. Contributions receivable at June 30, 2010 and 2009 from related parties were \$1,229,563 and \$1,446,044, respectively.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 4 – INVESTMENTS

A summary of investments, at market value, as of June 30, 2010 follows:

	Endowment	Other	Total
Short term investments	\$ 1,251,096	\$ 37,240,235	\$ 38,491,331
Fixed income	2,842,522	386,649	3,229,171
Equity funds and common stocks	73,426,536	705,179	74,131,715
Real estate	10,838,800	-	10,838,800
 Total Investments	 88,358,954	 <u>\$ 38,332,063</u>	 <u>\$ 126,691,017</u>
Accrued investment income	97		
Funds held in trust by others	2,997,412		
Cash due from operating fund	1,653,431		
 Total Endowment Market Value	 <u>\$ 93,009,894</u>		

A summary of investments, at market value, as of June 30, 2009 follows:

	Endowment	Other	Total
Short term investments	\$ 2,105,310	\$ 37,367,757	\$ 39,473,067
Fixed income	2,629,492	401,648	3,031,140
Equity funds and common stocks	67,353,698	714,451	68,068,149
Real Estate	8,829,437	-	8,829,437
 Total Investments	 80,917,937	 <u>\$ 38,483,856</u>	 <u>\$ 119,401,793</u>
Accrued investment income	24,092		
Funds held in trust by others	2,669,622		
Cash due from operating fund	100,442		
 Total Endowment Market Value	 <u>\$ 83,712,093</u>		

Included in fixed income investments are alternative investments in private equity funds of \$1,141,548 and \$1,105,581 at June 30, 2010 and 2009, respectively. The amount of investment income and realized and unrealized gains (losses) from these investments totaled \$111,460 and \$(316,840) for the years ended June 30, 2010 and 2009, respectively, and are included in the following gains (losses) on investments.

Included in the investment balance is a charitable remainder unitrust (CRUT) of \$349,411 and \$290,371 as of June 30, 2010 and 2009, respectively from which annual distributions are made to a related party.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 4 – INVESTMENTS (cont.)

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 in Note 14. The table below details the comparison of operating endowment income for the years ended June 30:

	2010	2009
Dividends and interest, net	\$ 1,602,185	\$ 1,614,169
Cumulative gains used to fund spending policy	2,930,276	3,475,023
Endowment Income	\$ 4,532,461	\$ 5,089,192

The components of total investment income return for the years ended June 30, 2010 and 2009 are reflected below:

Dividends and interest, net	\$ 1,743,605	\$ 2,013,302
Net realized and unrealized losses	6,805,624	(34,069,662)
Totals	\$ 8,549,229	\$ (32,056,360)

Investment income is shown net of investment fees of approximately \$352,000 and \$397,000 for the years ended June 30, 2010 and 2009, respectively.

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

	2010	2009
Operating		
Endowment spending distribution	\$ 4,532,461	\$ 5,089,192
Other investment earnings	141,422	399,133
Total Operating	4,673,883	5,488,325
Nonoperating		
Net realized and unrealized losses in excess of spending policy	3,875,346	(37,544,685)
Total Investment Return	\$ 8,549,229	\$ (32,056,360)

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Land	\$ 2,547,490	\$ 2,370,731
Improvements other than buildings	10,248,444	10,138,968
Buildings and improvements	129,854,106	116,740,804
Equipment and furnishings	20,465,229	18,715,877
Vehicles	1,310,623	1,205,086
Library materials	7,476,588	7,301,314
Construction in progress	<u>39,607,109</u>	<u>33,035,697</u>
	211,509,589	189,508,477
Less: Accumulated depreciation	<u>(80,010,632)</u>	<u>(72,986,106)</u>
	<u>\$ 131,498,957</u>	<u>\$ 116,522,371</u>

Depreciation expense totaled \$7,082,822 and \$6,708,025 for the years ended June 30, 2010 and 2009, respectively.

Construction in progress includes construction of a new science building, continued installation of a campus-wide fire protection and detection system, renovations to Fisher Hall, and renovations to the former St. Pius church to create a new campus health center in cooperation with Geisinger Health System. Also included in construction in progress are costs related to the implementation of Datatel Colleague Advancement and upgrading the University's phone system. The University has outstanding commitments related to these projects of approximately \$3,486,000 at June 30, 2010.

NOTE 6 – RETIREMENT PLANS

For eligible employees, the University makes defined contributions to a national teachers' retirement plan which is administered by an independent organization. Total retirement plan expense amounted to approximately \$2,199,000 and \$2,065,000 for the year ended June 30, 2010 and 2009, respectively.

NOTE 7 – FUND RAISING EXPENSES

The Office of University Relations has primary responsibilities to raise endowment, capital, and operating funds from the University's supporters. Fund raising expenses of approximately \$2,397,000 and \$2,333,000 were incurred for the years ended June 30, 2010 and 2009, respectively.

NOTE 8 – RELATED PARTIES

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 of \$129,000, physician services of \$101,002, and a management fee of \$117,544 for a portion of the investment portfolio.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 9 – LONG-TERM DEBT

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

	<u>2010</u>	<u>2009</u>
SCHEA University Revenue Bonds 1998 (net of bond discount of \$0 and \$84,656, respectively)	\$ -	\$ 6,407,844
PHEFA 2001	5,100,000	5,200,000
SCHEA University Revenue Bonds 2006 (including bond premium of \$20,028 and \$21,281, respectively)	30,377,528	30,766,281
SCHEA University Revenue Bonds 2008 (net of bond discount of \$370,252 and \$391,869, respectively)	29,219,748	29,740,631
SCHEA University Revenue Note 2009	6,225,000	-
	<u>\$ 70,922,276</u>	<u>\$ 72,114,756</u>

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 May 2007, the bonds reverted to a variable rate with a weekly reset. At June 30, 2010, the rate was 3.10%. The bonds require future annual debt service payments ranging from \$275,000 to \$428,000 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 Snyder County Higher Education Authority (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 was used for the renovation and construction of residence halls, the renovation and replacement of the University's central heating and distribution system, and renovations and improvements to several academic buildings (including furnishings and equipment), as well as to pay bond issuance costs. The debt matures in various amounts through 2035 and bears interest ranging from 3.50% to 5%. The bonds require future annual debt service payments ranging from approximately \$1,082,000 to \$2,623,000. SCHEA has an unsecured interest in the University's unrestricted net revenues.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 9 – LONG-TERM DEBT (cont.)

During the fiscal year ended June 30, 2009, the University borrowed \$30,400,000 through the issuance of tax exempt revenue bonds through SCHEA. Proceeds from this bond issuance were used to construct three new residence halls and the new science building, as well as to pay bond issuance costs. The bonds will mature in various amounts through 2038 and bear interest ranging from 2.35% to 5.00%. The bonds require future annual debt service payments ranging from approximately \$995,000 to \$1,991,000. SCHEA has an unsecured interest in the University's unrestricted net revenues.

During the fiscal year ended June 30, 2010, SCHEA called the outstanding bonds associated with the 1998 bond issue and refinanced the \$6,492,500 debt through a note at First National Bank at a fixed interest rate of 3.75% and assigned the debt to the University. The debt matures in 2018 with future annual debt service payments ranging from approximately \$870,000 to \$926,000. 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 \$0 at June 30, 2010 and \$8,957,292 at June 30, 2009. Covenants related to debt require the University to maintain expendable funds of at least 50% of long term indebtedness, maximum annual debt service of no more than 15% of unrestricted revenue, unrestricted net assets at least equal to total long term indebtedness, and income available for debt service, as defined, to at least 110% of the annual debt service requirement. As of June 30, 2010, the University was in compliance with its debt covenants.

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

Year ending June 30:	
2011	\$ 1,687,500
2012	1,710,000
2013	1,822,500
2014	1,875,000
2015	1,970,000

The University incurred interest costs of approximately \$3,126,000 and \$3,208,000 at June 30, 2010 and 2009, respectively. For the years ended June 30, 2010 and 2009, \$1,443,074 and \$1,162,917, respectively, of interest expense was capitalized to the construction in progress accounts on the financial statements.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Guarantees

The University has guaranteed certain debt obligations of two associated organizations. The maximum indebtedness guaranteed by the University is approximately \$348,000 at June 30, 2010 as compared to approximately \$411,000 at June 30, 2009. The University has a security interest in the organizations' 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 or 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, 2010, \$2,712,579 has been invested into the funds, which does not include distributions, income or losses after the initial investment.

IRS Audit

As of June 30, 2010, the University was undergoing an audit by the Internal Revenue Service. The estimated tax and interest to be paid as a result of this audit is estimated to be \$29,300, which has been accrued as of June 30, 2010 and included in student deposits and other liabilities on the Statement of Financial Position.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 11 – LEASES

The University has several non-cancelable operating leases, primarily for network equipment and copiers that expire over the next three years. Rental expense for operating leases during 2010 and 2009 was approximately \$340,000 and \$350,000, 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, 2010 are:

Year ending June 30:		
2011	\$	118,000
2012		104,000
2013		76,000

NOTE 12 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, investments, and accounts receivable. The University places substantially all of its cash and liquid investments with a variety of 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. Student 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. The University also has also a concentration of payments to two vendors, the vendor used to construct the science center and the vendor which supplies food services to the University. These vendors account for approximately 30% and 10%, respectively, of amounts paid to all vendors for the year ended June 30, 2010.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The University follows the FASB guidance on fair value measurements. Fair value is defined in the guidance as the exchange 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 assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2010 (000s):

	Total	Level 1	Level 2	Level 3
ASSETS				
Short term investments	\$ 38,491	\$ 38,491	\$ -	\$ -
Fixed income	2,087	1,098	989	-
Equity funds and common stock	74,132	74,132	-	-
Alternative investments	1,142	-	-	1,142
Real estate	10,839	-	-	10,839
Funds held in trust by others	2,997	-	-	2,997
Totals (000s)	<u>\$ 129,688</u>	<u>\$ 113,721</u>	<u>\$ 989</u>	<u>\$ 14,978</u>

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2009 (000s):

	Total	Level 1	Level 2	Level 3
ASSETS				
Short term investments	\$ 39,473	\$ 39,473	\$ -	\$ -
Fixed income	1,925	990	935	-
Equity funds and common stock	68,068	68,068	-	-
Alternative investments	1,106	-	-	1,106
Real estate	8,830	-	-	8,830
Funds held in trust by others	2,670	-	-	2,670
Totals (000s)	<u>\$ 122,072</u>	<u>\$ 108,531</u>	<u>\$ 935</u>	<u>\$ 12,606</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Short-term investments – The carrying values of short-term investments approximate fair value due to the short term nature of the securities.

Fixed income – Investments in fixed income securities are comprised of U.S. Treasury notes, mortgage backed securities, municipal bonds and corporate bonds and notes. U.S. Treasury notes are classified as Level 1 as they trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The remaining fixed income securities are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from other markets that are not active or are for the same or similar assets in active markets.

Equity funds and common stock – Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Alternative investments – Investments in alternative structures, most commonly limited partnerships, are categorized as Level 3 and are valued based on pricing and models provided by the fund manager. Although the underlying securities of the fund may be in a variety of asset classes, including marketable securities, the University's investment is in the partnership, which is not traded in an active market.

Real estate – Investments in real estate are classified as Level 3 as the valuation is based on significant unobservable inputs.

Funds held in trust by others – The University's investments in funds held in trust by others are categorized as Level 3 because the University is invested in a trust, not the actual underlying investments. The fair values of the trusts are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are measured at the present value of the future distributions the University expects to receive over the term of the agreements.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2010 are summarized as follows (000s):

	<u>Balances June 30, 2009</u>	<u>Net realized and unrealized gains (losses) included in change in net assets</u>	<u>Purchases, sales, issuances and settlement, net</u>	<u>Balances June 30, 2010</u>
Assets				
Real Estate	\$ 8,830	\$ (890)	\$ 2,899	\$ 10,839
Funds Held in Trust by Others	2,670	(268)	595	2,997
Alternative Investments	<u>1,106</u>	<u>57</u>	<u>(21)</u>	<u>1,142</u>
Total	<u>\$ 12,606</u>	<u>\$ (1,101)</u>	<u>\$ 3,473</u>	<u>\$ 14,978</u>

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2010.

\$ (750)

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2009 are summarized as follows (000s):

	Balances June 30, 2008	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Balances June 30, 2009
Assets				
Real Estate	\$ 15,235	\$ (6,718)	\$ 313	\$ 8,830
Funds Held in Trust by Others	3,133	(135)	(328)	2,670
Alternative Investments	1,451	(332)	(13)	1,106
Total	\$ 19,819	\$ (7,185)	\$ (28)	\$ 12,606

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2009.

\$ (6,997)

The fair value of certain funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. FASB guidance allows for the use of the NAV as a "practical expedient" estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the University's interest in the fund. Investments are categorized as Level 2 instruments when the University has the ability to redeem its investment in the entity at the NAV per share in the near term. If the University does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments. The University generally considers a redemption period of 90 days or less to be considered near term.

The following table lists the investments in alternative investments by major category:

Asset Class	Fair Value June 30, 2010 (in 000's)	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Real Estate (REIT)	\$ 2,681	\$ -	Daily	Daily
Real Estate (PRISA & PRISA III)	8,158	-	N/A	N/A
Alternative investments	1,142	37	N/A	N/A
Total	\$ 11,981	\$ 37		

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Real estate funds - This category includes investments in real estate investment trusts (REITs) and other real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this category have been estimated using the net asset value of the University's ownership interest in the funds. The REITs can be liquidated with one day's notice. Withdrawals are paid from the other real estate investments quarterly on a prorated basis among all those investors who are eligible for payment. Available cash for the payment of withdrawals equals the total amount of deposits made, plus the net proceeds from financings and re-financings which are not needed for operations or capital expenditures, principal repayments, acquisition of investments or other contingencies and after payout of operating cash flow. Currently, withdrawal requests from the fund have been suspended with an anticipated resumption date of September 30, 2010 on a limited basis. The University is in the redemption queue. The University expects to hold this investment for several years.

Alternative investments - This category includes the investments in two private equity funds that invest primarily in different disciplines, including venture capital, buyouts, mezzanine/subordinated debt, restructuring/distressed debt and special situation funds. Prior to the termination of the Partnership, Limited Partners will only be able to withdraw from the Partnership with the General Partner's consent. The Partnership does not contemplate having assets available for withdrawal prior to the end of the term of the Partnership. The General Partner is not expected to grant such consent unless the Limited Partner seeking to withdraw from the Partnership has arranged for another person to purchase his or her limited partnership interest in the Partnership. The fair values of the investments in this category have been estimated using recent observable transaction information for similar investments.

NOTE 14 – ENDOWMENT

The University's endowment consists of approximately 400 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – Commonwealth of Pennsylvania law permits the University to allocate to income each year a portion of endowment net realized gains. Pennsylvania legislation was enacted which allows spending between 2% and 7% of a three-year moving average of the market value of the endowed assets.

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.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 14 – ENDOWMENT (cont.)

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$5,002,017 and \$5,440,380 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued distribution for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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 University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that fund the spending from the endowment and match inflation so that the purchasing power of the endowment is maintained. This philosophy of maintaining the purchasing power of the endowment is in keeping with guidance issued by the Council of Advancement and Support of Education (CASE).

Strategies Employed for Achieving Objectives - 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 places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The University has a policy of appropriating for distribution each year a percentage of its endowment fund's average fair market value over the prior three years through the quarter ended September 30 preceding the fiscal year in which the distribution is planned. The rates used were 4.5% and 4.0% for the year ended June 30, 2010 and 2009, respectively. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain its purchasing power.

Endowment net asset composition by type of fund consists of the following as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (4,245,563)	\$ 16,824,035	\$ 61,466,173	\$ 74,044,645
Board-designated endowment funds	18,965,249	-	-	18,965,249
 Total Endowment Net Assets	 \$ 14,719,686	 \$ 16,824,035	 \$ 61,466,173	 \$ 93,009,894

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 14 – ENDOWMENT (cont.)

Endowment net asset composition by type of fund consists of the following as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (5,103,613)	\$ 14,793,392	\$ 55,392,092	\$ 65,081,871
Board-designated endowment funds	18,038,749	-	-	18,038,749
Total Endowment Net Assets	<u>\$ 12,935,136</u>	<u>\$ 14,793,392</u>	<u>\$ 55,392,092</u>	<u>\$ 83,120,620</u>

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2009	\$ 12,935,136	\$ 14,793,392	\$ 55,392,092	\$ 83,120,620
Investment return:				
Investment income	1,830,931	-	-	1,830,931
Net appreciation - realized and unrealized	4,341,236	2,030,643	-	6,371,879
Total investment return	6,172,167	2,030,643	-	8,202,810
Contributions	25,000	-	6,074,081	6,099,081
Appropriation of endowment assets for expenditure	(4,412,617)	-	-	(4,412,617)
Endowment Net Assets, June 30, 2010	<u>\$ 14,719,686</u>	<u>\$ 16,824,035</u>	<u>\$ 61,466,173</u>	<u>\$ 93,009,894</u>

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2008	\$ 27,092,673	\$ 38,498,358	\$ 53,018,283	\$ 118,609,314
Investment return:				
Investment income	1,865,375	-	-	1,865,375
Net depreciation - realized and unrealized	(11,088,604)	(23,704,966)	-	(34,793,570)
Total investment return	(9,223,229)	(23,704,966)	-	(32,928,195)
Contributions	13,528	-	2,373,809	2,387,337
Appropriation of endowment assets for expenditure	(4,947,836)	-	-	(4,947,836)
Endowment Net Assets, June 30, 2009	<u>\$ 12,935,136</u>	<u>\$ 14,793,392</u>	<u>\$ 55,392,092</u>	<u>\$ 83,120,620</u>

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 15 – SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 22, 2010, which is the date that the financial statements were issued.