

Financial Statements and Report of Independent
Certified Public Accountants

Ursinus College

June 30, 2012 and 2011

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Report of Independent Certified Public Accountants

The Board of Trustees
Ursinus College

We have audited the accompanying statement of financial position of Ursinus College (the College) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Ursinus College as of and for the year ended June 30, 2011 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated November 11, 2011.

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 the College'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 Ursinus College as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP
Philadelphia, Pennsylvania

November 28, 2012

Ursinus College

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	2012	2011
Cash and cash equivalents	\$ 6,548,780	\$ 7,102,502
Accounts receivable, net	898,697	1,070,686
Prepaid expenses	1,801,684	1,835,782
Pledges receivable, net	1,023,356	1,672,864
Student loans receivable (net of allowance for doubtful accounts of \$215,592 in 2012 and \$187,809 in 2011)	1,775,966	1,982,512
Deposits with bond trustees	4,542,954	5,136,273
Bond issuance costs (net of accumulated amortization of \$613,356 in 2012 and \$541,102 in 2011)	1,869,077	1,597,828
Investments and funds held in trust by others	127,133,585	132,357,536
Land, buildings, and equipment, net	118,972,810	117,866,320
Collections	4,008,184	3,701,895
Other assets	717,773	710,626
Total assets	<u>\$ 269,292,866</u>	<u>\$ 275,034,824</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,240,279	\$ 3,867,530
Accrued payroll	2,188,504	2,035,419
Deferred revenues	632,646	796,002
Refundable deposits	853,735	932,455
Retirement obligations	882,291	906,243
Annuities payable	7,691,004	7,375,264
Conditional asset retirement obligations	1,689,888	1,654,304
Long-term debt	48,606,469	48,424,494
U.S. government grants refundable	1,614,884	1,620,615
Total liabilities	66,399,700	67,612,326
Net assets		
Unrestricted	108,830,639	108,115,661
Temporarily restricted	15,513,070	20,375,048
Permanently restricted	78,549,457	78,931,789
Total net assets	<u>202,893,166</u>	<u>207,422,498</u>
Total liabilities and net assets	<u>\$ 269,292,866</u>	<u>\$ 275,034,824</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating activities				
Revenues and other additions				
Tuition and fees	\$ 72,159,140	\$ -	\$ -	\$ 72,159,140
Less student aid	(35,685,531)	-	-	(35,685,531)
Net tuition and fees	36,473,609	-	-	36,473,609
Room and board	16,413,978	-	-	16,413,978
Contributions	2,260,762	62,438	-	2,323,200
Government grants and contracts	1,240,338	-	-	1,240,338
Endowment funds used for operations	5,448,491	42,175	-	5,490,666
Other investment income	91,879	12,036	-	103,915
Other auxiliary enterprises	258,474	-	-	258,474
Other income	699,909	-	-	699,909
Net realized and unrealized gains	72,037	-	-	72,037
Net assets released from restrictions	408,014	(408,014)	-	-
Total revenues and other additions	63,367,491	(291,365)	-	63,076,126
Operating expenses				
Educational and general				
Instruction	22,894,662	-	-	22,894,662
Research	308,239	-	-	308,239
Public service	985,305	-	-	985,305
Student services	10,157,725	-	-	10,157,725
Auxiliary enterprises	10,036,166	-	-	10,036,166
Support				
Academic support	6,880,774	-	-	6,880,774
Management and general	11,326,053	-	-	11,326,053
Total operating expenses	62,588,924	-	-	62,588,924
Change in net assets from operating activities	778,567	(291,365)	-	487,202
Nonoperating activities				
Contributions	661,946	22,000	979,032	1,662,978
Government grants and contracts	1,059,383	-	-	1,059,383
Other investment income	34,485	260,524	30,883	325,892
Net realized and unrealized losses	(1,047,916)	(1,095,649)	(512,170)	(2,655,735)
Loss on retirement of long-term debt	(1,019,590)	-	-	(1,019,590)
Endowment funds provided to operations	(3,530,053)	-	-	(3,530,053)
Actuarial loss on annuity liabilities	-	(48,108)	(880,077)	(928,185)
Other expenses	68,776	-	-	68,776
Net assets released from restrictions	3,709,380	(3,709,380)	-	-
Change in net assets from nonoperating activities	(63,589)	(4,570,613)	(382,332)	(5,016,534)
Change in net assets	714,978	(4,861,978)	(382,332)	(4,529,332)
Net assets at beginning of year	108,115,661	20,375,048	78,931,789	207,422,498
Net assets at end of year	\$ 108,830,639	\$ 15,513,070	\$ 78,549,457	\$ 202,893,166

The accompanying notes are an integral part of this financial statement.

Ursinus College

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating activities				
Revenues and other additions				
Tuition and fees	\$ 71,066,441	\$ -	\$ -	\$ 71,066,441
Less student aid	(35,085,096)	-	-	(35,085,096)
Net tuition and fees	35,981,345	-	-	35,981,345
Room and board	15,927,579	-	-	15,927,579
Contributions	2,274,415	336,759	-	2,611,174
Government grants and contracts	1,331,912	-	-	1,331,912
Endowment funds used for operations	6,123,499	42,175	-	6,165,674
Other investment income	88,863	2,640	-	91,503
Other auxiliary enterprises	530,210	-	-	530,210
Other income	778,720	-	-	778,720
Net realized and unrealized gains	54,671	-	-	54,671
Net assets released from restrictions	511,029	(511,029)	-	-
Total revenues and other additions	63,602,243	(129,455)	-	63,472,788
Operating expenses				
Educational and general				
Instruction	22,651,849	-	-	22,651,849
Research	430,358	-	-	430,358
Public service	895,555	-	-	895,555
Student services	9,546,427	-	-	9,546,427
Auxiliary enterprises	9,874,194	-	-	9,874,194
Support				
Academic support	5,709,869	-	-	5,709,869
Management and general	11,412,974	-	-	11,412,974
Total operating expenses	60,521,226	-	-	60,521,226
Change in net assets from operating activities	3,081,017	(129,455)	-	2,951,562
Nonoperating activities				
Contributions	395,406	1,914,861	2,553,699	4,863,966
Government grants and contracts	165,557	-	-	165,557
Other investment income	34,802	98,551	31,252	164,605
Net realized and unrealized gains	5,172,615	12,929,033	2,382,500	20,484,148
Realized gain on sale of property and equipment	1,000	-	-	1,000
Endowment funds provided to operations	(3,726,123)	-	-	(3,726,123)
Actuarial gain on annuity liabilities	-	83,931	241,912	325,843
Other expenses	(150,449)	-	-	(150,449)
Net assets released from restrictions	8,158,625	(8,158,625)	-	-
Change in net assets from nonoperating activities	10,051,433	6,867,751	5,209,363	22,128,547
Change in net assets	13,132,450	6,738,296	5,209,363	25,080,109
Net assets at beginning of year	94,983,211	13,636,752	73,722,426	182,342,389
Net assets at end of year	\$ 108,115,661	\$ 20,375,048	\$ 78,931,789	\$ 207,422,498

The accompanying notes are an integral part of this financial statement.

Ursinus College

STATEMENTS OF CASH FLOWS

For the years ended June 30,

	2012	2011
Cash flows from operating activities		
Change in net assets	\$ (4,529,332)	\$ 25,080,109
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,854,820	3,683,252
Accretion of asset retirement obligations	35,584	40,575
Net unrealized and realized losses (gains) on long-term investments	2,583,699	(20,538,820)
Net realized gain on sale of property and equipment	-	(1,000)
Bond premium amortization	(9,678)	(9,678)
Amortization of bond issuance costs	72,256	72,256
Loss on retirement of long-term debt	1,019,590	-
Payments to annuitants	887,772	661,271
Actuarial loss (gain) on annuities payable	928,185	(325,843)
Contributions restricted for long-term investment and annuity contracts	(2,145,756)	(5,530,664)
Income reinvested	(30,883)	(31,252)
Changes in assets and liabilities		
Accounts receivable	171,996	525,072
Accrued income receivable	(7)	93
Prepaid expenses	34,098	(326,723)
Pledges receivable	649,508	719,897
Accounts payable and accrued expenses	(1,770,089)	(1,241,501)
Accrued payroll	153,085	(287,087)
Deferred revenues	(163,356)	17,811
Refundable deposits	(78,720)	(15,805)
Retirement obligations	(23,952)	(142,916)
Net cash provided by operating activities	<u>1,638,820</u>	<u>2,349,047</u>
Cash flows from investing activities		
Purchases of property, equipment and collections	(5,124,761)	(4,277,540)
Sales of property and equipment	-	1,000
Proceeds from sales and maturities of investments	57,416,059	2,864,237
Purchases of investments	(54,825,619)	(4,426,710)
Payments on loans receivable	288,750	288,270
Loans issued to students	(64,396)	(75,630)
Net cash used in investing activities	<u>(2,309,967)</u>	<u>(5,626,373)</u>
Cash flows from financing activities		
Contributions received restricted for long-term investment	2,018,463	5,453,388
Contributions received restricted for investments in annuity contracts	127,293	77,276
Proceeds from issuance of long-term debt	18,865,000	-
Payments on long-term debt	(19,692,937)	(1,104,784)
Bond issuance costs	(343,505)	-
Payments to annuitants	(887,772)	(661,271)
Receipts of dividends and interest restricted for reinvestment	30,883	31,252
Net cash provided by financing activities	<u>117,425</u>	<u>3,795,861</u>
Net (decrease) increase in cash and cash equivalents	(553,722)	518,535
Cash and cash equivalents at beginning of year	<u>7,102,502</u>	<u>6,583,967</u>
Cash and cash equivalents at end of year	<u>\$ 6,548,780</u>	<u>\$ 7,102,502</u>
Supplemental disclosures:		
Cash paid for interest	\$ 2,281,391	\$ 2,438,507
Construction-related payables	\$ 142,838	\$ 1,093,023

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

Ursinus College (the College) is an independent, four-year liberal arts college founded in 1869. The mission of the College is to enable students to become independent, responsible, and thoughtful individuals through a program of liberal education. The College enrolls approximately 1,700 full-time students, approximately 93% of whom live in College residence halls. During the 2011 - 2012 academic year, the College provided education to 1,754 full-time-equivalent day students from 36 states and 13 countries.

The College provides facilities for the Saint Joseph's University Masters in Business Administration program, which attract approximately 210 part-time evening students.

2. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The College's financial statements are presented in accordance with the financial reporting requirements for not-for-profit organizations, which include three basic financial statements and the classification of resources into three separate classes of net assets, as follows:

Unrestricted - Net assets that are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the board of trustees.

Temporarily Restricted - Net assets whose use by the College is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the College pursuant to these stipulations.

Permanently Restricted - Net assets whose use by the College is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the College. Generally, the donors of these assets permit the College to use all or part of the investment income on related investments for general or specific purposes. Such assets primarily include the College's permanent endowment fund.

3. Contributions and Related Expenses

Contributions are recognized as revenue when 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 estimated fair value on the date of donation. Gifts of cash and other noncapital assets are reported as unrestricted operating revenue if the gifts were received with no restrictions or if the specified restrictions have been satisfied within the current fiscal year. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pledges to be received after one year are recorded at fair value using a discount rate commensurate with the collection period of the gift investment. Amortization of the discount is recorded as additional contribution revenue.

Costs incurred for fund-raising activities are expensed as incurred. Total fund-raising costs, included in management and general expenses, were \$2,627,837 and \$2,685,817 in 2012 and 2011, respectively.

4. Cash Equivalents

Cash equivalents represent demand deposits and other investments held by the College with original maturity dates not exceeding 90 days.

5. Deferred Revenues

Deferred revenues relate to tuition and matriculation deposits and other payments for the upcoming fall semester that are received prior to fiscal year-end.

6. Student Loans Receivable

As of June 30, 2012 and 2011, student loans receivable are stated net of an allowance for doubtful loans. Uncollectible Federal Perkins Loans are not written-off until approved for write-off or accepted for assignment by the U.S. Department of Education.

7. Allowances for Doubtful Accounts

The allowances for doubtful accounts and pledges receivable are provided based upon management's judgment, including such factors as prior collection history and type of receivable. The College writes-off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the provision for doubtful accounts.

8. Investments

Investments comprise all classes of investments held and invested by the College's professional portfolio managers. Investments with readily determinable market values are reported in the financial statements at fair value based on quoted market prices. The estimated fair value of alternative investments such as hedge funds and private equity interests are based on net asset value as provided by the external investment managers as a practical expedient for fair value. See Note A14 for additional information.

Gains or losses on investments other than endowment funds are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Gains or losses on endowment investments not otherwise restricted are recognized as increases or decreases in temporarily restricted net assets in accordance with Commonwealth of Pennsylvania law (Note L).

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost at the date of purchase or fair value at date of donation in the case of gifts. Accumulated depreciation is computed on a straight-line basis over the estimated useful lives of the assets: 50 years for buildings and certain improvements, 20 years for building improvements, and 5 years for furniture and equipment.

10. Collections

In 1989, the College opened the Philip and Muriel Berman Museum of Art. The collection contained therein is valued at the fair market value at the date of acquisition or date of gift. Fair market value for gifts of art is determined by independent appraisals.

Gains or losses on the deaccession of collection items are classified on the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession. There were no acquisitions or deaccessions of the collections recorded in the years ended June 30, 2012 and 2011.

11. Annuities Payable

Annuities payable represent the net present value of expected future payments to beneficiaries designated under annuity gift agreements. Adjustments related to changes in estimates of future payments to beneficiaries and actuarial assumptions are recorded as actuarial gains or losses. Included in investments on the statement of financial position for 2012 is \$5,102,530 as reserves for future payments of annuities payable.

12. Conditional Asset Retirement Obligations

A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The College records a liability to perform the asset retirement activity.

13. Functional Expenses

Operation and maintenance expenses, depreciation of plant assets and interest on long-term debt are allocated to program and supporting activities based upon the primary use of the facilities.

14. Nonoperating Activities

The College considers endowment gifts, capital contributions and grants and related expenditures, net realized and unrealized gains and losses on investments, actuarial gains and losses on annuities payable, gains and losses on the disposition of property and equipment, loss on retirement of debt, revenue and expenses related to loan funds and trusts, and unusual nonrecurring transactions to be nonoperating activities.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

15. Tax-Exempt Status

Under provisions of Internal Revenue Code Section 501(c)(3) and the applicable income tax regulations of Pennsylvania, the College is exempt from taxes on income other than unrelated business income.

The College recognizes or derecognizes a tax position based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The College does not believe its financial statements include any material uncertain tax positions.

16. Management Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful accounts for student accounts, loans and pledges receivable; alternative investment values; useful lives of fixed assets; conditional asset retirement obligations; functional expense allocation and annuities payable. Actual results could differ from those estimates.

17. Concentration of Credit Risk

Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market volatility, and credit. To minimize such risks, the College has a diversified investment portfolio managed by several independent investment managers in a variety of asset classes. The College regularly evaluates its investments including performance thereof. The College maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federal insured limits. The College's cash accounts were placed with high credit quality financial institutions. Due to inherent risks and potential volatility in investment valuations, the amounts reported in the accompanying financial statements can vary substantially from year to year. It is reasonably possible that changes in investments will occur in the near term and such changes could materially affect amounts reported in the accompanying financial statements.

18. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The College measures its investments, certain split-interest agreements, and contributions receivable (at inception) at fair value. Additionally, the College discloses the fair value of its outstanding debt. The College's valuation methodologies for each of these items are described below.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose primary values are observable.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity funds and certain other alternative investments.

Investments

Investments are recorded at fair value as described above. Additional considerations used to categorize investments include:

Cash and Money Market Funds

Cash and money market funds are valued based on stated values. These funds are valued at Level 1.

U.S. Government Obligations

U.S. government securities are generally valued at the closing price reported in the active market in which the individual security is traded.

Debt securities, including corporate and international securities, are valued at the closing price reported in the active market in which the bond is traded, if available, and classified as Level 1 of the fair value hierarchy. If such information is not available, debt is valued based on yields currently available on comparable securities for issuers with similar credit ratings and classified in Level 2 of the fair value hierarchy.

Mutual Funds

Mutual funds including equity, fixed income, and international mutual funds are valued at the closing price of the traded fund at the balance sheet date. To the extent these mutual funds are actively traded, they are categorized in Level 1 of the fair value hierarchy.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Equity Securities

Securities, including common stocks and commodities funds, are traded on a national securities exchange. These securities are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded, they are categorized in Level 1 of the fair value hierarchy.

Alternative Investments

Valuations for alternative investments, including debt and equity funds, private partnerships, and other alternative investments, are based on net asset value (NAV) provided by external investment managers or on audited financial statements when available. NAV provided by external investment managers are based on estimates, assumptions, and methods that are reviewed by management and, therefore, alternative investments have been classified as Level 3 in the fair value hierarchy.

The College uses NAV per share as reported by investment managers as a practical expedient of fair value without further adjustment for its investments in alternative investments for which there is no readily determinable market value. NAV may differ from fair value.

Funds Held in Trust by Others

The College's beneficial interest in trusts held by others is recorded at fair value based on the fair value of the trust's holdings as reported by the trustee or the NAV of the trust or entity.

Real Estate Fund

This fund invests in publicly traded securities of real estate companies. These investments are considered Level 1 as the underlying equities are publicly traded.

Deposits with Bond Trustees

Deposits with bond trustees consist of short-term investments including repurchase agreements and U.S. government obligations and are restricted for debt service reserves. These are considered Level 1 in the fair value hierarchy.

Pledges Receivable

The College values pledges receivable at fair value on the date the gift is received using the present value of future cash flows, as described in Note B. Pledges receivable are not measured at fair value subsequent to this initial measurement.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

19. New Accounting Pronouncement

In January 2010, the Financial Accounting Standards Board (FASB) issued accounting guidance to enhance fair value measurement disclosures by requiring the reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reason for the transfers. Furthermore, activity in Level 3 fair value measurements should separately provide information about purchases, sales, issues and settlements rather than providing that information as one net number. The College adopted this guidance for the year ended June 30, 2011, with the exception of the enhanced Level 3 disclosures, which were adopted for the year ended June 30, 2012. The adoption of this guidance did not have a material impact on the financial statements.

20. Pending Accounting Pronouncement

In May 2011, the FASB issued guidance that expands the existing disclosure requirements for fair value measurements, primarily for Level 3 measurements, which are measurements based on unobservable inputs. This guidance is largely consistent with current fair value measurement principles with few exceptions that do not result in a change in general practice. The amendments will include enhancements to disclosures about fair value measurements, including the sensitivity of Level 3 measurements to changes in unobservable inputs and the interrelationships between those unobservable inputs, an entity's use of a nonfinancial asset that differs from its highest and best use, and the categorization by level of the fair value hierarchy for items not measured at fair value within the financial statements, but for which the fair value is required to be disclosed. The guidance will be applied prospectively and will be effective for the year ending June 30, 2013. The adoption of this guidance is not expected to have a material impact on the College's financial position or results of activities as the guidance relates only to disclosure requirements.

NOTE B - PLEDGES RECEIVABLE

The College records unconditional promises to give as pledges receivable. Pledges that were initiated during the following years and were due beyond one year were discounted at discount rates that range from 0.21% to 6.00%.

At June 30, 2012 and 2011, information on pledges receivable is as follows:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 795,903	\$ 574,276
One to five years	<u>371,163</u>	<u>1,395,182</u>
Total pledges	1,167,066	1,969,458
Allowance for uncollectible pledges	<u>(143,710)</u>	<u>(296,594)</u>
	<u>\$ 1,023,356</u>	<u>\$ 1,672,864</u>

At June 30, 2012 and 2011, the unamortized discount was \$3,535 and \$40,664, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE C - ACCOUNTS RECEIVABLE

At June 30, 2012 and 2011, information on accounts receivable is as follows:

	<u>2012</u>	<u>2011</u>
Students	\$ 205,437	\$ 237,661
Employees	21,092	24,649
Research and development grants	445,976	410,639
Accrued interest	128	121
Other	<u>374,643</u>	<u>556,661</u>
Total accounts receivable	1,047,276	1,229,731
Allowance for uncollectible receivables	<u>(148,579)</u>	<u>(159,045)</u>
	<u>\$ 898,697</u>	<u>\$ 1,070,686</u>

NOTE D - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE

Student Loans Receivable

The College makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. At June 30, 2012 and 2011, student loans represented 0.7% of total assets.

At June 30, student loans consisted of the following:

	<u>2012</u>	<u>2011</u>
Federal government programs	\$ 1,957,525	\$ 2,141,162
Institutional programs	<u>34,033</u>	<u>29,159</u>
	1,991,558	2,170,321
Less allowance for doubtful accounts:		
Beginning of year	(187,809)	(176,004)
Increases	(36,416)	(19,328)
Write-offs	<u>8,633</u>	<u>7,523</u>
End of year	<u>(215,592)</u>	<u>(187,809)</u>
Student loans receivable, net	<u>\$ 1,775,966</u>	<u>\$ 1,982,512</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE D - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE - Continued

The College participates in various federal revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of approximately \$1,614,000 at June 30, 2012 and 2011 are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan.

At June 30, 2012 and 2011, the following amounts were past due under student loan programs:

<u>June 30,</u>	<u>Less than 240 days past due</u>	<u>240 days - 2 years past due</u>	<u>2 - 5 years past due</u>	<u>Over 5 years past due</u>	<u>Total past due</u>
2012	\$ 178,822	\$ 78,366	\$ 144,918	\$ 119,701	\$ 521,807
2011	196,536	108,873	100,048	106,029	511,486

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. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Perkins Loan Program are guaranteed by the government and, therefore, no reserves are placed on any past-due balances under the program.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following tables present the College's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2012 and 2011, respectively:

	Fair value measurements at June 30, 2012			Fair value 2012
	Level 1	Level 2	Level 3	
Investments:				
Cash and money market funds	\$ 4,302,646	\$ -	\$ -	\$ 4,302,646
U.S. government obligations	6,455,010	1,000	-	6,456,010
Fixed-income mutual funds	20,463,285	-	-	20,463,285
Common stocks	109,098	-	-	109,098
Equity mutual funds	38,131,733	-	-	38,131,733
International equity mutual funds	33,355,830	-	-	33,355,830
Commodities fund	5,505,156	-	-	5,505,156
Real estate fund	1,093,970	-	-	1,093,970
Alternative investments:				
Hedge fund:				
Total return	-	-	4,772,563	4,772,563
Arbitrage	-	-	942,895	942,895
Private equity:				
Private equity	-	-	410,109	410,109
Distressed debt	-	-	2,477,965	2,477,965
Other	-	385,208	179,113	564,321
Funds held in trust by others ⁽¹⁾	-	-	8,548,004	8,548,004
Total investments	109,416,728	386,208	17,330,649	127,133,585
Deposits with bond trustees	4,542,954	-	-	4,542,954
Total assets	\$ 113,959,682	\$ 386,208	\$ 17,330,649	\$ 131,676,539

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

	Fair value measurements at June 30, 2011			Fair value 2011
	Level 1	Level 2	Level 3	
Investments:				
Cash and money market funds	\$ 6,330,800	\$ -	\$ -	\$ 6,330,800
U.S. government obligations	9,785,662	1,000	-	9,786,662
Fixed-income mutual funds	21,751,147	-	-	21,751,147
Common stocks	213,953	-	-	213,953
Equity mutual funds	37,380,423	-	-	37,380,423
International equity mutual funds	30,329,632	-	-	30,329,632
Commodities fund	4,812,066	-	-	4,812,066
Real estate fund	2,418,390	-	-	2,418,390
Alternative investments:				
Hedge fund:				
Total return	-	-	4,927,891	4,927,891
Arbitrage	-	-	1,300,730	1,300,730
Private equity:				
Private equity	-	-	144,671	144,671
Distressed debt	-	-	3,431,666	3,431,666
Other	-	391,678	235,534	627,212
Funds held in trust by others ⁽¹⁾	-	-	8,902,293	8,902,293
Total investments	113,022,073	392,678	18,942,785	132,357,536
Deposits with bond trustees	5,136,273	-	-	5,136,273
Total assets	\$ 118,158,346	\$ 392,678	\$ 18,942,785	\$ 137,493,809

⁽¹⁾ Included in funds held in trust by others (FHITBO) is a 50% share of a managed trust fund (equities and REITs), an irrevocable, charitable trust (mutual funds) and a total return trust (mutual funds and partnerships).

There were no transfers into or out of Levels 1, 2, and 3 for the year ended June 30, 2012.

All investments in the alternative investment category are valued at estimated fair value using NAV per share as a practical expedient. At June 30, 2012, the alternative investment category consisted of a total return fund, an arbitrage hedge fund, a private equity fund and two distressed debt private equity funds. A description of these funds and their liquidity and redemption features follows.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

Total Return Fund

This fund's objective is to maximize risk-adjusted returns and achieve low correlation to the equity markets by investing in a diversified group of pooled investment vehicles both within and outside the United States. The College may redeem on a quarterly basis with 60 days written notice.

Arbitrage Fund

This fund's objective is to develop and actively maintain an investment portfolio of alternative asset managers that will seek to earn above-average, risk-adjusted long-term returns with low correlation to traditional equity and fixed income markets. During the year ended December 31, 2009, the fund received redemption requests from shareholders that could not be entirely satisfied solely through distribution of cash as a result of the fund's investments in certain investment funds that were illiquid. The fund is now in liquidation. As it receives distributions from the illiquid investments funds and satisfies its liabilities, net proceeds will periodically be distributed to all shareholders on a pro rata basis. The College received \$378,566 from the fund during the year ended June 30, 2012, and the remaining balance of \$942,895 is nonredeemable and will be paid out as funds become available through the liquidation process.

Private Equity

The College has a total capital commitment of \$1,870,000 to these funds, of which \$1,437,420 is currently unfunded. The objective of the funds is to realize a long-term total return by investing in a diversified group of pooled investment vehicles. The funds may invest in any of the following strategies: venture, buyout, distressed, real estate, fund of funds, and secondaries. These funds are not redeemable, and capital will be returned throughout the life of the funds as investments provide a cash flow stream or are liquidated. The remaining term of these funds is 14 years.

Private Equity - Distressed Debt Funds

The College has a total capital commitment of \$4,750,000 to these funds, of which \$1,428,828 is currently unfunded. The funds invest directly and indirectly in the securities of entities which are experiencing financial difficulties. These funds are not redeemable, and capital will be returned to investors through liquidation upon termination of the funds. Remaining lives of the funds are estimated at between 5 and 11 years.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

The following tables present assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011:

<u>Investment type</u>	<u>Total return hedge fund</u>	<u>Arbitrage hedge fund</u>	<u>Private equity</u>	<u>Distressed debt</u>	<u>Other (Glenmede and TLV III)</u>	<u>Funds held in trust by others</u>	<u>Total Level 3 investments</u>
<u>2012</u>							
Beginning balance	\$ 4,927,891	\$ 1,300,730	\$ 144,671	\$ 3,431,666	\$ 235,534	\$ 8,902,293	\$ 18,942,785
Gains (realized and unrealized)	-	20,732	-	275,176	2,154	4,179	302,241
Losses (realized and unrealized)	(155,328)	-	(15,492)	(271,288)	(31,684)	(346,478)	(820,270)
Purchases	-	-	310,022	263,804	75,865	14,028	663,719
Issuances	-	-	-	-	-	-	-
Settlements	-	(378,567)	(29,092)	(1,221,393)	(102,756)	(26,018)	(1,757,826)
Transfers	-	-	-	-	-	-	-
	<u>\$ 4,772,563</u>	<u>\$ 942,895</u>	<u>\$ 410,109</u>	<u>\$ 2,477,965</u>	<u>\$ 179,113</u>	<u>\$ 8,548,004</u>	<u>\$ 17,330,649</u>
<u>2011</u>							
Beginning balance	\$ 2,584,867	\$ 2,711,168	\$ -	\$ 3,521,908	\$ 20,935	\$ 7,608,445	\$ 16,447,323
Gains (realized and unrealized)	43,024	163,515	-	384,318	15,287	1,309,988	1,916,132
Losses (realized and unrealized)	-	-	(6,980)	-	-	-	(6,980)
Purchases	2,300,000	-	151,651	573,800	199,312	11,637	3,236,400
Issuances	-	-	-	-	-	-	-
Settlements	-	(1,573,953)	-	(1,048,360)	-	(27,777)	(2,650,090)
Transfers	-	-	-	-	-	-	-
	<u>\$ 4,927,891</u>	<u>\$ 1,300,730</u>	<u>\$ 144,671</u>	<u>\$ 3,431,666</u>	<u>\$ 235,534</u>	<u>\$ 8,902,293</u>	<u>\$ 18,942,785</u>

Return on the College's cash and investments for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 2,781,406	\$ 3,125,758
Investment fees	(390,986)	(430,099)
Realized gains	4,195,870	4,441,574
Unrealized gains/(losses)	(6,779,568)	16,097,245
	<u>\$ (193,278)</u>	<u>\$ 23,234,478</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

The total investment return for the College is shown in the statements of activities as follows:

	<u>2012</u>	<u>2011</u>
Operating activities:		
Endowment funds used for operations	\$ 5,490,666	\$ 6,165,674
Other investment income	103,915	91,503
Net realized and unrealized gains	72,037	54,671
Nonoperating activities:		
Endowment funds provided to operations	(3,530,053)	(3,726,123)
Other investment income	325,892	164,605
Net realized and unrealized (losses) gains	<u>(2,655,735)</u>	<u>20,484,148</u>
	<u>\$ (193,278)</u>	<u>\$ 23,234,478</u>

NOTE F - LAND, BUILDINGS, AND EQUIPMENT

The components of land, buildings, and equipment at June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Nondepreciable assets, primarily land	\$ 567,618	\$ 567,618
Buildings and improvements	166,879,988	161,146,932
Furniture and equipment	6,998,559	6,278,223
Construction in progress	<u>1,942,021</u>	<u>3,434,103</u>
	176,388,186	171,426,876
Less accumulated depreciation and amortization	<u>(57,415,376)</u>	<u>(53,560,556)</u>
	<u>\$ 118,972,810</u>	<u>\$ 117,866,320</u>

The College has outstanding commitments on construction contracts of approximately \$172,108 and \$3,326,303 as of June 30, 2012 and 2011, respectively.

Depreciation and amortization expense was \$3,854,820 and \$3,683,252 for the years ended June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE G - LONG-TERM DEBT

Total long-term debt consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
PHEFA College Revenue Bonds - Series of 2003	\$ 15,230,000	\$ 34,775,000
PHEFA College Revenue Bonds - Series of 2006	13,265,000	13,425,000
PHEFA College Revenue Bonds - Series of 2012	<u>18,865,000</u>	<u>-</u>
	47,360,000	48,200,000
Plus unamortized bond premium	<u>1,246,469</u>	<u>224,494</u>
	<u>\$ 48,606,469</u>	<u>\$ 48,424,494</u>

The College's principal obligations for all long-term debt are due as follows:

2013	\$ 1,500,000
2014	1,240,000
2015	1,285,000
2016	1,345,000
2017	1,395,000
Thereafter	<u>40,595,000</u>
	<u>\$ 47,360,000</u>

Fair value is estimated based on the quoted market prices for the same or similar issues or on the net present value of the expected future cash flows using current interest rates. The estimated fair value of the College's debt is approximately \$49,778,881 and \$49,159,451 as of June 30, 2012 and 2011, respectively.

1. PHEFA College Revenue Bonds, Series of 2003 (Ursinus College)

In October 2003, the College issued \$40,600,000 of revenue bonds to pay for the costs of the planning, designing, acquiring, constructing, renovating, equipping, and furnishing of various facilities located on the campus of the College, including the Performing Arts Center, and to refund the College's previous bond issues. In May 2012, the College advance refunded a portion of these bonds with the PHEFA series of 2012 bond issue. Final payment on the remaining bonds is due January 1, 2033, with interest rates of these fixed rate revenue bonds ranging from 3.88% to 5.50% during the remaining term of the bonds. In accordance with the bond issue, the College must meet certain financial covenants related to the issuance of additional debt or guarantees and coverage of the College's debt service requirements. The College is in compliance with these covenants for the year ended June 30, 2012.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE G - LONG-TERM DEBT - Continued

2. PHEFA College Revenue Bonds, Series of 2006 (Ursinus College)

In February 2006, the College issued \$14,000,000 of revenue bonds to pay for the costs of the planning, designing, acquiring, constructing, furnishing, and equipping of a new student residence hall to be located on the College's campus, and to plan, design, acquire, construct, renovate, remodel, furnish, equip, and improve other facilities and buildings, including Bomberger Hall. These serial bonds began repayment on January 1, 2008, with the final payment due January 1, 2036, with interest rates of these fixed rate revenue bonds ranging from 4.00% to 5.00% during the remaining term of the bonds. In accordance with the bond issue, the College must follow the same financial covenants as stipulated with the College's 2003 Series bonds, which they are in compliance with for the year ended June 30, 2012.

3. PHEFA College Revenue Bonds, Series of 2012 (Ursinus College)

In May 2012, the College issued \$18,865,000 of revenue bonds as an advanced refunding of a portion of the College's PHEFA Series 2003 revenue bonds. These serial bonds begin repayment on January 1, 2013, with the final payment due January 1, 2033. Interest rates of these fixed rate revenue bonds range from 2.00% to 5.00% during the term of the bonds. In accordance with the bond issue, the College must follow the same financial covenants as stipulated with the College's 2003 Series bonds, which they are in compliance with for the year ended June 30, 2012.

4. Interest

Interest expense in 2012 and 2011 was \$2,281,391 and \$2,430,385, respectively.

NOTE H - NET ASSETS

Included in unrestricted net assets is \$23,085,510 and \$24,197,338 of board-designated endowment funds at June 30, 2012 and 2011, respectively.

The temporarily and permanently restricted net asset classes consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Temporarily restricted net assets:		
Unexpended gifts for instruction, scholarships, and capital expenditures	\$ 1,227,917	\$ 1,208,961
Pledges	800,607	1,205,961
Annuity and life income funds	4,615,134	4,217,195
Endowment - accumulated realized and unrealized investment gains unexpended for instruction, scholarships, and capital expenditures (Note L)	<u>8,869,412</u>	<u>13,742,931</u>
	<u>\$ 15,513,070</u>	<u>\$ 20,375,048</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE H - NET ASSETS - Continued

	<u>2012</u>	<u>2011</u>
Permanently restricted net assets:		
Annuity and life income funds	\$ 5,080,665	\$ 6,231,278
Student loans	998,971	924,169
Endowment principal:		
General endowment	32,528,355	32,520,468
Scholarship and prizes	27,923,541	27,183,157
Endowed chairs	11,300,135	11,110,775
Pledges	222,750	466,902
Endowment - accumulated realized and unrealized investment gains	<u>495,040</u>	<u>495,040</u>
	<u>\$ 78,549,457</u>	<u>\$ 78,931,789</u>

NOTE I - NET ASSETS RELEASED FROM RESTRICTIONS AND ENDOWMENT SPENDING RULE

At June 30, 2012 and 2011, the composition of net assets released from restrictions on the statements of activities was as follows:

	<u>2012</u>	<u>2011</u>
Net assets released from restrictions:		
Donor restrictions met	\$ 587,341	\$ 4,943,531
Endowment gains under spending rule (see Note L)	<u>3,530,053</u>	<u>3,726,123</u>
	<u>\$ 4,117,394</u>	<u>\$ 8,669,654</u>

The total used from endowment is composed of endowment investment interest and dividends, less fees, and accumulated gains to the extent necessary to meet the approved spending rate. The composition of the total used is as follows:

	<u>2012</u>	<u>2011</u>
Endowment (including funds functioning) funds used for operations:		
Endowment interest and dividends	\$ 1,960,613	\$ 2,439,551
Accumulated realized and unrealized investment gains	<u>3,530,053</u>	<u>3,726,123</u>
	<u>\$ 5,490,666</u>	<u>\$ 6,165,674</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE J - POSTRETIREMENT BENEFIT PLANS

(Emeriti program)

In July 2005, the College revised its postretirement healthcare program for other than existing retirees receiving benefits under the plan described above. The College joined Emeriti Retirement Health Solution, a consortium of colleges and universities organized to address retiree healthcare needs. The College deposits a set amount for each employee who is 40 years of age or older into a Voluntary Employee Benefits Associations account in the employee's name. Employees will have access to these funds to use for their postretirement healthcare needs. Because the College is prefunding retiree healthcare costs in a defined contribution account, it will have no future obligation for these costs when active employees retire. Current retirees' healthcare benefits will continue to be funded through the plan in place prior to June 30, 2005. Total College contributions to the Emeriti plan were \$177,115 and \$169,846 for the years ended June 30, 2012 and 2011, respectively.

(Postretirement benefits other than pensions)

The following schedules show the status of the postretirement medical and life insurance benefits plan for existing retirees, the components of the cost of postretirement benefits other than pensions, and assumptions at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest cost	\$ <u>43,196</u>	\$ <u>50,141</u>
	\$ <u>43,196</u>	\$ <u>50,141</u>

Reconciliation of the funded status is as follows:

	<u>2012</u>	<u>2011</u>
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 882,291	\$ 906,243
Active employees fully eligible	-	-
Active employees not yet fully eligible	<u>-</u>	<u>-</u>
Total	882,291	906,243
Fair value of plan assets	<u>-</u>	<u>-</u>
APBO in excess of plan assets	882,291	906,243
Unrecognized net gain	<u>-</u>	<u>-</u>
Accrued postretirement benefit cost	\$ <u>882,291</u>	\$ <u>906,243</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE J - POSTRETIREMENT BENEFIT PLANS - Continued

The assumed healthcare cost trend rate for fiscal year 2012 is 8%, grading down to an ultimate level of 3% over the next six years, 2018. Increasing the healthcare trend rate by 1% each year would increase the accumulated postretirement benefit obligation by \$58,619 as of June 30, 2012, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year by \$3,068. Decreasing the healthcare trend rate by 1% each year would decrease the accumulated postretirement benefit obligation by \$52,801 as of June 30, 2012, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year by \$2,760. The discount rate used in determining the accumulated postretirement benefit obligation was 4.0% at June 30, 2012 and 5.0% at June 30, 2011.

The benefits paid under this plan were \$81,612 and \$86,971 for the years ended June 30, 2012 and 2011, respectively.

At June 30, 2012, the College's expected future benefit payments for future service are as follows:

<u>Year ending June 30:</u>	
2013	\$ 83,230
2014	84,315
2015	84,288
2016	83,125
2017	80,857
2018 - 2022	344,739

(Defined contribution plan)

The College also has a defined contribution retirement plan for eligible faculty, administration, and staff employees. The plan is fully funded, and participant interests are fully vested. Employees are required to contribute at least 4% of their annual base salary. The College's contributions, based on 7% of salaries, were approximately \$1,494,004 and \$1,425,395 in 2012 and 2011, respectively.

NOTE K - COMMITMENTS AND CONTINGENCIES

The College is party to certain claims and litigation arising in the ordinary course of business. In the opinion of management, the resolution of such claims and litigation will not materially affect the College's financial position.

NOTE L - ENDOWMENTS

The College's endowment consists of approximately 990 individual funds including annuity funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE L - ENDOWMENTS - Continued

1. Interpretation of Relevant Law

Governing law resides in 15 Pa. C.S. 5548, *Investment of Trust Funds*. The College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by relevant law. Pennsylvania law permits the board of trustees to make an election to annually appropriate for expenditure a selected percentage between 2% and 7% of the fair value of the assets related to donor-restricted endowment funds averaged over a period of three or more preceding years, provided the board has determined that such percentage is consistent with the long-term preservation of the real value of such assets.

2. Return Objectives and Risk Parameters

The College 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 organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of plus 6% over the consumer price index while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from that amount.

3. Spending Policy

In accordance with state law, net realized and unrealized gains on permanently restricted investments are included as temporarily restricted net assets, even absent donor restrictions on the use of gains. Commonwealth of Pennsylvania law permits the College to adopt a spending policy for endowment earnings, subject to certain limitations. The College follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. The College's spending rate is annually approved by the board of directors, and for the years ended June 30, 2012 and 2011, the rate was 5.75% of the 20-quarter moving average market value of the pooled endowment.

4. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. Deficiencies of this nature were approximately \$555,287 and \$63,912 as of June 30, 2012 and 2011, respectively. Such deficiencies are recorded as unrestricted net assets from board-designated endowment funds. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE L - ENDOWMENTS - Continued

Net asset classification by type of endowment as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 13,484,546	\$ 77,327,736	\$ 90,812,282
Board-designated endowment funds	<u>23,085,510</u>	<u>-</u>	<u>-</u>	<u>23,085,510</u>
	<u>\$ 23,085,510</u>	<u>\$ 13,484,546</u>	<u>\$ 77,327,736</u>	<u>\$ 113,897,792</u>

Changes in endowment net assets for the year ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 24,133,426	\$ 17,960,126	\$ 77,540,718	\$ 119,634,270
Investment return:				
Investment income	1,918,438	302,700	6,565	2,227,703
Net depreciation (realized and unrealized gains and losses)	<u>(1,047,916)</u>	<u>(1,095,650)</u>	<u>(564,255)</u>	<u>(2,707,821)</u>
Total investment return	870,522	(792,950)	(557,690)	(480,118)
Contributions	-	-	979,032	979,032
Actuarial loss on annuity liabilities	-	(48,108)	(880,077)	(928,185)
Appropriation of endowment assets for expenditure	(1,918,438)	(3,572,228)	-	(5,490,666)
Other changes	<u>-</u>	<u>(62,294)</u>	<u>245,753</u>	<u>183,459</u>
	<u>\$ 23,085,510</u>	<u>\$ 13,484,546</u>	<u>\$ 77,327,736</u>	<u>\$ 113,897,792</u>

Net asset (deficit) classification by type of endowment as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (63,912)	\$ 17,960,126	\$ 77,540,718	\$ 95,436,932
Board-designated endowment funds	<u>24,197,338</u>	<u>-</u>	<u>-</u>	<u>24,197,338</u>
	<u>\$ 24,133,426</u>	<u>\$ 17,960,126</u>	<u>\$ 77,540,718</u>	<u>\$ 119,634,270</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE L - ENDOWMENTS - Continued

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 18,960,561	\$ 8,694,924	\$ 72,591,585	\$ 100,247,070
Investment return:				
Investment income	2,397,376	140,726	6,753	2,544,855
Net appreciation (realized and unrealized gains and losses)	<u>5,172,615</u>	<u>12,929,033</u>	<u>2,245,607</u>	<u>20,347,255</u>
Total investment return	7,569,991	13,069,759	2,252,360	22,892,110
Contributions	250	-	2,494,299	2,494,549
Actuarial gain on annuity liabilities	-	83,931	241,913	325,844
Appropriation of endowment assets for expenditure	(2,397,376)	(3,768,298)	-	(6,165,674)
Other changes	<u>-</u>	<u>(120,190)</u>	<u>(39,439)</u>	<u>(159,629)</u>
	<u>\$ 24,133,426</u>	<u>\$ 17,960,126</u>	<u>\$ 77,540,718</u>	<u>\$ 119,634,270</u>

NOTE M - SUBSEQUENT EVENTS

The College evaluated its June 30, 2012 financial statements for subsequent events through November 28, 2012. The College is not aware of any subsequent events that would require recognition or disclosure in the financial statements, except as disclosed below.

In a prior year, an adjacent property owner amended a previous complaint against the College, seeking, among other things, a declaratory judgment against the College to remediate contamination allegedly caused by two underground storage tanks (USTs) at the College, consequential damages alleged to occur as a result of the contamination, and legal fees and costs. The College filed a Motion to Dismiss the complaint. Oral argument on the Motion to Dismiss was held in May 2012, but the Court has yet to rule on the Motion as of the financial statement issuance date.

In 2004, the College had discovered leaks from the USTs, which were used to store heating oil on its property, and timely reported the discovery to the Pennsylvania Department of Environmental Protection (PADEP) and the Pennsylvania Underground Storage Tank Indemnification Fund (USTIF). The USTIF is a state agency that reimburses eligible owners of USTs for reasonable and necessary costs of response caused by releases from eligible USTs, and also indemnifies owners of USTs from third-party liability. Several years after discovery of the leaks, the adjacent property owner claimed that heating oil from the College's USTs had contaminated its property.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE M - SUBSEQUENT EVENTS - Continued

Potential damages and recoverable costs are presently uncertain and disputed. Subject to a reservation of rights, the USTIF has extended coverage to the College and assumed the defense of the lawsuit, with coverage for potential damages and costs having a statutory maximum of \$1.5 million for each of the two tanks involved. The College will have direct liability to the extent such coverage is ultimately disallowed or is not adequate to cover the damages and costs, if any, awarded to the plaintiff or the costs of the remediation. While the College continues to investigate the matter and remediate the released heating oil pursuant to PADEP requirements, the range of potential loss is not reasonably estimable at this time.