

SUSQUEHANNA UNIVERSITY
Selinsgrove, Pennsylvania

FINANCIAL STATEMENTS

Including Independent Auditors' Report
June 30, 2011 and 2010

SUSQUEHANNA UNIVERSITY

TABLE OF CONTENTS

Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 28



Baker Tilly Virchow Krause, LLP
1301 W 22nd St, Ste 400
Oak Brook, IL 60523-3389
tel 630 990 3131
fax 630 990 0039
bakertilly.com

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, 2011 and 2010 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, 2011 and 2010 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.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
October 25, 2011

SUSQUEHANNA UNIVERSITY

STATEMENTS OF FINANCIAL POSITION June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 2,931,888	\$ 3,755,877
Contributions receivable, net	10,246,779	13,059,660
Accounts receivable, net	1,489,198	1,351,916
Inventories and prepaid expenses	1,149,166	889,492
Student loans receivable, net	3,189,781	3,397,928
Investments	144,209,271	126,691,017
Funds held in trust by others	3,494,119	2,997,412
Other assets	3,123,424	2,648,101
Property, plant, and equipment, net	141,034,147	131,498,957
TOTAL ASSETS	<u>\$ 310,867,773</u>	<u>\$ 286,290,360</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other accrued expenses	\$ 7,346,336	\$ 7,963,483
Student deposits and other liabilities	2,526,140	3,086,923
Annuities payable	1,980,300	1,695,260
Long-term debt	69,254,681	70,922,276
U.S. government advances refundable	2,085,371	1,855,400
Funds held in custody for others	1,084,700	1,025,732
Total Liabilities	<u>84,277,528</u>	<u>86,549,074</u>
NET ASSETS		
Unrestricted	125,699,416	101,957,907
Temporarily restricted	35,829,407	35,627,040
Permanently restricted	65,061,422	62,156,339
Total Net Assets	<u>226,590,245</u>	<u>199,741,286</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 310,867,773</u>	<u>\$ 286,290,360</u>

SUSQUEHANNA UNIVERSITY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2011
(with comparative June 30, 2010 totals)

	2011			2010 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
OPERATING REVENUES AND OTHER ADDITIONS					
Tuition and fees	\$ 76,504,416	\$ -	\$ -	\$ 76,504,416	\$ 70,574,806
Less: Scholarships and grants	(31,858,231)	-	-	(31,858,231)	(28,605,349)
Net tuition and fees	44,646,185	-	-	44,646,185	41,969,457
Government grants	1,247,393	-	-	1,247,393	1,473,664
Private gifts and grants	1,427,795	541,024	-	1,968,819	2,265,275
Endowment income	4,705,643	46,195	-	4,751,838	4,532,461
Investment income	75,085	-	-	75,085	141,422
Other sources	1,627,317	-	-	1,627,317	1,020,967
Auxiliary enterprises	16,865,568	-	-	16,865,568	15,609,664
Net assets released from restrictions	1,188,938	(1,188,938)	-	-	-
Total Operating Revenues and Other Additions	71,783,924	(601,719)	-	71,182,205	67,012,910
OPERATING EXPENSES					
Program expenses					
Instruction	25,030,432	-	-	25,030,432	23,312,617
Research	227,708	-	-	227,708	181,971
Public service	237,998	-	-	237,998	401,809
Academic support	4,549,967	-	-	4,549,967	4,269,763
Student services	14,835,398	-	-	14,835,398	14,206,939
Auxiliary enterprises	13,776,739	-	-	13,776,739	12,319,015
Support expenses					
Institutional support	12,053,898	-	-	12,053,898	11,439,053
Total Operating Expenses	70,712,140	-	-	70,712,140	66,131,167
Change in Net Assets from Operating Activities	1,071,784	(601,719)	-	470,065	881,743
NONOPERATING ACTIVITIES					
Investment return, net of spending policy	13,280,052	8,485,581	-	21,765,633	3,875,346
Change in split interest and other agreements	-	11,598	273,749	285,347	83,963
Gifts-endowment and other	1,029,030	667,550	2,631,334	4,327,914	7,407,299
Net assets released from restrictions	8,360,643	(8,360,643)	-	-	-
Total Nonoperating Expenses	22,669,725	804,086	2,905,083	26,378,894	11,366,608
Change in Net Assets	23,741,509	202,367	2,905,083	26,848,959	12,248,351
NET ASSETS - Beginning of Year	101,957,907	35,627,040	62,156,339	199,741,286	187,492,935
NET ASSETS - END OF YEAR	<u>\$ 125,699,416</u>	<u>\$ 35,829,407</u>	<u>\$ 65,061,422</u>	<u>\$ 226,590,245</u>	<u>\$ 199,741,286</u>

SUSQUEHANNA UNIVERSITY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	2010			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	-	-	41,969,457
Government grants	1,473,664	-	-	1,473,664
Private gifts and grants	1,423,573	841,702	-	2,265,275
Endowment income	4,490,554	41,907	-	4,532,461
Investment income	141,422	-	-	141,422
Other sources	1,020,967	-	-	1,020,967
Auxiliary enterprises	15,609,664	-	-	15,609,664
Net assets released from restrictions	740,541	(740,541)	-	-
Total Operating Revenues and Other Additions	<u>66,869,842</u>	<u>143,068</u>	<u>-</u>	<u>67,012,910</u>
OPERATING EXPENSES				
Program expenses				
Instruction	23,312,617	-	-	23,312,617
Research	181,971	-	-	181,971
Public service	401,809	-	-	401,809
Academic support	4,269,763	-	-	4,269,763
Student services	14,206,939	-	-	14,206,939
Auxiliary enterprises	12,319,015	-	-	12,319,015
Support expenses				
Institutional support	11,439,053	-	-	11,439,053
Total Operating Expenses	<u>66,131,167</u>	<u>-</u>	<u>-</u>	<u>66,131,167</u>
Change in Net Assets from Operating Activities	<u>738,675</u>	<u>143,068</u>	<u>-</u>	<u>881,743</u>
NONOPERATING ACTIVITIES				
Investment return, net of spending policy	1,823,486	2,051,860	-	3,875,346
Change in split interest and other agreements	-	(48,789)	132,752	83,963
Gifts-endowment and other	286,823	1,178,646	5,941,830	7,407,299
Net assets released from restrictions	285,632	(285,632)	-	-
Total Nonoperating Expenses	<u>2,395,941</u>	<u>2,896,085</u>	<u>6,074,582</u>	<u>11,366,608</u>
Change in Net Assets	<u>3,134,616</u>	<u>3,039,153</u>	<u>6,074,582</u>	<u>12,248,351</u>
NET ASSETS - Beginning of Year	<u>98,823,291</u>	<u>32,587,887</u>	<u>56,081,757</u>	<u>187,492,935</u>
NET ASSETS - END OF YEAR	<u>\$ 101,957,907</u>	<u>\$ 35,627,040</u>	<u>\$ 62,156,339</u>	<u>\$ 199,741,286</u>

See accompanying notes to financial statements.

SUSQUEHANNA UNIVERSITY

STATEMENTS OF CASH FLOWS Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 26,848,959	\$ 12,248,351
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	7,686,883	7,260,512
Net realized and unrealized gains on investments	(24,818,046)	(6,805,624)
Contributions restricted for endowment and plant projects	(3,220,909)	(5,319,114)
Actuarial adjustment on annuities payable	217,098	399,690
Loss on dispositions of property, plant and equipment	114,159	68,912
(Increases) decreases in		
Contributions receivable	271,148	(968,802)
Accounts receivable	(137,282)	(1,927)
Inventories and prepaid expenses	(259,674)	487,351
Funds held in trust by others	(496,707)	(327,790)
Other assets	(476,664)	(68,013)
Increases (decreases) in		
Accounts payable and other accrued liabilities	450,129	(537,329)
Student deposits and other liabilities	(560,783)	(214,516)
Funds held in custody for others	58,968	(141,891)
Net Cash Flows from Operating Activities	5,677,279	6,079,810
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(18,299,473)	(20,928,927)
Purchases of investments	(59,779,719)	(13,590,207)
Proceeds from sales of investments	67,079,511	13,106,606
Disbursements of loans to students	(219,209)	(310,571)
Repayments of loans by students	427,356	379,410
Decrease in deposits with trustees	-	8,957,292
Net Cash Flows from Investing Activities	(10,791,534)	(12,386,397)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of indebtedness	(1,687,500)	(1,297,500)
Cash payments for bond issuance costs	(82,789)	(90,731)
Contributions received for endowment and plant projects	5,762,642	6,646,619
Proceeds from issuance of split interest agreements	275,785	27,137
Increase in U.S. government grants refundable, net	229,971	24,872
Payments to annuitants	(207,843)	(206,883)
Net Cash Flows from Financing Activities	4,290,266	5,103,514
Net Change in Cash and Cash Equivalents	(823,989)	(1,203,073)
CASH AND CASH EQUIVALENTS - Beginning of Year	3,755,877	4,958,950
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,931,888	\$ 3,755,877
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest on long-term debt	\$ 3,077,267	\$ 3,008,717
NONCASH INVESTING AND FINANCING ACTIVITIES		
Refinancing of bonds	-	6,492,500
Property, plant and equipment acquired through accounts payable	1,847,637	2,914,913

See accompanying notes to financial statements.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Susquehanna University (the University) is a national liberal arts college currently enrolling approximately 2,250 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, 2011 and 2010

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.

Student Accounts Receivable - Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts which is 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 are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received. Accounts receivable are presented in the June 30, 2011 and 2010 statements of financial position net of allowances for doubtful accounts of approximately \$50,000 and \$62,000, respectively.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Inventories - Inventories consist of office and maintenance supplies, coal, fuel oil, and gasoline. Inventories are valued at lower of cost or market, 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 \$804,000 and \$805,000 at June 30, 2011 and 2010, respectively. Bond issuance costs are amortized over the life of the related bond issue. Amortization expense was approximately \$84,000 and \$131,000 for the years ended June 30, 2011 and 2010, respectively. Works of art totaled approximately \$900,000 and \$889,000 for the years ended June 30, 2011 and 2010, respectively. These assets have been recorded at fair value at the time of the donation. Cash surrender value of donated life insurance was approximately \$444,000 and \$412,000 at June 30, 2011 and 2010, respectively. The University is both the owner and beneficiary of these policies.

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 \$1,496,538 and \$1,261,729 at June 30, 2011 and 2010, 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 2.4% to 6.2%. Adjustments to annuities payable are included in nonoperating activities on the statements of activities. Assets held at TIAA-CREF for the University's charitable gift annuities amounted to \$1,380,012 and \$997,964 at June 30, 2011 and 2010, respectively. The University maintains a segregated gift annuity reserve fund with a balance of \$2,000,047 and \$2,000,000 at June 30, 2011 and 2010, respectively.

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 \$59,000 and \$74,000 for the years ended June 30, 2011 and 2010, 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.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

	<u>2011</u>	<u>2010</u>
State grants	\$ 1,448,629	\$ 1,665,104
Federal grants	2,461,657	2,050,769

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. It is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2011. The University's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2008 through 2010 are open to examination by federal and state authorities.

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.

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.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reclassifications - Certain amounts appearing in the 2010 financial statements have been reclassified to conform with 2011 presentation. The reclassifications have no effect on reported amounts of total net assets or the change in total net assets.

Asset Retirement Obligations - The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The University reviews its estimates annually and adjusts the recorded liability as needed.

Substantially all of the University's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable 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.

Changes in the accrual for asset retirement obligations, which is included in other liabilities on the statement of financial position, during the years ended June 30 are as follows:

	2011	2010
Balance, Beginning of the year	\$ 471,478	\$ 490,757
Abatements	(140,000)	(34,252)
Accretion expense	15,902	14,973
Balance, End of the year	<u>\$ 347,380</u>	<u>\$ 471,478</u>

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.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fair Value of Financial Instruments (cont.) - 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 3.

Recent Accounting Pronouncements - In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 adds disclosures which provide greater transparency about the University's allowance for credit losses and the credit quality of its financing receivables. These additional disclosures are applicable to the University's Federal Perkins and institutional loans receivable. See Note 5 for these additional disclosures.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 2 – RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

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

	2011	2010
Investment in plant	\$ 71,779,465	\$ 60,576,681
Other endowment	27,855,607	14,719,686
Reserves and operating funds	26,064,344	26,661,540
	\$ 125,699,416	\$ 101,957,907

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

	2011	2010
Net investment gains on donor endowments restricted for future periods, scholarship and educational	\$ 25,198,025	\$ 16,824,035
Contributions receivable restricted for future periods:		
Capital purposes	5,256,343	7,952,631
Other	2,548,032	3,305,383
Donor purpose restrictions - fixed assets	1,938,647	6,807,953
Other donor purpose and time restrictions	888,360	737,038
	\$ 35,829,407	\$ 35,627,040

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

	2011	2010
Endowment funds	\$ 61,659,314	\$ 59,432,052
Student loan funds	691,966	690,166
Donor contributions and annuities for endowments	2,710,142	2,034,121
	\$ 65,061,422	\$ 62,156,339

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 3 – 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, 2011 and 2010

NOTE 3 – 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, 2011 (000s):

	Total	Level 1	Level 2	Level 3
ASSETS				
Short term investments	\$ 33,509	\$ 33,509	\$ -	\$ -
Fixed income	2,177	1,012	1,165	-
Equity funds and common stock	88,158	88,158	-	-
Alternative investments				
Private equity funds	1,049	-	-	1,049
Real estate funds	9,776	-	-	9,776
Hedge funds	9,540	-	-	9,540
Funds held in trust by others	3,494	-	-	3,494
Totals (000s)	<u>\$ 147,703</u>	<u>\$ 122,679</u>	<u>\$ 1,165</u>	<u>\$ 23,859</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, 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				
Private equity funds	1,142	-	-	1,142
Real estate funds	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 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, 2011 and 2010

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Alternative investments – Investments in alternative structures, most commonly limited partnerships, hedge funds, and real estate funds are categorized as Level 3 and are valued based on pricing and models provided by the fund manager. Although the underlying securities of certain limited partnerships and hedge funds may be in a variety of asset classes, including marketable securities, the University's investment is in the partnership or specific fund, which is not traded in an active market. The investments in real estate funds 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, 2011 are summarized as follows (000s):

	Balances June 30, 2010	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Balances June 30, 2011
Assets				
Funds Held in Trust by Others	\$ 2,997	\$ (117)	\$ 614	\$ 3,494
Alternative Investments				
Private equity funds	1,142	148	(241)	1,049
Real estate funds	10,839	2,094	(3,157)	9,776
Hedge funds	-	40	9,500	9,540
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 14,978</u>	<u>\$ 2,165</u>	<u>\$ 6,716</u>	<u>\$ 23,859</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, 2011.

\$ (2,596)

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 3 – 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, 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				
Funds Held in Trust by Others	\$ 2,670	\$ (268)	\$ 595	\$ 2,997
Alternative Investments				
Private equity funds	1,106	111	(75)	1,142
Real estate funds	<u>8,830</u>	<u>(1,478)</u>	<u>3,487</u>	<u>10,839</u>
Total	<u>\$ 12,606</u>	<u>\$ (1,635)</u>	<u>\$ 4,007</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)

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:

	<u>Fair Value June 30, 2011 (in 000’s)</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Asset Class				
Alternative investments				
Private equity funds	\$ 1,049	\$ 28	N/A	N/A
Real estate funds	9,776	-	Quarterly	90 days
Hedge funds	<u>9,540</u>	<u>-</u>	N/A	N/A
Total	<u>\$ 20,365</u>	<u>\$ 28</u>		

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Real estate funds - This category includes investments in two 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. Withdrawals are paid from the 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. The University expects to hold this investment for several years.

Private equity funds - 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.

Hedge funds – This category includes investments in hedge funds with a strategy of taking long positions in equities that are perceived to be undervalued and taking short positions in equities that are perceived to be overvalued. This strategy may commonly employ variable net exposure as well as the use of leverage. There is a twelve month lockup on the investment in this fund. Therefore, shares may not be redeemed before April 1, 2012. Additionally, there is a 60 day advance notice requirement for redemption.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

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

	2011	2010
Temporarily restricted - operations	\$ 3,151,713	\$ 4,000,818
Temporarily restricted - plant projects	5,919,289	9,130,082
Permanently restricted - endowment	2,598,747	1,939,687
Gross unconditional promises to give	11,669,749	15,070,587
Less: Unamortized discount	(601,674)	(896,707)
Allowance for uncollectible promises	(821,296)	(1,114,220)
	<u>\$ 10,246,779</u>	<u>\$ 13,059,660</u>

Contributions receivable as of June 30, 2011 of \$4,513,325 are expected to be collected in less than one year, \$6,821,644 in one to five years, and \$334,780 in more than five years. Contributions receivable have been discounted using a rate ranging from 1.8% to 5%. Contributions receivable at June 30, 2011 and 2010 from related parties were \$732,712 and \$1,229,563, respectively.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 5 – CREDIT QUALITY OF RECEIVABLES

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2011 and 2010, student loans represented 1.0% and 1.2% of total assets.

At June 30, 2011 and 2010, student loans consisted of the following:

	2011	2010
Federal government programs	\$ 2,991,542	\$ 3,202,920
Institutional programs	438,104	431,042
	3,429,646	3,633,962
Less allowance for doubtful accounts:		
Beginning of year	(236,034)	(183,640)
Increases	(3,831)	(52,394)
Write-offs	-	-
End of year	(239,865)	(236,034)
Student loans receivable, net	\$ 3,189,781	\$ 3,397,928

Funds advanced by the Federal government of \$2,085,371 and \$1,855,400 at June 30, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs 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 Federal 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.

At June 30, 2011 and 2010, respectively, the following amounts were past due under student loan programs:

June 30,	1-8 months	9-24 months	25-60 months	Over 60 months	Total
2011	\$ 16,202	\$ 42,750	\$ 77,303	\$ 69,928	\$ 206,183
2010	\$ 26,142	\$ 29,020	\$ 72,913	\$ 65,511	\$ 193,586

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 6 – INVESTMENTS

A summary of investments, at market value, as of June 30, 2011 follows:

	Endowment	Other	Total
Short term investments	\$ 4,274,199	\$ 29,234,522	\$ 33,508,721
Fixed income	1,759,287	417,606	2,176,893
Equity funds and common stocks	97,874,675	873,360	98,748,035
Real estate	9,775,622	-	9,775,622
Total Investments	113,683,783	<u>\$ 30,525,489</u>	<u>\$ 144,209,271</u>
Accrued investment income	1,870		
Funds held in trust by others	3,494,119		
Cash due from operating fund	243,316		
Total Endowment Market Value	<u>\$ 117,423,088</u>		

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	1,700,974	386,649	2,087,623
Equity funds and common stocks	74,568,084	705,179	75,273,263
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>		

Included in equity funds and common stocks are alternative investments in private equity funds of \$1,049,613 and \$1,141,548 at June 30, 2011 and 2010, respectively. Also included were hedge funds of \$9,540,492 at June 30, 2011. The amount of investment income and realized and unrealized gains from these investments totaled \$188,703 and \$111,460 for the years ended June 30, 2011 and 2010, respectively, and are included in the following gains on investments.

Included in the investment balance is a charitable remainder unitrust (CRUT) of \$427,750 and \$349,411 as of June 30, 2011 and 2010, 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, 2011 and 2010

NOTE 6 – INVESTMENTS (cont.)

Alternative investments include private equity funds, real estate funds and hedge 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 15. The table below details the comparison of operating endowment income for the years ended June 30:

	2011	2010
Dividends and interest, net	\$ 1,699,426	\$ 1,602,185
Cumulative gains used to fund spending policy	3,052,412	2,930,276
Endowment Income	\$ 4,751,838	\$ 4,532,461

The components of total investment income return for the years ended June 30:

	2011	2010
Dividends and interest, net	\$ 1,774,510	\$ 1,743,605
Net realized and unrealized gains	24,818,046	6,805,624
Totals	\$ 26,592,556	\$ 8,549,229

Investment income is shown net of investment fees of approximately \$303,000 and \$352,000 for the years ended June 30, 2011 and 2010, respectively.

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

	2011	2010
Operating		
Endowment spending distribution	\$ 4,751,838	\$ 4,532,461
Other investment earnings	75,085	141,422
Total Operating	4,826,923	4,673,883
Nonoperating		
Net realized and unrealized gains in excess of spending policy	21,765,633	3,875,346
Total Investment Return	\$ 26,592,556	\$ 8,549,229

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

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

	<u>2011</u>	<u>2010</u>
Land	\$ 2,547,490	\$ 2,547,490
Improvements other than buildings	10,945,498	10,248,444
Buildings and improvements	165,056,452	129,854,106
Equipment and furnishings	22,268,686	20,465,229
Vehicles	1,407,200	1,310,623
Library materials	7,653,021	7,476,588
Construction in progress	<u>18,263,931</u>	<u>39,607,109</u>
	228,142,278	211,509,589
Less: Accumulated depreciation	<u>(87,108,131)</u>	<u>(80,010,632)</u>
	<u>\$ 141,034,147</u>	<u>\$ 131,498,957</u>

Depreciation expense totaled \$7,582,848 and \$7,082,822 for the years ended June 30, 2011 and 2010, respectively.

Construction in progress includes renovations to Fisher Hall and continued installation of a campus-wide fire protection and detection system. Also included in construction in progress is a down-payment, as well as consulting and legal fees related to the acquisition of the Pine Meadow Apartment Complex. The University has outstanding commitments related to these projects of approximately \$6,721,000 at June 30, 2011.

NOTE 8 – 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 \$2,307,000 and \$2,199,000 for the year ended June 30, 2011 and 2010, respectively.

NOTE 9 – 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 \$2,502,000 and \$2,397,000 were incurred for the years ended June 30, 2011 and 2010, respectively.

NOTE 10 – 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 \$301,117, medical services of \$215,512, and a management fee of \$165,998 for a portion of the investment portfolio. The University also has approximately \$16,000 and \$38,000 due from employees at June 30, 2011 and 2010, respectively.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 11 – LONG-TERM DEBT

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

	<u>2011</u>	<u>2010</u>
PHEFA 2001	\$ 5,000,000	\$ 5,100,000
SCHEA University Revenue Bonds 2006 (including bond premium of \$18,788 and \$20,028, respectively)	29,988,788	30,377,528
SCHEA University Revenue Bonds 2008 (net of bond discount of \$349,107 and \$370,252, respectively)	28,685,893	29,219,748
SCHEA University Revenue Note 2009	5,580,000	6,225,000
	<u>\$ 69,254,681</u>	<u>\$ 70,922,276</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. In October 2010, PNC Bank replaced Allied Irish Bank as the Letter of Credit holder which resulted in much more favorable remarketing rates. At June 30, 2011, the rate was 0.10%. The bonds require future annual debt service payments ranging from approximately \$120,000 to \$403,000 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 and for 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, 2011 and 2010

NOTE 11 – 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 \$889,000 to \$926,000. SCHEA has an unsecured interest in the University's unrestricted net revenues.

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, 2011, 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:	
2012	\$ 1,710,000
2013	1,822,500
2014	1,875,000
2015	1,970,000
2016	2,045,000

The University incurred interest costs of approximately \$3,065,000 and \$3,126,000 at June 30, 2011 and 2010, respectively. For the years ended June 30, 2011 and 2010, \$240,658 and \$1,443,074, respectively, of interest expense was capitalized.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Guarantees

The University has guaranteed certain debt obligations of two associated organizations. The maximum indebtedness guaranteed by the University is approximately \$283,000 at June 30, 2011 as compared to approximately \$348,000 at June 30, 2010. 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 of results of activities of the University.

Litigation

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

NOTE 13 – LEASES

The University has several non-cancelable operating leases for copiers and vehicles that expire over the next five years. Rental expense for operating leases during 2011 and 2010 was approximately \$150,000 and \$340,000, 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, 2011 are:

Year ending June 30:		
2012	\$	160,000
2013		142,000
2014		36,000
2015		23,000
2016		14,000

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 14 – 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 contractor for the new science building, Fisher renovation, and Geisinger projects and the vendor which supplies food services to the University. These vendors account for approximately 25% and 10%, respectively, of amounts paid to all vendors for the year ended June 30, 2011.

NOTE 15 – ENDOWMENT

The University's endowment consists of approximately 425 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.

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 \$681,554 and \$5,002,017 as of June 30, 2011 and 2010, 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.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 15 – ENDOWMENT (cont.)

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. A rate of 4.5% was used for the years ended June 30, 2011 and 2010. 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, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 4,219,932	\$ 25,198,025	\$ 64,369,456	\$ 93,787,413
Board-designated endowment funds	23,635,675	-	-	23,635,675
Total Endowment Net Assets	<u>\$ 27,855,607</u>	<u>\$ 25,198,025</u>	<u>\$ 64,369,456</u>	<u>\$ 117,423,088</u>

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	<u>\$ 14,719,686</u>	<u>\$ 16,824,035</u>	<u>\$ 61,466,173</u>	<u>\$ 93,009,894</u>

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 15 – ENDOWMENT (cont.)

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2010	\$ 14,719,686	\$ 16,824,035	\$ 61,466,173	\$ 93,009,894
Investment return:				
Investment income	1,942,478	-	-	1,942,478
Net appreciation - realized and unrealized	15,888,582	8,373,990	-	24,262,572
Total investment return	17,831,060	8,373,990	-	26,205,050
Contributions	800	-	2,903,283	2,904,083
Appropriation of endowment assets for expenditure	(4,695,939)	-	-	(4,695,939)
 Endowment Net Assets, June 30, 2011	 \$ 27,855,607	 \$ 25,198,025	 \$ 64,369,456	 \$ 117,423,088

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 depreciation - 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	 \$ 14,719,686	 \$ 16,824,035	 \$ 61,466,173	 \$ 93,009,894

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 16 – SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 25, 2011, which is the date that the financial statements were issued.

Subsequent to June 30, 2011, the overall investment markets have experienced a decline in value. The values of the University's investments have decreased in a similar manner since June 30, 2011.