

SUSQUEHANNA UNIVERSITY

Selinsgrove, Pennsylvania

FINANCIAL STATEMENTS

Including Independent Auditors' Report
As of and for the Years Ended June 30, 2016 and 2015

SUSQUEHANNA UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Susquehanna University
Selinsgrove, Pennsylvania

We have audited the accompanying financial statements of Susquehanna University (the "University"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Susquehanna University as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Chicago, Illinois
October 25, 2016

SUSQUEHANNA UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 6,149,124	\$ 6,306,015
Contributions receivable, net	5,980,934	7,554,757
Accounts receivable, net	1,519,482	1,644,100
Inventories and prepaid expenses	1,398,072	1,835,591
Student loans receivable, net	2,407,143	2,574,213
Investments	163,190,803	164,289,819
Funds held in trust by others	4,492,601	4,545,891
Other assets	4,966,634	3,576,217
Real estate held for resale	300,000	300,000
Property, plant, and equipment, net	<u>142,247,753</u>	<u>145,921,990</u>
TOTAL ASSETS	<u>\$ 332,652,546</u>	<u>\$ 338,548,593</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and other accrued expenses	5,929,744	4,750,204
Student deposits and other liabilities	4,249,425	4,104,908
Annuities payable	2,256,023	1,854,748
Long-term debt	60,676,462	61,953,754
U.S. government advances refundable	2,387,550	2,375,475
Funds held in custody for others	<u>941,073</u>	<u>1,001,225</u>
Total Liabilities	<u>76,440,277</u>	<u>76,040,314</u>

NET ASSETS

Unrestricted	134,448,597	136,403,789
Temporarily restricted	38,832,904	46,852,012
Permanently restricted	<u>82,930,768</u>	<u>79,252,478</u>
Total Net Assets	<u>256,212,269</u>	<u>262,508,279</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 332,652,546</u>	<u>\$ 338,548,593</u>
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SUSQUEHANNA UNIVERSITY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

(with comparative June 30, 2015 totals)

	2016			2015 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
OPERATING REVENUES AND OTHER ADDITIONS					
Tuition and fees	\$ 91,906,087	\$ -	\$ -	\$ 91,906,087	\$ 85,105,962
Less: Scholarships and grants	(50,227,936)	-	-	(50,227,936)	(43,435,991)
Net tuition and fees	41,678,151	-	-	41,678,151	41,669,971
Government grants	1,169,908	-	-	1,169,908	1,331,159
Private gifts and grants	1,495,782	109,727	-	1,605,509	3,003,359
Endowment income	5,911,868	41,966	-	5,953,834	5,283,398
Investment income	58,514	-	-	58,514	54,213
Other sources	1,295,090	-	-	1,295,090	1,225,778
Auxiliary enterprises	22,293,466	-	-	22,293,466	20,752,162
Net assets released from restrictions	1,811,746	(1,811,746)	-	-	-
Total Operating Revenues and Other Additions	75,714,525	(1,660,053)	-	74,054,472	73,320,040
OPERATING EXPENSES					
Program expenses					
Instruction	26,093,577	-	-	26,093,577	25,818,524
Research	869,739	-	-	869,739	768,831
Public service	221,298	-	-	221,298	232,423
Academic support	4,879,455	-	-	4,879,455	4,359,079
Student services	18,191,056	-	-	18,191,056	16,895,282
Auxiliary enterprises	14,940,086	-	-	14,940,086	14,580,967
Support expenses					
Institutional support	11,462,850	-	-	11,462,850	11,393,098
Total Operating Expenses	76,658,061	-	-	76,658,061	74,048,204
Change in Net Assets from Operating Activities	(943,536)	(1,660,053)	-	(2,603,589)	(728,164)
NONOPERATING ACTIVITIES					
Investment return, net of spending policy	(1,858,256)	(6,494,971)	-	(8,353,227)	(5,131,352)
Change in split interest and other agreements	-	(8,921)	(33,073)	(41,994)	96,845
Gifts - endowment and other	288,291	1,187,583	3,643,750	5,119,624	7,364,359
Other nonoperating activities	(484,437)	-	67,613	(416,824)	167,325
Net assets released from restrictions	1,042,746	(1,042,746)	-	-	-
Total Nonoperating Expenses	(1,011,656)	(6,359,055)	3,678,290	(3,692,421)	2,497,177
Change in Net Assets	(1,955,192)	(8,019,108)	3,678,290	(6,296,010)	1,769,013
Net Assets - Beginning of Year	136,403,789	46,852,012	79,252,478	262,508,279	260,739,266
NET ASSETS - END OF YEAR	\$ 134,448,597	\$ 38,832,904	\$ 82,930,768	\$ 256,212,269	\$ 262,508,279

SUSQUEHANNA UNIVERSITY

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES AND OTHER ADDITIONS				
Tuition and fees	\$ 85,105,962	\$ -	\$ -	\$ 85,105,962
Less: Scholarships and grants	(43,435,991)	-	-	(43,435,991)
Net tuition and fees	<u>41,669,971</u>	-	-	<u>41,669,971</u>
Government grants	1,331,159	-	-	1,331,159
Private gifts and grants	1,858,706	1,144,653	-	3,003,359
Endowment income	5,245,668	37,730	-	5,283,398
Investment income	54,213	-	-	54,213
Other sources	1,225,778	-	-	1,225,778
Auxiliary enterprises	20,752,162	-	-	20,752,162
Net assets released from restrictions	680,935	(680,935)	-	-
Total Operating Revenues and Other Additions	<u>72,818,592</u>	<u>501,448</u>	-	<u>73,320,040</u>
OPERATING EXPENSES				
Program expenses				
Instruction	25,818,524	-	-	25,818,524
Research	768,831	-	-	768,831
Public service	232,423	-	-	232,423
Academic support	4,359,079	-	-	4,359,079
Student services	16,895,282	-	-	16,895,282
Auxiliary enterprises	14,580,967	-	-	14,580,967
Support expenses				
Institutional support	11,393,098	-	-	11,393,098
Total Operating Expenses	<u>74,048,204</u>	-	-	<u>74,048,204</u>
Change in Net Assets from Operating Activities	<u>(1,229,612)</u>	<u>501,448</u>	-	<u>(728,164)</u>
NONOPERATING ACTIVITIES				
Investment return, net of spending policy	(977,890)	(4,153,462)	-	(5,131,352)
Change in split interest and other agreements	-	2,178	94,667	96,845
Gifts - endowment and other	70,145	5,130,799	2,163,415	7,364,359
Other nonoperating activities	102,017	-	65,308	167,325
Net assets released from restrictions	1,335,873	(1,335,873)	-	-
Total Nonoperating Activities	<u>530,145</u>	<u>(356,358)</u>	<u>2,323,390</u>	<u>2,497,177</u>
Change in Net Assets	<u>(699,467)</u>	<u>145,090</u>	<u>2,323,390</u>	<u>1,769,013</u>
Net Assets - Beginning of Year	<u>137,103,256</u>	<u>46,706,922</u>	<u>76,929,088</u>	<u>260,739,266</u>
NET ASSETS - END OF YEAR	<u><u>\$ 136,403,789</u></u>	<u><u>\$ 46,852,012</u></u>	<u><u>\$ 79,252,478</u></u>	<u><u>\$ 262,508,279</u></u>

SUSQUEHANNA UNIVERSITY

STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (6,296,010)	\$ 1,769,013
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation, amortization and accretion	10,010,121	9,918,538
Net realized and unrealized losses on investments	4,514,537	1,779,219
Contributions restricted for endowment and plant projects	(4,211,406)	(7,635,714)
Actuarial adjustment on annuities payable	(33,031)	(36,650)
Loss on dispositions of property, plant and equipment	55,343	49,341
(Increases) decreases in		
Contributions receivable	217,497	39,494
Accounts receivable	124,618	114,753
Inventories and prepaid expenses	437,519	(234,909)
Funds held in trust by others	53,290	(39,872)
Other assets	(1,145,893)	(255,089)
Real estate held for resale	-	39,000
Increases (decreases) in		
Accounts payable and other accrued expenses	546,596	(1,631,781)
Student deposits and other liabilities	144,517	1,526,201
Funds held in custody for others	(60,152)	(29,898)
Net Cash Flows from Operating Activities	4,357,546	5,371,646
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(5,904,687)	(10,657,145)
Purchase of investments	(56,728,957)	(44,851,739)
Proceeds from sales of investments	54,187,699	51,056,773
Disbursements of loans to students	(293,838)	(470,013)
Repayments of loans by students	460,908	529,670
Net Cash Flows from Investing Activities	(8,278,875)	(4,392,454)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments on long-term debt	(1,932,500)	(1,970,000)
Cash payments for bond issuance costs	(317,175)	-
Contributions received for endowment and plant projects	5,567,732	3,557,246
Proceeds from issuance of split-interest agreements	606,324	127,518
Increase in U.S. government advances refundable, net	12,075	3,445
Payments to annuitants	(172,018)	(192,352)
Net Cash Flows from Financing Activities	3,764,438	1,525,857
Net Change in Cash and Cash Equivalents	(156,891)	2,505,049
CASH AND CASH EQUIVALENTS - Beginning of Year	6,306,015	3,800,966
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,149,124	\$ 6,306,015
Supplemental disclosure of cash flow information		
Cash paid during the year for interest on long-term debt	\$ 2,561,502	\$ 2,693,800
Noncash investing and financing activities		
Refinancing of bonds	801,612	-
Property, plant and equipment acquired through accounts payable	1,015,310	382,366

See accompanying notes to financial statements.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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 As of and for the Years Ended June 30, 2016 and 2015

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, 2016 and 2015 statements of financial position net of allowances for doubtful accounts of approximately \$65,000 and \$96,000, respectively. A student account receivable is considered to be delinquent if any portion of the receivable balance is outstanding for more than 30 days after the billing date. Interest is charged on delinquent student account receivables and is recognized as it is charged.

Inventories - Inventories consist of office and maintenance supplies, 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 \$761,000 and \$517,000 at June 30, 2016 and 2015, respectively. Bond issuance costs are amortized over the life of the related bond issue. Amortization expense was approximately \$73,000 and \$48,000 for the years ended June 30, 2016 and 2015, respectively. Works of art totaled approximately \$1,110,000 and \$936,000 for the years ended June 30, 2016 and 2015, respectively. These assets have been recorded at fair value at the time of the donation. Cash surrender value of donated life insurance was approximately \$521,000 and \$485,000 at June 30, 2016 and 2015, respectively. The University is both the owner and beneficiary of these policies.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 and minor renewals are capitalized while routine maintenance and repairs 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 \$2,388,820 and \$1,482,325 at June 30, 2016 and 2015, 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 1.2% to 6.2%. Adjustments to annuities payable are included in nonoperating activities on the statements of activities. Assets held at PNC for the University's charitable gift annuities amounted to \$1,164,334 and \$1,227,172 at June 30, 2016 and 2015, respectively. The University maintains a segregated gift annuity reserve fund with a balance of \$2,001,705 and \$2,000,224 at June 30, 2016 and 2015, 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 \$71,000 and \$56,000 for the years ended June 30, 2016 and 2015, respectively.

U.S. Government Advances 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:

	2016	2015
State grants	\$ 1,844,374	\$ 1,559,933
Federal grants	2,482,566	2,277,494

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.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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, 2016 and 2015. 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 2013 and thereafter 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, including functional allocations, during the reporting period. Actual results could differ from those estimates.

Real Estate Held for Resale – Real estate gifts made to the University are subsequently marketed and sold, with proceeds supporting the University based on the donor's designation. The carrying value for real estate held for resale was \$300,000 at June 30, 2016 and 2015. At June 30, 2016, one property was held for resale.

New Accounting Pronouncement - In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirements. For non-public business entities, ASU 2015-07 is effective for fiscal years beginning after December 15, 2016 with early application permitted. The University elected to adopt the guidance in the fiscal year ended June 30, 2016. ASU 2015-07 is to be applied retrospectively, and as a result, the guidance was retrospectively applied to the fiscal year ended June 30, 2015. The adoption of the standard did not have a significant impact on the University's statement of financial position or results of operations.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

New Accounting Pronouncements Not Yet Effective - In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018. Early application is permitted for all entities for fiscal years beginning after December 15, 2016. The University is assessing the impact this new standard will have on its financial statements.

In April 2015, FASB issued ASU 2015-03, *Interest- Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Under the new guidance, debt issuance costs related to a recognized debt liability are presented as a direct reduction to the carrying amount of that debt liability. This guidance is effective for the University’s fiscal year ending June 30, 2017. The University believes the adoption of this standard will not have a significant impact on the statement of financial position or results of operations.

In February 2016, FASB issued ASU 2016-02, *Leases*. This guidance was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. This guidance is effective for the University’s fiscal year ending June 30, 2019. The University is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. ASU 2016-14 is effective for the University’s fiscal year ending June 30, 2019. The University is assessing the impact this standard will have on its financial statements.

NOTE 2 – RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

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

	<u>2016</u>	<u>2015</u>
Investment in plant	\$ 81,571,291	\$ 83,968,235
Other endowment	31,376,955	33,976,646
Reserves and operating funds	<u>21,500,351</u>	<u>18,458,908</u>
	<u>\$ 134,448,597</u>	<u>\$ 136,403,789</u>

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 – RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES (cont.)

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

	<u>2016</u>	<u>2015</u>
Net investment gains on donor endowments restricted for future periods, scholarship and educational	\$ 29,753,940	\$ 36,210,319
Contributions receivable restricted for future periods:		
Capital purposes	3,850,092	5,244,123
Other	1,540,318	2,024,881
Donor purpose restrictions - fixed assets	2,355,136	825,733
Other donor purpose and time restrictions	<u>1,333,418</u>	<u>2,546,956</u>
	<u>\$ 38,832,904</u>	<u>\$ 46,852,012</u>

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

	<u>2016</u>	<u>2015</u>
Endowment funds	\$ 80,613,135	\$ 77,895,312
Student loan funds	827,096	692,966
Donor contributions and annuities for endowments	<u>1,490,537</u>	<u>664,200</u>
	<u>\$ 82,930,768</u>	<u>\$ 79,252,478</u>

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy - Fair value is defined in the accounting 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 As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about the University's assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2016 (000s):

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	\$ 28,005	\$ 28,005	\$ -	\$ -
Domestic fixed income	5,983	883	5,100	-
Equities				
Domestic	47,445	47,445	-	-
Foreign	46,552	46,552	-	-
Commodities	8,433	8,433	-	-
Funds held in trust by others	4,493	-	-	4,493
Real estate held for resale	300	-	-	300
	<u>\$ 141,211</u>	<u>\$ 131,318</u>	<u>\$ 5,100</u>	<u>\$ 4,793</u>
Subtotal assets by valuation hierarchy				
Assets measured using NAV				
Alternative investments				
Private equity funds	209			
Real estate funds	12,243			
Hedge funds	14,320			
	<u>26,772</u>			
Subtotal assets measured using NAV				
Total assets	<u>\$ 167,983</u>			

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about the University's assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2015 (000s):

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	\$ 33,935	\$ 33,935	\$ -	\$ -
Domestic fixed income	2,235	865	1,370	-
Equities				
Domestic	39,446	39,446	-	-
Foreign	50,658	50,658	-	-
Commodities	10,430	10,430	-	-
Funds held in trust by others	4,546	-	-	4,546
Real estate held for resale	300	-	-	300
	<u>\$ 141,550</u>	<u>\$ 135,334</u>	<u>\$ 1,370</u>	<u>\$ 4,846</u>
Subtotal assets by valuation hierarchy				
Assets measured using NAV				
Alternative investments				
Private equity funds	252			
Real estate funds	13,432			
Hedge funds	13,902			
	<u>27,586</u>			
Subtotal assets measured using NAV				
Total assets	<u>\$ 169,136</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.

Domestic 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.

Equities and commodities – 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 As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

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.

Real estate held for resale – The fair values of the investments in this category were calculated based on appraisals performed by licensed real estate appraisers. The University expects to sell the real estate within one year.

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, 2016 are summarized as follows (000s):

	Balance June 30, 2015	Net realized and unrealized gains	Purchases	Sales	Settlement	Balance June 30, 2016
Assets						
Funds held in trust by others	\$ 4,546	\$ 86	\$ 2,990	\$(3,081)	\$ (48)	\$ 4,493
Real estate held for resale	300	-	-	-	-	300
Totals	<u>\$ 4,846</u>	<u>\$ 86</u>	<u>\$ 2,990</u>	<u>\$(3,081)</u>	<u>\$ (48)</u>	<u>\$ 4,793</u>

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to financial instruments still held at June 30, 2016. \$ 700

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (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, 2015 are summarized as follows (000s):

	Balance June 30, 2014	Net realized and unrealized losses	Purchases	Sales	Settlement	Balance June 30, 2015
Assets						
Funds held in trust by others	\$ 4,506	\$ (10)	\$ 1,602	\$ (1,552)	\$ -	\$ 4,546
Real estate held for resale	339	(91)	-	(248)	300	300
Totals	<u>\$ 4,845</u>	<u>\$ (101)</u>	<u>\$ 1,602</u>	<u>\$ (1,800)</u>	<u>\$ 300</u>	<u>\$ 4,846</u>

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to financial instruments still held at June 30, 2015. \$ 1,008

The alternative investments include investments in funds of funds and are valued at their respective net asset value per share (or its equivalent) as a practical expedient. These funds allocate their assets to hedge fund managers that specialize in a wide range of alternative investment strategies. The funds offer the University exposure to a broad range of hedge fund strategies including equity long/short, event-driven, relative value and tactical trading sectors. The University measures the fair value for this investments based on net asset value ("NAV") as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the University's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the University sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment. Investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table on the previous pages are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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

Assets	Fair value as of June 30, 2016 (in 000's)	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Private equity funds	\$ 209	\$ 28	Illiquid	
Real estate funds	12,243	-	Quarterly	90 days
Hedge funds	13,902	-	Quarterly	60 days
Totals	<u>\$ 26,354</u>	<u>\$ 28</u>		

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (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 partnership 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 60 day advance notice requirement for redemption.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

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

	2016	2015
Temporarily restricted - operations	\$ 1,717,508	\$ 2,290,578
Temporarily restricted - plant projects	4,331,004	5,985,044
Permanently restricted - endowment	654,543	356,829
Gross unconditional promises to give	6,703,055	8,632,451
Less: Unamortized discount	(342,622)	(454,564)
Allowance for uncollectible promises	(379,499)	(623,130)
	<u>\$ 5,980,934</u>	<u>\$ 7,554,757</u>

Contributions receivable as of June 30, 2016 of \$1,704,937 are expected to be collected in less than one year, \$4,516,640 in one to five years, and \$481,478 in more than five years. Contributions receivable have been discounted using rates ranging from 0.7% to 3.3%. Contributions receivable at June 30, 2016 and 2015 from related parties were \$4,888,556 and \$6,485,053, respectively.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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, 2016 and 2015, student loans represented 0.7% and 0.8% of total assets, respectively.

At June 30, 2016 and 2015, student loans consisted of the following:

	2016	2015
Federal government programs	\$ 2,398,137	\$ 2,489,596
Institutional programs	297,323	339,324
	2,695,460	2,828,920
Less allowance for doubtful accounts:		
Beginning of year	(254,707)	(238,033)
Increases	(33,610)	(16,674)
Write-offs/Assignments	-	-
End of year	(288,317)	(254,707)
Student loans receivable, net	\$ 2,407,143	\$ 2,574,213

Funds advanced by the Federal government of \$2,387,550 and \$2,375,475 at June 30, 2016 and 2015, respectively, are ultimately refundable to the government and are classified as liabilities in the statements 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, 2016 and 2015, respectively, the following amounts were past due under student loan programs:

	1-8 months	9-24 months	25-60 months	Over 60 months	Total
June 30, 2016	\$ 19,381	\$ 78,677	\$ 89,719	\$ 122,976	\$ 310,753
2015	\$ 34,275	\$ 68,173	\$ 88,532	\$ 86,162	\$ 277,142

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 – INVESTMENTS

A summary of investments, at market value, as of June 30, 2016 follows:

	Endowment	Other	Total
Short term investments	\$ 3,688,565	\$ 24,316,320	\$ 28,004,885
Fixed income	5,210,739	772,203	5,982,942
Equity funds and common stocks	107,422,150	1,104,749	108,526,899
Commodities	8,432,730	-	8,432,730
Real estate	12,243,347	-	12,243,347
 Total Investments	 136,997,531	 <u>\$ 26,193,272</u>	 <u>\$ 163,190,803</u>
Accrued investment income	16,887		
Funds held in trust by others	4,492,601		
Cash due from operating fund	1,727,548		
 Total Endowment Market Value	 <u>\$ 143,234,567</u>		

A summary of investments, at market value, as of June 30, 2015 follows:

	Endowment	Other	Total
Short term investments	\$ 14,687,032	\$ 19,247,581	\$ 33,934,613
Fixed income	1,693,036	541,625	2,234,661
Equity funds and common stocks	103,669,291	588,504	104,257,795
Commodities	10,430,275	-	10,430,275
Real Estate	13,432,475	-	13,432,475
 Total Investments	 143,912,109	 <u>\$ 20,377,710</u>	 <u>\$ 164,289,819</u>
Accrued investment income	1,530		
Funds held in trust by others	4,545,891		
Cash due to operating fund	286,947		
 Total Endowment Market Value	 <u>\$ 148,746,477</u>		

Included in equity funds and common stocks are alternative investments in private equity funds of \$208,813 and \$251,588 at June 30, 2016 and 2015, respectively. Also included are hedge funds of \$9,597,084 and \$13,902,033 at June 30, 2016 and 2015, respectively. The amount of unrealized gains (losses) from these investments totaled approximately (\$555,000) and \$475,000 for the years ended June 30, 2016 and 2015, respectively, and are included in the following gains (losses) on investments.

Included in the investment balance is a charitable remainder unitrust (CRUT) of \$630,349 and \$636,413 as of June 30, 2016 and 2015, respectively from which annual distributions are made to a related party. Also included in the investment balance is a charitable remainder annuity trust (CRAT) of \$979,871 as of June 30, 2016 from which annual distributions are made to a related party.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 – INVESTMENTS (cont.)

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.

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.

Unrestricted investment gains from the endowment fund required to fund the spending policy mentioned in Note 15 are included in operating revenue as endowment income. The table below details the comparison of operating endowment income for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Dividends and interest, net	\$ 2,115,144	\$ 1,931,266
Cumulative gains used to fund spending policy	<u>3,838,690</u>	<u>3,352,132</u>
Endowment Income	<u>\$ 5,953,834</u>	<u>\$ 5,283,398</u>

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

	<u>2016</u>	<u>2015</u>
Dividends and interest, net	\$ 2,173,658	\$ 1,985,478
Net realized and unrealized losses	<u>(4,514,537)</u>	<u>(1,779,219)</u>
Totals	<u>\$ (2,340,879)</u>	<u>\$ 206,259</u>

Investment income is shown net of investment fees of approximately \$330,000 and \$352,000 for the years ended June 30, 2016 and 2015, respectively.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 – INVESTMENTS (cont.)

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

	<u>2016</u>	<u>2015</u>
Operating		
Endowment spending distribution	\$ 5,953,834	\$ 5,283,398
Other investment earnings	<u>58,514</u>	<u>54,213</u>
Total Operating	6,012,348	5,337,611
Nonoperating		
Net realized and unrealized gains in excess of spending policy	<u>(8,353,227)</u>	<u>(5,131,352)</u>
Total Investment Return	<u>\$ (2,340,879)</u>	<u>\$ 206,259</u>

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Land	\$ 5,645,263	\$ 5,645,263
Improvements other than buildings	20,605,238	20,301,582
Buildings and improvements	198,576,179	197,382,262
Equipment and furnishings	30,678,699	29,291,522
Vehicles	1,504,169	1,468,610
Library materials	4,647,019	4,805,513
Construction in progress	<u>3,529,083</u>	<u>859,499</u>
	265,185,650	259,754,251
Less: Accumulated depreciation	<u>(122,937,897)</u>	<u>(113,832,261)</u>
	<u>\$ 142,247,753</u>	<u>\$ 145,921,990</u>

Depreciation expense totaled \$10,156,525 and \$9,851,530 for the years ended June 30, 2016 and 2015, respectively.

Construction in progress includes a new admissions building, renovations to a student dining venue, weight room upgrades in Garrett Sports Complex, and implementation of Salesforce software. All projects are planned to be completed prior to June 30, 2017. The university has outstanding commitments related to these projects of approximately \$7,130,679 at June 30, 2016.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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 \$2,077,000 and \$1,985,000 for the year ended June 30, 2016 and 2015, 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 \$2,669,000 and \$2,427,000 were incurred for the years ended June 30, 2016 and 2015, 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 medical services of \$219,601, and a management fee of \$197,607 for a portion of the investment portfolio in 2016, and medical services of \$221,409, and a management fee of \$217,697 for a portion of the investment portfolio in 2015. The University also has approximately \$8,100 and \$5,400 due from employees at June 30, 2016 and 2015.

NOTE 11 – LONG-TERM DEBT

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

	<u>2016</u>	<u>2015</u>
PHEFA 2001 (including bond premium of \$2,986 for 2016)	\$ 4,102,986	\$ 4,300,000
SCHEA University Revenue Bonds 2006 (including bond premium of \$13,943 for 2015)	-	28,713,943
SCHEA University Revenue Bonds 2008 (net of bond discount of \$248,592 and \$267,687, respectively)	25,673,908	26,334,811
SCHEA University Revenue Note 2009	1,770,000	2,605,000
SCHEA University Revenue Bonds 2015 (including bond premium of \$2,029,740 for 2016)	29,129,568	-
	<u>\$ 60,676,462</u>	<u>\$ 61,953,754</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, 2016, the rate was 1.52%. The bonds require future annual debt service payments ranging from approximately \$206,000 to \$402,000 with final maturity in 2031.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2016 and 2015

NOTE 11 – LONG-TERM DEBT (cont.)

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. During the fiscal year, the series 2006 outstanding balance of \$28.7 million was advance refunded with the 2015 bond issuance.

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 4.20% to 5%. 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. In December of 2012, First National Bank reduced the rate of the 2009 bonds to 1.52% for the remainder of the term. The debt matures in 2018 with future annual debt service payments ranging from approximately \$896,000 to \$902,000. SCHEA has an unsecured interest in the University's unrestricted net revenues.

During the fiscal year ended June 30, 2016, the University borrowed \$27,305,000 through the issuance of tax exempt revenue bonds through SCHEA. The proceeds from this bond issuance were used to advance refund \$28.7 million of the outstanding series 2006 revenue bonds. The proceeds also covered the costs and expenses related to the issuance of the 2015 bonds. The transaction generated over \$1.8 million in net present value savings for the University, and will reduce the total debt service payments by approximately \$2.75 million. The bonds will mature in various amounts through January 2035 and bear interest ranging from 2.375% to 5.0%. The bonds require future annual debt service payments ranging from approximately \$1,016,000 to \$2,500,000.

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, 2016, 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:	
2017	2,097,500
2018	2,655,000
2019	2,317,500
2020	2,410,000
2021	2,517,500

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 11 – LONG-TERM DEBT (cont.)

The University incurred interest costs of approximately \$2,562,000 and \$2,694,000 at June 30, 2016 and 2015, respectively. The fair value of bonds payable approximates \$64,619,790 and \$63,932,635 at June 30, 2016 and 2015 respectively. The estimated fair value of the bonds payable is based on future cash flows using current interest rates at which similar borrowings could be obtained for the same remaining maturities, which are considered to be Level 2 measurements.

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 \$483,000 at June 30, 2016 as compared to approximately \$529,000 at June 30, 2015. 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.

Asset Retirement Obligations

The University recognizes a liability for the fair value of conditional asset retirement obligations if their fair values can be reasonably estimated. This liability is initially recorded as an increase to the associated asset and depreciated over the remaining useful life of the asset.

Substantially all of the University's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The University has recorded a liability, included with other liabilities on the statements of financial position, of \$202,000 and \$135,000 as of June 30, 2016 and 2015, respectively. The University reviews its estimates annually and adjusts the recorded liability as needed.

Purchase Commitments

The University entered into an electricity supply agreement with Constellation NewEnergy in January 2012. The University agrees to purchase electricity from Constellation NewEnergy on an exclusive basis and they will supply all of the University's electricity requirements at pre-determined prices. The contract began in January 2014 and ends in December 2017. The University has also entered into an agreement with Gutman Energy for electricity at 18th Street Commons through May of 2018. In addition, the recent switch from coal to natural gas brought about two new supply agreements with UGI and Direct Energy that run through December 2017.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 13 – Leases

The University has several non-cancelable operating leases for copiers, mail machines and vehicles that expire over the next five years. Rental expense for operating leases during 2016 and 2015 was approximately \$185,000 and \$158,000, respectively.

Future approximate minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2016 are:

Year ending June 30:	
2017	\$ 188,000
2018	91,000
2019	74,000
2020	29,000
2021	9,000
Total	<u>\$ 391,000</u>

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 a concentration of payments to two vendors, the food services vendor and the contractor for various renovation projects. These vendors account for approximately 19% and 5%, respectively, of amounts paid to all vendors for the year ended June 30, 2016.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2016 and 2015

NOTE 15 – ENDOWMENT

The University's endowment consists of approximately 470 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 accounting principles generally accepted in the United States, 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 \$418,340 and \$88,877 as of June 30, 2016 and 2015, 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 restored 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. A rate of 4.5% was used for the years ended June 30, 2016 and 2015. 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.

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 15 – ENDOWMENT (cont.)

Endowment net asset composition by type of fund consists of the following as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 7,224,226	\$ 29,753,940	\$ 82,103,672	\$ 119,081,838
Board-designated endowment funds	<u>24,152,729</u>	<u>-</u>	<u>-</u>	<u>24,152,729</u>
Total Endowment Net Assets	<u>\$ 31,376,955</u>	<u>\$ 29,753,940</u>	<u>\$ 82,103,672</u>	<u>\$ 143,234,567</u>

Endowment net asset composition by type of fund consists of the following as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 8,455,234	\$ 36,210,319	\$ 78,559,512	\$ 123,225,065
Board-designated endowment funds	<u>25,521,412</u>	<u>-</u>	<u>-</u>	<u>25,521,412</u>
Total Endowment Net Assets	<u>\$ 33,976,646</u>	<u>\$ 36,210,319</u>	<u>\$ 78,559,512</u>	<u>\$ 148,746,477</u>

Changes in endowment net assets for the year ended June 30, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ 33,976,646	\$ 36,210,319	\$ 78,559,512	\$ 148,746,477
Investment return:				
Investment income	2,361,485	-	-	2,361,485
Net appreciation (depreciation) - realized and unrealized	<u>862,674</u>	<u>(6,456,379)</u>	<u>-</u>	<u>(5,593,705)</u>
Total investment return	3,224,159	(6,456,379)	-	(3,232,220)
Contributions	51,610	-	3,544,160	3,595,770
Appropriation of endowment assets for expenditure	<u>(5,875,460)</u>	<u>-</u>	<u>-</u>	<u>(5,875,460)</u>
Endowment Net Assets, June 30, 2016	<u>\$ 31,376,955</u>	<u>\$ 29,753,940</u>	<u>\$ 82,103,672</u>	<u>\$ 143,234,567</u>

SUSQUEHANNA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 15 – ENDOWMENT (cont.)

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014	\$ 35,167,766	\$ 40,348,059	\$ 76,236,122	\$ 151,751,947
Investment return:				
Investment income	2,205,132	-	-	2,205,132
Net appreciation (depreciation) - realized and unrealized	<u>1,811,582</u>	<u>(4,137,740)</u>	-	<u>(2,326,158)</u>
Total investment return	4,016,714	(4,137,740)	-	(121,026)
Contributions	3,000	-	2,323,390	2,326,390
Appropriation of endowment assets for expenditure	<u>(5,210,834)</u>	-	-	<u>(5,210,834)</u>
Endowment Net Assets, June 30, 2015	<u>\$ 33,976,646</u>	<u>\$ 36,210,319</u>	<u>\$ 78,559,512</u>	<u>\$ 148,746,477</u>

NOTE 16 – SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 25, 2016, which is the date that the financial statements were issued.