BUCKNELL UNIVERSITY

Financial Statements

June 30, 2008
(with comparative information for June 30, 2007)

(With Independent Auditors' Report Thereon)

BUCKNELL UNIVERSITY

Table of Contents

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Independent Auditors' Report

The Board of Trustees
Bucknell University:

We have audited the accompanying statement of financial position of Bucknell University as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Bucknell University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2007 financial statements and, in our report dated October 19, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 Bucknell 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 audit provides 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 Bucknell University as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 27, 2008

BUCKNELL UNIVERSITY

Statement of Financial Position

June 30, 2008
(with comparative totals for June 30, 2007)

(In thousands)

Assets		**2008**	**2007**
Cash and cash equivalents	$	8,000	9,250
Accounts and other receivables, net		3,368	3,129
Inventories, accrued interest, and other assets		2,559	2,730
Investments (note 3)		631,307	669,262
Contributions receivable, net (note 2)		19,178	13,353
Employee loans receivable, net		872	953
Student loans receivable, net		5,216	5,076
Funds held in trust by others (note 3)		12,343	13,275
Property and equipment, net (notes 4, 5, and 11)		216,441	213,814
Total assets	$	899,284	930,842
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 11)	$	16,806	16,569
Student deposits and deferred revenues		7,173	5,914
Postretirement healthcare (note 9)		39,915	36,421
Annuities payable		14,977	15,593
Funds held for the accounts of others		1,771	1,463
Advances from federal government		4,221	4,184
Bonds and notes payable (note 5)		42,209	44,335
Total liabilities		127,072	124,479
Net assets:			
Unrestricted		346,161	362,487
Temporarily restricted (note 6)		250,316	275,342
Permanently restricted (note 7)		175,735	168,534
Total net assets		772,212	806,363
Total liabilities and net assets	$	899,284	930,842

See accompanying notes to financial statements.

BUCKNELL UNIVERSITY

Statement of Activities

Year ended June 30, 2008
(with comparative totals for the year ended June 30, 2007)

(In thousands)

	2008				2007
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:					
Tuition and fees	$ 131,765	—	—	131,765	124,941
Institutional scholarships	(39,060)	—	—	(39,060)	(37,108)
Net tuition and fees	92,705	—	—	92,705	87,833
Sales and services of auxiliary enterprises	30,306	—	—	30,306	28,753
Government grants and contracts	3,796	—	—	3,796	3,092
Private gifts, grants, and contributions	8,295	1,310	—	9,605	9,411
Net investment income (note 3)	24,017	6,338	—	30,355	27,402
Other	3,696	127	—	3,823	3,756
Net assets released from restrictions	7,113	(7,113)	—	—	—
Total operating revenues	169,928	662	—	170,590	160,247
Operating expenses (notes 8, 9, and 12):					
Education and general:					
Instruction	57,150	—	—	57,150	52,755
Sponsored research and community service	2,371	—	—	2,371	2,058
Academic support	19,750	—	—	19,750	18,127
Student services	30,581	—	—	30,581	28,203
Institutional support	26,771	—	—	26,771	23,078
Auxiliary enterprises	30,138	—	—	30,138	27,349
Total operating expenses	166,761	—	—	166,761	151,570
Change in net assets from operating revenues, net of expenses	3,167	662	—	3,829	8,677
Nonoperating activities:					
Investment gains (losses), net of endowment spending (note 3)	(18,825)	(31,585)	(1,051)	(51,461)	69,245
Capital gifts	109	6,449	8,252	14,810	9,503
Postretiree healthcare credits (costs) other than net periodic costs (note 9)	(1,329)	—	—	(1,329)	1,100
Net assets released from restrictions	552	(552)	—	—	—
Increase (decrease) in net assets from nonoperating activities	(19,493)	(25,688)	7,201	(37,980)	79,848
Change in net assets	(16,326)	(25,026)	7,201	(34,151)	88,525
Net assets, beginning of year	362,487	275,342	168,534	806,363	717,838
Net assets, end of year	$ 346,161	250,316	175,735	772,212	806,363

See accompanying notes to financial statements.

BUCKNELL UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2008
(with comparative totals for the year ended June 30, 2007)

(In thousands)

		2008	2007
Cash flows from operating activities:			
Change in net assets	$	(34,151)	88,525
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Postretiree healthcare (credits) costs other than net periodic costs (note 9)		1,329	(1,100)
Depreciation		14,005	13,072
Contributions restricted for long-term investment		(14,701)	(9,222)
Net investment depreciation (appreciation)		30,104	(89,921)
Change in asset and liabilities:			
Accounts and other receivables, net		(239)	1,195
Inventories, accrued interest and other assets		171	205
Employee loans receivable, net		81	24
Accounts payable and accrued expenses		2,433	2,779
Postretirement health care		2,165	1,979
Net cash provided by operating activities		1,197	7,536
Cash flows from investing activities:			
Sales of investments		395,439	290,919
Purchases of investments		(386,579)	(283,973)
Student loans issued		(843)	(1,242)
Student loans collected		703	1,208
Purchase of property and equipment		(17,224)	(20,016)
Net cash used in investing activities		(8,504)	(13,104)
Cash flows from financing activities:			
Payment of bonds and notes payable		(2,126)	(2,047)
Receipts under annuity liability arrangements		1,319	429
Payments to annuitants		(2,012)	(1,944)
Proceeds from private gifts and grants restricted for long-term investment		8,876	12,851
Net cash provided by financing activities		6,057	9,289
Net (decrease) increase in cash and cash equivalents		(1,250)	3,721
Cash and cash equivalents – beginning of year		9,250	5,529
Cash and cash equivalents – end of year	$	8,000	9,250
Supplemental disclosure of cash flow information:			
Cash paid for interest during the year	$	2,014	2,153

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Bucknell University (the University) is a private, not-for-profit institution of higher education in Lewisburg, Pennsylvania. The University provides education services at the graduate and undergraduate levels.

The significant accounting policies followed by the University are described below to enhance the usefulness of the financial statements to the reader.

(a) Basis of Presentation

The financial statements of the University have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Financial reporting standards require that net assets, revenues, gains, and losses be classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Permanently restricted – 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 investment income on related investments for general or specific purposes. Such assets primarily include the University's permanent endowment funds.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time.

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and reported in accordance with donor-imposed restrictions, if any. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Investment income earned in excess of the University's spending policy and capital gifts restricted or designated for capital expenditures or long-term investment (i.e., endowment gifts) are considered nonoperating activities in the accompanying statement of activities.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with financial institutions and other highly liquid investments with maturities of three months or less.

(c) Investments

Investments in fixed income securities and publicly traded marketable equity securities are recorded at fair value based upon quoted market prices.

Investments in other financial instruments (including ownership interests in investment funds structured as limited partnerships and limited liability corporations) are recorded at estimated fair value by the University based on information provided by the general partner(s)/shareholder(s) and other data. Underlying securities owned by the limited partnerships and limited liability corporations include certain publicly traded securities that have readily available market values and other investments that are not readily marketable. The University believes the carrying amount of these financial instruments is a reasonable fair value. Because certain of these investments are not readily marketable, their fair value is subject to additional uncertainty and, therefore, values realized upon disposition may vary significantly from currently reported values.

The University's investments are exposed to various risks such as interest rate, market and credit risks. Such risks, and the resulting investment security values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

(d) Investment Gains on Donor Endowment Funds

Commonwealth of Pennsylvania law requires the University to allocate to income each year a portion of endowment net realized gains based on a minimum of 2% and a maximum of 7% of a three-year moving average of the market value of the endowed assets. Unless the terms of the gift instrument state otherwise, accumulated endowment net realized gains may, therefore, eventually be spent over time by the University. As a result, endowment net unrealized and realized gains are recorded in the financial statements as temporarily restricted net assets.

The University's endowment spending policy allows for the spending of pooled endowment earnings determined at 4.5% of a twelve-quarter moving average of the fair value of pooled assets. Should the determined spendable amount not provide for a 5.0% increment over the previous fiscal year spendable amount, the determined amount may be further adjusted to the 5.0% incremental level, but not exceeding 5.5% of the twelve-quarter moving average of the fair value of pooled assets. The spendable return is distributed to the pooled funds each quarter based on the units owned by each fund in the pool.

(e) Funds Held in Trust by Others

Funds held in trust by others are for the benefit of the University based on the terms of the irrevocable trusts. These funds are neither in the possession, nor under the control, of the University. Such terms provide that the University a) is to receive annually the income earned by the funds that are held in trust, or b) is to receive a remainder interest in the trust. The present values of the estimated future cash flows from the trusts are recognized as assets and contribution income at the dates the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

(f) Property and Equipment

Property and equipment are stated at cost or at estimated fair value if acquired by gift, less accumulated depreciation. Depreciation of the University's property and equipment is computed using a straight-line method over 15 to 50 years for buildings and improvements and 3 to 10 years for equipment, furniture, fixtures, and library books.

(g) Inventories

Inventories are stated at cost using the first-in, first-out method.

(h) Split-Interest Agreements and Annuities Payable

The University's split-interest agreements with donors consist primarily of charitable gift annuities, life income funds, and charitable trusts for which the University serves as trustee. Principally, all assets held in these trusts are included in investments. 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 liabilities are adjusted during the term of the trusts for changes in the value of the assets, changes in the estimated present value of future cash outflows, and other changes in the estimates of future benefits. The annuities payable represent the net present value of future cash outflows over the annuitant's life expectancy as required by the annuity agreements.

The University uses the applicable federal rate at the time of the gift as the basis for determining discount rates in recording annuity obligations at net present value for charitable gift annuities, life income funds, and charitable trusts for which the University serves as trustee. Discount rates range from 3.6% to 7.0% as of and for the years ended June 30, 2008 and 2007.

(Continued)

(In thousands of dollars)

(i) Advances from Federal Government for Student Loans

Funds provided by the U.S. 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 reported as a liability.

(j) Tax Status

The University, recognized by the Internal Revenue Service as a not-for-profit educational institution, qualifies under Section 501(c)(3) of the Internal Revenue Code and thus is exempt from federal income tax on activities related to its exempt purpose.

The University adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on July 1, 2007. FIN 48 prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also recognizes related guidance on measurement, classification, interest and penalties, and disclosure. The implementation of FIN 48 had no impact on the University's statement of financial position or statement of activities. The University does not believe that there are any unrecognized tax benefits or costs that should be recorded.

(k) Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

(2) Contributions Receivable

The net present value of contributions receivable as of June 30 follows:

	2008	2007
Unconditional promises expected to be collected:		
One year or less	$ 7,736	2,798
One year to five years	10,416	9,640
Over five years	2,430	2,018
	20,582	14,456
Less allowance for uncollectible contributions	1,404	1,103
	$ 19,178	13,353

(In thousands of dollars)

The net present value of contributions receivable is recorded as follows:

		2008	2007
Temporarily restricted (donor use and time restrictions)	$	7,961	4,308
Permanently restricted (donor endowment funds)		11,217	9,045
	$	19,178	13,353

Contributions are recorded at net present value. Discount rates for the years ended June 30, 2008 and 2007, respectively, ranged from 3.2% to 6.5%. The discount to present value amounted to approximately $2,428 and $2,151 at June 30, 2008 and 2007, respectively.

(3) Investments and Funds Held in Trust by Others

A summary of the investments held by the University at June 30 follows:

		2008	2007
Fixed income securities:			
Domestic	$	122,606	93,091
International		11,899	9,412
Marketable equity securities:			
Domestic		144,063	247,435
International		86,856	94,882
Other investments:			
Hedge funds		146,087	133,696
Private equity funds		119,796	90,746
	$	631,307	669,262

Other investments are principally ownership interests in investment entities structured as limited partnerships or limited liability corporations. Underlying securities owned by the limited partnerships and limited liability corporations include certain publicly traded securities that have readily available market values and other investments that are not readily marketable. Because certain of these investments are not readily marketable, their fair value is subject to additional uncertainty and, therefore, values realized upon disposition may vary significantly from currently reported values.

Under the terms of the agreements with the limited liability entities, the University has outstanding commitments at June 30, 2008 to invest additional funds of approximately $108,000.

(Continued)

(In thousands of dollars)

Certain investments described above are pooled on a fair value basis for purposes of managing the University's endowment fund. In addition, endowment funds include certain fixed income investments, as well as funds held in trust by others. These trust instruments are similar to endowment gift instruments in that they require investment income be paid to the University in perpetuity. Funds held in trust by others not included in endowment funds are principally charitable remainder trusts. The terms of these charitable trusts are not perpetual instruments but entitle the University to a remainder interest upon the expiration of the trust.

A summary of investment and funds held in trust by others follows:

	June 30, 2008			June 30, 2007
	Endowment funds	**Other funds**	**Total**	**Total**
Investments in pooled funds	$ 541,092	—	541,092	580,177
Remaining investments	7,753	82,462	90,215	89,085
Total investments	548,845	82,462	631,307	669,262
Funds held in trust by others	5,747	6,596	12,343	13,275
Total	$ 554,592	89,058	643,650	682,537
Total – 2007	$ 599,399	83,138	682,537	

Net investment income (loss) for the years ended June 30 consisted of the following:

	2008	2007
Interest and dividends	$ 10,861	9,198
Net appreciation (depreciation)	(30,104)	89,921
Investment expenses	(1,863)	(2,472)
	$ (21,106)	96,647

Net appreciation includes unrealized and realized gains (losses) on specific investment securities owned by the University as well as the University's share of net investment return on mutual funds, private equity funds, hedge funds, and net appreciation of funds held in trust by others.

Investment expenses include those investment custody fees, internal and external investment advisory costs, and investment management fees incurred for services rendered for the sole benefit of the University. Investment expenses incurred directly by mutual funds, private equity funds, and hedge funds that are contracted by the respective fund managers are included in the University's share of the respective fund's net investment return and are not reported separately as investment expenses by the University.

(Continued)

(In thousands of dollars)

Investment income (loss) is presented in the statement of activities as follows:

		2008	2007
Operating investment income	$	30,355	27,402
Nonoperating investment (losses) gains		(51,461)	69,245
	$	(21,106)	96,647

(4) Property and Equipment

Property and equipment as of June 30 are summarized as follows:

		2008	2007
Land	$	5,050	5,050
Buildings and improvements		260,701	248,947
Equipment, furniture, and fixtures		96,516	89,930
Library books and materials		39,404	37,239
Construction in progress		2,539	6,444
		404,210	387,610
Less accumulated depreciation:			
Buildings and improvements		76,678	70,944
Equipment, furniture, and fixtures		82,618	76,446
Library books and materials		28,473	26,406
		187,769	173,796
Property and equipment, net	$	216,441	213,814

(Continued)

(In thousands of dollars)

(5) Bonds and Notes Payable

The following is a summary of bonds and notes payable as of June 30:

		2008	2007
University revenue bonds, Series 1996	$	7,285	7,995
University revenue bonds, Series 1998		9,295	10,030
University revenue bonds, Series 2002 A		18,730	19,020
University revenue bonds, Series 2002 B		6,160	6,500
		41,470	43,545
Bond premium – University revenue bonds, Series 2002 A		517	568
Total bonds payable		41,987	44,113
Notes payable		222	222
Total bonds and notes payable	$	42,209	44,335

The University entered into various agreements with the Union County Higher Education Facilities Financing Authority that provided issuance of $13,060 University Revenue Bonds, Series 1996. The 1996 bonds carry interest rates ranging from 5.40% to 5.50% with annual principal payments made on April 1. These bonds mature on April 1, 2016.

The University entered into various agreements with the Union County Higher Education Facilities Financing Authority that provided issuance of $15,000 University Revenue Bonds, Series 1998. The 1998 bonds carry interest rates ranging from 4.10% to 4.50% with annual principal payments made on April 1. These bonds mature on April 1, 2018.

The University entered into various agreements with the Union County Higher Education Facilities Financing Authority that provided issuance of $20,325 University Revenue Bonds, Series 2002 A. The Series 2002 A bonds carry interest rates ranging from 3.50% to 5.25% with annual principal payments made on April 1. These bonds mature on April 1, 2022.

The University entered into various agreements with the Union County Higher Education Facilities Financing Authority that provided issuance of $7,890 University Variable Rate Revenue Bonds, Series 2002 B. The Series 2002 B bonds bear variable rate interest (1.50% at June 30, 2008) as determined by the remarketing agent with annual principal payments made on April 1. These bonds mature on April 1, 2022.

Bonds are collateralized by gross revenues, tangible personal property, fixtures, furnishings, and equipment of the University.

The University entered into an agreement in June 2004 for the purchase of land and a building. The note, with a balance of $222 at June 30, 2008, shall be discharged upon final payment on July 1, 2024 or upon the razing of the structure, whichever first occurs, pending all other contractual obligations. The obligation bears annual interest at 5.5%.

(In thousands of dollars)

Maturities of principal for the next five years on outstanding bonds and notes payable at June 30, 2008 follow:

2009	$	2,170
2010		2,260
2011		2,360
2012		2,470
2013		2,590

(6) Temporarily Restricted Net Assets

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

		2008	2007
Investment gains on donor endowments subject to time restrictions under Pennsylvania law	$	221,577	252,508
Pledges receivable subject to time and/or purpose restrictions		7,961	4,308
Unexpended donor-restricted funds available for:			
Scholarship and financial aid		6,788	7,599
Other university activities		13,990	10,927
	$	250,316	275,342

Temporarily restricted net assets have arisen primarily from unexpended investment gains that may be expended to support operations, subject to statutory restrictions. At June 30, 2008 and 2007, the aggregate amount of deficiencies for all donor restricted endowment funds for which the fair value is less than the level required by donor stipulation is $251 and $0, respectively.

(7) Permanently Restricted Net Assets

Permanently restricted net assets are principally donor endowment funds. The investment income earned on these funds is used, as specified by the donors, to support university activities as listed below:

		2008	2007
Donor-contributed principal invested to support:			
Scholarship and financial aid	$	106,236	102,338
Instruction and academic programs		35,123	32,113
Library and related services		7,371	7,375
Other		27,005	26,708
	$	175,735	168,534

(In thousands of dollars)

(8) Pension Plan

Pension benefits for staff, faculty, and administration are provided under the University's defined contribution retirement program administered by the Teachers' Insurance and Annuity Association for Colleges and Universities. The University's policy is to pay its share of the annual premium accrued in connection with this program; there are no unfunded benefits. University contributions were $5,929 and $5,518 for 2008 and 2007, respectively.

(9) Postretirement Healthcare Benefits

Certain current and former employees are covered by a noncontributory retirement plan providing healthcare benefits. The University accrues the cost of postretirement benefits other than pensions over the employee's service period. Participants must have 15 years of continuous service after the later of age 47 or date of hire to be eligible for post retirement healthcare benefits. Those benefits are limited per participant to a multiple of calendar year 2006 healthcare premiums.

The following table sets forth the plan's funded status and amounts recognized in the University's statement of financial position at June 30:

		2008	**2007**
Change in benefit obligation during year:			
Benefit obligation at beginning of year	$	36,421	34,701
Service cost		1,701	1,582
Interest cost		2,223	2,115
Benefit payments		(1,572)	(1,531)
Actuarial (gain) loss		1,142	(446)
Benefit obligation at end of year	$	39,915	36,421
Change in plan assets during year:			
Fair value of plan assets at beginning of year	$	—	—
Employer contributions		1,572	1,531
Benefit payments		(1,572)	(1,531)
Fair value of plan assets at end of year	$	—	—

		2008	2007
Net periodic benefit cost recognized for year:			
Service cost	$	1,701	1,582
Interest cost		2,223	2,115
Amortization of prior service costs		(187)	(187)
Net periodic benefit cost reported as operating expenses	$	3,737	3,510
Effect of a 1% increase in medical cost trend rate:			
Change in total of service cost and interest cost	$	446	472
Change in benefit obligation		2,540	3,555
Effect of a 1% decrease in medical cost trend rate:			
Change in total of service cost and interest cost	$	(516)	(373)
Change in benefit obligation		(4,744)	(2,965)
Weighted average assumptions at end of year:			
Discount rate		6.25%	6.25%
Initial healthcare cost trend rate		9.00	9.00
Ultimate healthcare cost trend rate		5.00	5.00
Years remaining to attain ultimate healthcare cost trend rate		5	5
Measurement date		June 30, 2008	June 30, 2007

Estimated actuarial gain (loss) and prior service cost that will be amortized over the fiscal year June 30, 2009 are $0 and $187, respectively.

Expected cash outflow information for fiscal years ending after June 30, 2008:

Year ending June 30:		
2009	$	1,801
2010		1,945
2011		2,116
2012		2,277
2013		2,446
2014 – 2018		15,033

(In thousands of dollars)

Effective June 30, 2007, the University adopted the provisions of SFAS No. 158 (SFAS 158), *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.* SFAS 158 requires a) recognition of the plan's funded status on the statement of financial position using a measurement date that corresponds to the fiscal year-end (the University has historically measured plan assets and obligations at June 30 of each year); b) recognition in the statement of activities those gains (losses) and prior service costs that arise during the period but are not currently recognized in net periodic benefit costs recorded in operating expenses; and c) provide disclosures of, among other things, gains (losses) and prior services costs recognized in the statement of activities and corresponding amounts to be recognized in the subsequent fiscal year.

Additionally, the following items were recognized during the years ended June 30, 2008 and 2007 and are presented in the statement of activities as nonoperating activities.

	2008	2007
Nonoperating activities include:		
Change in unrecognized prior service costs	$ (187)	(187)
Change in unrecognized actuarial (loss) gain	(1,142)	446
	(1,329)	259
Effect of prior years' deferrals recognized during the year ended June 30, 2007 for the adoption of SFAS 158	—	841
Postretirement healthcare credits (costs) other than net periodic costs recognized in nonoperating activities	$ (1,329)	1,100

In December 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Act) became law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health benefits that provide a benefit that is at least actuarially equivalent to the Medicare benefit. The University, through arrangements with its healthcare insurance provider, pays insurance premiums that are billed net of the federal subsidy.

(10) Commitment and Contingencies

The University has a contingent liability as guarantor of a portion of certain faculty and administrative employees' mortgages and loans. The portion of these outstanding mortgages and loans that is being guaranteed by the University amounts to $1,112 and $1,077 at June 30, 2008 and 2007, respectively.

Amounts received and expended by the University under various federal and state programs are subject to audit by governmental entities. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the University.

The University is obligated for certain construction and other commitments totaling approximately $5,200 at June 30, 2008.

(In thousands of dollars)

The University is party to various litigation and other claims in the ordinary course of business. It is the opinion of management, as advised by legal counsel, that these matters will not have a material effect on the financial statements of the University.

(11) Conditional Asset Retirement Obligations

Under FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*, costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued.

The University's conditional asset retirement obligation relates primarily to asbestos abatement. Asbestos abatement costs, in most cases, are estimated for each building or structure using a cost per square foot or cost per lineal foot based on the type of building materials containing asbestos. The asset retirement obligation at June 30, 2008 and 2007 was $1,927 and $1,766, respectively, and is included in accounts payable and accrued expenses.

(12) Operating Expenses

Operating expenses by natural classification for the years ended June 30 follow:

		2008	2007
Compensation, including benefits	$	97,536	90,243
Purchased services and supplies		44,642	42,097
Utilities and fuel		8,610	4,034
Depreciation		14,005	13,072
Interest		1,968	2,124
Total operating expenses	$	166,761	151,570

Fund-Raising

Fund-raising expenses, including alumni relations costs, totaled $11,042 and $8,990 for the years ended June 30, 2008 and 2007, respectively. These fund-raising and alumni relations expenses are reported as institutional support in the statement of activities and include salaries and wages, fringe benefits, supplies, purchased services, and allocable costs such as depreciation, information technology, and operation and maintenance of facilities expenses.

Related-Party Transaction

A member of the University's board of trustees is president and chief operating officer of a healthcare organization providing certain competitively bid healthcare insurance services to the University. Amounts paid for those insurance services totaled $2,669 and $2,321 for the years ended June 30, 2008 and 2007, respectively. Since September 2006, the University's President serves on the board of directors of the healthcare organization referred to above.

(13) Fair Value of Financial Instruments

The carrying amounts of cash, accounts and other receivables, employee loans receivable, funds held by bond trustees, and accounts payable and accrued expenses approximate fair value because of the short maturity of these financial instruments. The fair values of investments are more fully discussed in notes 1 (c) and 3.

A reasonable estimate of the fair value of loans receivable from students under government loan programs (with carrying values of $5,216 at June 30, 2008) could not be made because the notes are not salable and can only be assigned to the U.S. government or its designees. Long-term debt, with a carrying value of $42,209 at June 30, 2008, has a fair value of approximately $42,272.

(14) Accounting Standards to be Adopted During Fiscal Year Ending June 30, 2009

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a frame work for the measurement of fair value, and enhances disclosures about fair value measurements. The statement does not require any new fair value measures. The statement is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The University is required to adopt SFAS 157 beginning on July 1, 2008. SFAS 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening net assets in the year of adoption. In November 2007, the FASB proposed a one-year deferral of SFAS 157's fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The University does not expect the adoption of SFAS 157 to have a material impact on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits a company to measure certain financial instruments at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported change in net assets caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 permits companies to choose, at specified election dates, to measure certain items at fair value and report unrealized gains and losses on such items in the change in net assets. If the fair value option were elected, cumulative unrealized gains or losses on such securities at the time of adoption of SFAS 159 would be reported as cumulative-effect adjustments to net assets. SFAS 159 is effective for the University's 2009 fiscal year. The University does not expect the adoption of SFAS 159 to have a material impact on its financial statements.

In August 2008, the FASB issued FASB Staff Position No.117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No.117-1). FSP No. 117-1 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management Institutional Funds Act of 2006 (UPMIFA), which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. Presently, the Commonwealth of Pennsylvania has not adopted UPMIFA. The FSP also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations. The provisions of FSP No. 117-1 are effective for the year ending June 30, 2009.