URSINUS COLLEGE

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

URSINUS COLLEGE

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
Ursinus College:

We have audited the accompanying statements of financial position of Ursinus College (the College) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ursinus College at June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 10, 2010

URSINUS COLLEGE

Statements of Financial Position

June 30, 2010 and 2009

Assets		**2010**	**2009**
Cash and cash equivalents	$	6,583,967	3,667,224
Accounts receivable (net of allowances of $198,175 in 2010 and $189,262 in 2009)		1,595,851	588,166
Prepaid expenses		1,509,059	1,224,422
Pledges receivable (net of allowances of $348,060 in 2010 and $168,759 in 2009)		2,392,761	1,288,131
Loans receivable (net of allowances of $176,003 in 2010 and $135,933 in 2009)		2,175,480	2,222,463
Deposits with bond trustees		5,171,775	5,155,865
Bond issuance costs (net of accumulated amortization of $468,846 in 2010 and $396,590 in 2009)		1,670,084	1,742,338
Investments and funds held in trust by others		110,159,702	102,284,166
Land, buildings, equipment, and art		119,880,904	116,218,295
Other assets		717,011	802,535
Total assets	$	251,856,594	235,193,605
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	4,016,008	2,722,007
Accrued payroll		2,322,506	1,956,653
Short-term portion of long-term debt		1,104,785	1,269,964
Deferred revenues		778,191	896,933
Refundable deposits		948,260	899,620
Retirement obligations		1,049,159	1,076,548
Annuities payable		7,626,781	7,152,009
Conditional asset retirement obligations		1,613,729	1,556,655
Long-term debt		48,434,171	49,548,634
U.S. government grants refundable		1,620,615	1,620,615
Total liabilities		69,514,205	68,699,638
Net assets:			
Unrestricted		94,983,211	85,807,492
Temporarily restricted		13,636,752	11,218,186
Permanently restricted		73,722,426	69,468,289
Total net assets		182,342,389	166,493,967
Total liabilities and net assets	$	251,856,594	235,193,605

See accompanying notes to financial statements.

URSINUS COLLEGE

Statement of Activities

Year ended June 30, 2010

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenues and other additions:				
Tuition and fees	$ 66,268,913	—	—	66,268,913
Less student aid	(31,344,806)	—	—	(31,344,806)
Net tuition and fees	34,924,107	—	—	34,924,107
Room and board	14,754,155	—	—	14,754,155
Contributions	3,575,729	707,820	—	4,283,549
Government grants and contracts	1,284,904	—	—	1,284,904
Endowment funds used for operations	6,122,070	42,175	—	6,164,245
Other investment income	127,004	1,613	—	128,617
Other auxiliary enterprises	827,259	—	—	827,259
Other income	715,760	—	—	715,760
Net realized and unrealized gains	64,825	—	—	64,825
Net assets released from restrictions	1,559,383	(1,559,383)	—	—
Total revenues and other additions	63,955,196	(807,775)	—	63,147,421
Operating expenses:				
Educational and general:				
Instruction	22,004,178	—	—	22,004,178
Research	431,000	—	—	431,000
Public service	1,030,922	—	—	1,030,922
Student services	8,708,266	—	—	8,708,266
Auxiliary enterprises	9,160,587	—	—	9,160,587
Support:				
Academic support	6,524,975	—	—	6,524,975
Management and general	11,147,939	—	—	11,147,939
Total operating expenses	59,007,867	—	—	59,007,867
Change in net assets from operations	4,947,329	(807,775)	—	4,139,554
Nonoperating activities:				
Contributions	923,363	1,116,944	3,486,476	5,526,783
Government grants and contracts	752,059	—	—	752,059
Other investment income	27,150	82,736	29,719	139,605
Net realized and unrealized gains	2,494,081	5,968,207	1,005,476	9,467,764
Endowment funds provided to operations	(3,879,609)	—	—	(3,879,609)
Actuarial gain (loss) on annuity liabilities	—	26,174	(267,534)	(241,360)
Other expenses	(56,374)	—	—	(56,374)
Net assets released from restrictions	3,967,720	(3,967,720)	—	—
Change in net assets from nonoperating activities	4,228,390	3,226,341	4,254,137	11,708,868
Change in net assets	9,175,719	2,418,566	4,254,137	15,848,422
Net assets at beginning of year	85,807,492	11,218,186	69,468,289	166,493,967
Net assets at end of year	$ 94,983,211	13,636,752	73,722,426	182,342,389

See accompanying notes to financial statements.

URSINUS COLLEGE

Statement of Activities

Year ended June 30, 2009

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenues and other additions:				
Tuition and fees	$ 60,306,743	—	—	60,306,743
Less student aid	(27,229,661)	—	—	(27,229,661)
Net tuition and fees	33,077,082	—	—	33,077,082
Room and board	13,415,279	—	—	13,415,279
Contributions	1,453,527	1,467,033	—	2,920,560
Government grants and contracts	1,275,425	—	—	1,275,425
Endowment funds used for operations	6,100,547	42,175	—	6,142,722
Other investment income	134,611	6,700	—	141,311
Other auxiliary enterprises	1,084,321	—	—	1,084,321
Other income	847,439	—	—	847,439
Net realized and unrealized gains	8,391	—	—	8,391
Net assets released from restrictions	342,283	(342,283)	—	—
Total revenues and other additions	57,738,905	1,173,625	—	58,912,530
Operating expenses:				
Educational and general:				
Instruction	21,101,061	—	—	21,101,061
Research	379,324	—	—	379,324
Public service	762,973	—	—	762,973
Student services	8,093,674	—	—	8,093,674
Auxiliary enterprises	9,129,284	—	—	9,129,284
Support:				
Academic support	6,274,957	—	—	6,274,957
Management and general	10,385,553	—	—	10,385,553
Total operating expenses	56,126,826	—	—	56,126,826
Change in net assets from operations	1,612,079	1,173,625	—	2,785,704
Nonoperating activities:				
Contributions	3,031,843	50,995	2,673,855	5,756,693
Other investment income	26,061	101,302	51,997	179,360
Net realized and unrealized losses	(7,436,390)	(12,673,755)	(3,174,223)	(23,284,368)
Realized loss on sale of property and equipment	(5,708)	—	—	(5,708)
Endowment funds provided to operations	(3,687,274)	—	—	(3,687,274)
Actuarial gain/(loss) on annuity liabilities	—	(23,225)	250,864	227,639
Miscellaneous expenses	(90,729)	—	—	(90,729)
Net assets released from restrictions	4,122,782	(4,122,782)	—	—
Change in net assets from nonoperating activities	(4,039,415)	(16,667,465)	(197,507)	(20,904,387)
Change in net assets	(2,427,336)	(15,493,840)	(197,507)	(18,118,683)
Net assets at beginning of year	88,234,828	26,712,026	69,665,796	184,612,650
Net assets at end of year	$ 85,807,492	11,218,186	69,468,289	166,493,967

See accompanying notes to financial statements.

URSINUS COLLEGE

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 15,848,422	(18,118,683)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,495,358	3,543,986
Accretion of asset retirement obligations	57,074	68,006
Net unrealized and realized (gains) losses on long-term investment	(9,618,112)	24,284,368
Net realized loss on sales of property and equipment	—	5,708
Bond premium amortization	(9,678)	(9,678)
Amortization of bond issuance costs	72,254	72,256
Actuarial loss (gain) on annuities payable	354,727	(2,605,568)
Contributions restricted for long-term investment	(5,526,783)	(5,756,693)
Income reinvested	(29,719)	(51,997)
Changes in assets and liabilities:		
Accounts receivable	(1,140,250)	109,801
Accrued income receivable	132,565	42,390
Prepaid expenses	(284,637)	399,526
Pledges receivable	(1,104,630)	1,228,498
Other assets	85,524	(8,801)
Accounts payable and accrued expenses	808,521	(1,198,331)
Accrued payroll	365,853	260,518
Deferred revenues	(118,742)	236,199
Refundable deposits	48,640	29,915
Retirement obligations	(27,389)	(164,125)
Net cash provided by operating activities	3,408,998	2,367,295
Cash flows from investing activities:		
Purchases of property and equipment	(6,672,487)	(3,263,089)
Sales of property and equipment	—	10,830
Proceeds from sales and maturities of investments	187,045,997	9,734,635
Purchases of investments	(185,319,331)	(15,071,960)
Payments on loans receivable	217,787	209,255
Loans issued to students	(170,804)	(299,950)
Net cash used in investing activities	(4,898,838)	(8,680,279)
Cash flows from financing activities:		
Contributions received restricted for long-term investment	5,526,783	5,756,693
Contributions received restricted for investments in annuity contracts	780,286	705,000
Payments on long-term debt	(1,269,964)	(1,215,866)
Payments to annuitants	(660,241)	(649,163)
Receipts of dividends and interest restricted for reinvestment	29,719	51,997
Net cash provided by financing activities	4,406,583	4,648,661
Net increase (decrease) in cash and cash equivalents	2,916,743	(1,664,323)
Cash and cash equivalents at beginning of year	3,667,224	5,331,547
Cash and cash equivalents at end of year	$ 6,583,967	3,667,224
Supplemental disclosures:		
Cash paid for interest	$ 2,485,174	2,531,402
Construction-related payables	485,481	195,323

See accompanying notes to financial statements.

(1) Statement of Significant Accounting Policies

(a) Business Activity

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 1,742 full-time students, approximately 93% of whom live in College residence halls. During the 2009 – 2010 academic year, the College provided education to 1,726 full-time-equivalent day students from 33 states and 11 countries.

The College also offers Bachelor of Business Administration programs in the evening to approximately 100 part-time students. The College provides facilities for the Saint Joseph's University Masters in Business Administration and several Masters in Science degree programs, which attract approximately 250 part-time evening students.

(b) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with U.S. generally accepted accounting principles for not-for-profit organizations. The College's financial statements are presented in accordance with the external 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.

(c) 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.

Pledges to be received after one year are discounted at 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 $2,019,446 and $2,120,530 in 2010 and 2009, respectively.

(d) Cash Equivalents

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

(e) 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 1(m) 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 10).

(f) 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.

(g) 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.

(h) 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.

(i) Nonoperating Activities

The College considers endowment gifts, capital contributions 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, revenue and expenses related to loan funds and nonpooled trusts, and unusual nonrecurring transactions to be nonoperating activities.

(j) 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. Because the College had no material net unrelated business income during the years ended June 30, 2010 and 2009, no provision for income taxes has been made. The College accounts for uncertain tax positions, if any, in accordance with ASC 740, *Income Taxes (FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes)*. The College does not believe that there are any unrecognized tax benefits or costs that should be recorded. The College's federal Form 990 tax returns have not been examined for the last five fiscal years.

(k) Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, and liabilities and disclosure of contingencies. Actual results could differ from those estimates.

(l) Reclassifications

The College may reclass funds between net asset categories based upon explicit donor stipulations. In addition, certain prior year amounts were reclassified to conform to the current year presentation.

(m) 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 in accordance with other accounting pronouncements. Additionally, the College discloses the fair value of its outstanding debt. The College's valuation methodologies for each of these items are described below.

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: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instrument 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

Cash and Money Market Funds

Cash and money market funds are valued based on stated values.

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.

Equity Securities

Securities traded on a national securities exchange 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.

Debt Securities

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.

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 Net Asset Value (NAV) of the trust or entity.

Alternative Investments

Valuations for alternative investments including debt and equity funds, private partnerships, and other alternative investments are based on 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.

(Continued)

Consistent with the accounting standards updated discussed in note 1(n) below, 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 investment for which there is no readily determinable market value. NAV may differ from fair value.

Debt

The College's disclosure of the fair value of its debt in note 5 is based on Level 2 inputs including quoted prices from similar maturities based upon the rating of the credit enhancement or that of the College for each series of bonds.

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 2. Pledges receivable are not measured at fair value subsequent to this initial measurement.

Split-Interest Agreements

Depending on the type of agreement, fair value measurements for split-interest agreements are made either at inception or on a recurring basis. Fair value of the residual gift is generally based on the present value of expected future cash flows including payments to beneficiaries and investment return, and inputs include the life expectancy of the donor and other beneficiaries as well as financial assumptions.

(n) New Accounting Pronouncements

Investments that do not have a readily determinable fair value and for which it is industry practice for the investee to calculate NAV per share (or its equivalent) are generally permitted as a practical expedient to have fair value estimated using the NAV per share as reported by the investee. Accounting Standards Codification 820-10-50-6A, *Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, requires additional disclosures for investments reported at NAV per share. The College incorporated those disclosures in fiscal year 2010 in note 3 following the summaries of the College's investment portfolio.

Certain prior year amounts have been reclassified to conform to current year presentation.

(2) 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 0.61% to 6.00%.

At June 30, 2010 and 2009, information on pledges receivable is as follows:

		2010	2009
Less than one year	$	1,312,222	796,693
One to five years		1,428,599	660,197
Total pledges		2,740,821	1,456,890
Allowance for uncollectible pledges		(348,060)	(168,759)
	$	2,392,761	1,288,131

At June 30, 2010 and 2009, the unamortized discount was $33,709 and $40,000, respectively.

(3) Accounts Receivable

The College records receivables from students, employees, the federal government for federal financial aid programs and others as follows:At June 30, 2010 and 2009, information on pledges receivable is as follows:

		2010	2009
Students	$	277,704	245,789
Employees		40,384	21,667
Federal financial aid programs		1,184,303	161,078
Research and development grants		274,178	216,115
Accrued interest		214	132,779
Other		17,243	—
Total accounts receivable		1,794,026	777,428
Allowance for uncollectible receivables		(198,175)	(189,262)
	$	1,595,851	588,166

(Continued)

(4) Investments

The following tables present the College's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2010 and 2009, respectively:

	Fair value 2010	Fair value measurements at June 30, 2010 Level 1	Level 2	Level 3
Investments:				
Cash and money market funds	$ 2,684,779	2,684,779	—	—
U.S. government obligations	10,262,209	10,261,209	1,000	—
Fixed-income mutual funds	24,962,793	24,962,793	—	—
Common stocks	92,244	92,244	—	—
Equity mutual funds	26,459,697	26,459,697	—	—
International equity mutual funds	22,541,996	22,541,996	—	—
Commodities fund	1,826,159	1,826,159	—	—
Real estate fund	4,034,319	4,034,319	—	—
Alternative investments:				
Hedge fund:				
Total return	2,584,867	—	—	2,584,867
Arbitrage	2,711,169	—	—	2,711,169
Private equity				
Distressed debt	3,542,843	—	—	3,542,843
Other	848,182	—	848,182	—
Funds held in trust by others (2)	7,608,445	—	—	7,608,445
	$ 110,159,702	92,863,196	849,182	16,447,324

		Fair value 2009	Fair value measurements at June 30, 2009 Level 1	Level 2	Level 3
Investments:					
Cash and money market funds	$	660,147	660,147		—
U.S. government obligations		12,421,870	12,420,870	1,000	—
Corporate bonds		—	—	—	—
Fixed income mutual funds		4,879,858	4,879,858	—	—
Common stocks		4,994,375	4,994,375	—	—
Equity mutual funds		20,656,541	20,656,541	—	—
International equity mutual funds		7,161,494	7,161,494	—	—
Alternative investments:				—	—
Equity funds		19,379,312	—	—	19,379,312
Other alternative investments (1)		24,454,221	—	—	24,454,221
Other		816,917	—	816,917	—
Funds held in trust by others (2)		6,859,431	—	—	6,859,431
	$	102,284,166	50,773,285	817,917	50,692,964

(1) Included in other alternative investments are an arbitrage fund, an international equity fund, limited partnerships, and other common and collective trusts.

(2) Included in 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).

The College's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by the type of investment. The major classes of investments are summarized above.

All investments in the alternative investment category are valued at estimated fair value using NAV per share as a practical expedient. At June 30, 2010, the alternative investment category consisted of a total return and an arbitrage hedge fund and two distressed debt private equity funds. A description of these funds and their liquidity and redemption features follows.

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 not redeem its investment in the fund before December 31, 2011 to satisfy its requirement to be invested in the fund for one full calendar year before redeeming. Thereafter, 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-adjust 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 $1,745,993 from the fund during the year ended June 30, 2010 and the remaining balance of $2,711,169 is nonredeemable and will be paid out as funds become available through the liquidation process.

Private Equity – Distressed Debt Funds

The College has a total capital commitment of $5,000,000 to these funds, of which approximately $2,328,000 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 fund. Remaining lives of the funds are estimated at between 7 and 13 years.

During the year ended June 30, 2010, the College changed investment managers and liquidated the majority of its alternative assets, replacing them with investments in marketable funds. 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, 2010 and 2009 respectively:

	Fair value measurements at June 30, 2010 using significant unobservable inputs (Level 3)		
Investment type	**Alternative investment funds**	**Funds held in trust by others**	**Total**
Beginning balance	$ 43,833,533	6,859,431	50,692,964
Total gains/losses (realized and unrealized)	1,975,722	764,956	2,740,678
Purchases, issuances, and settlements	1,895,086	(15,942)	1,879,144
Sales	(38,865,462)	—	(38,865,462)
Transfers in/out of Level 3	—	—	—
	$ 8,838,879	7,608,445	16,447,324

	Fair value measurements at June 30, 2009 using significant unobservable inputs (Level 3)		
Investment type	**Alternative investment funds**	**Funds held in trust by others**	**Total**
Beginning balance	$ 48,467,907	8,919,264	57,387,171
Total gains/losses (realized and unrealized)	(8,691,869)	(2,049,164)	(10,741,033)
Purchases, issuances, and settlements	4,444,177	(13,614)	4,430,563
Transfers in/out of Level 3	(386,682)	2,945	(383,737)
	$ 43,833,533	6,859,431	50,692,964

Return on the College's cash and investments for the years ended June 30, 2010 and 2009 is as follows:

		2010	2009
Interest and dividends	$	2,955,359	3,070,367
Investment fees		(402,501)	(294,248)
Realized gains (losses)		4,436,672	(6,697,820)
Unrealized gains (losses)		5,095,916	(16,578,157)
	$	12,085,446	(20,499,858)

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

		2010	2009
Operating activities:			
Endowment funds used for operations	$	6,164,245	6,142,722
Other investment income		128,617	141,311
Net realized and unrealized gains		64,825	8,391
Nonoperating activities:			
Endowment funds provided to operations		(3,879,609)	(3,687,274)
Other investment income		139,605	179,360
Net realized and unrealized losses		9,467,764	(23,284,368)
	$	12,085,447	(20,499,858)

(5) Land, Buildings, Equipment, and Art

The components of land, buildings, equipment, and art at June 30, 2010 and 2009 were as follows:

		2010	2009
Nondepreciable assets, art	$	3,532,830	3,343,980
Nondepreciable assets, primarily land		567,618	567,618
Buildings and improvements		153,121,314	151,909,456
Furniture and equipment		5,728,161	4,754,553
Construction in progress		6,823,902	2,040,253
		169,773,825	162,615,860
Less accumulated depreciation and amortization		(49,892,921)	(46,397,565)
	$	119,880,904	116,218,295

The College has outstanding commitments on construction contracts of approximately $1,052,433 and $4,576,000 as of June 30, 2010 and 2009, respectively.

(6) Long-Term Debt

Total long-term debt consisted of the following at June 30, 2010 and 2009:

		2010	2009
PHEFA College Revenue Bonds – Series of 2003	$	35,655,000	36,505,000
PHEFA College Revenue Bonds – Series of 2006		13,580,000	13,730,000
Capital lease obligation		69,785	339,749
		49,304,785	50,574,749
Plus unamortized bond premium		234,171	243,849
	$	49,538,956	50,818,598

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

2011	$	1,104,785
2012		1,070,000
2013		1,120,000
2014		1,160,000
2015		1,205,000
Thereafter		43,645,000
	$	49,304,785

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 $51,180,076 and $49,005,922 as of June 30, 2010 and 2009, respectively.

(a) 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. These serial bonds began repayment on January 1, 2004 with the final payment due January 1, 2033, with the interest rates ranging from 2.25% to 5.50% during the 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.

(b) 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 the interest rates ranging from 3.5% to 5.0% 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.

(c) Capital Lease Obligation

In December 2003, the College entered into a capital lease agreement for $1,640,000 to fund the construction of a central chiller plant. The capital lease's payments began in January 2004 and will continue through December 2010, with a final buyout payment of $1. The average annual interest rate on the lease is 5.375%.

(d) 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.

(e) Interest

Interest expense in 2010 and 2009 was $2,479,092 and $2,525,132, respectively.

(7) Net Assets

The temporarily and permanently restricted net asset classes consisted of the following at June 30, 2010 and 2009:

		2010	2009
Temporarily restricted net assets:			
Unexpended gifts for instruction, scholarships, and capital expenditures	$	2,917,128	3,464,743
Pledges		2,024,698	1,181,748
Annuity and life income funds		3,586,889	3,263,130
Endowment – accumulated realized and unrealized investment gains unexpended for instruction, scholarships, and capital expenditures (note 10)		5,108,037	3,308,565
	$	13,636,752	11,218,186
Permanently restricted net assets:			
Annuity and life income funds	$	5,766,752	5,455,680
Student loans		762,777	670,613
Endowment principal:			
General endowment		31,156,217	30,136,357
Scholarship and prizes		25,307,957	23,609,681
Endowed chairs		10,572,660	10,016,734
Pledges		368,063	106,382
Endowment – accumulated realized and unrealized investment gains and losses		(212,000)	(527,158)
	$	73,722,426	69,468,289

(8) Net Assets Released from Restrictions and Endowment Spending Rule

At June 30, 2010 and 2009, the composition of net assets released on the statements of activities was as follows:

		2010	2009
Net assets released from restrictions:			
Donor restrictions met	$	1,647,494	777,791
Endowment gains under spending rule (see note 10)		3,879,609	3,687,274
	$	5,527,103	4,465,065

(Continued)

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:

		2010	2009
Endowment (including funds functioning) funds used for operations:			
Endowment interest and dividends	$	2,284,636	2,455,448
Accumulated realized and unrealized investment gains		3,879,609	3,687,274
Total expended under spending rate	$	6,164,245	6,142,722

(9) Postretirement Benefit Plans

The College provides postretirement medical and life insurance benefits to all employees who meet certain eligibility requirements.

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 health care 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 $179,134 and $180,034 for the years ended June 30, 2010 and 2009, respectively.

The following schedules show the status of the plan for existing retirees, the components of the cost of postretirement benefits other than pensions, and assumptions at June 30, 2010 and 2009:

		2010	2009
Interest cost	$	61,334	73,556
	$	61,334	73,556

Reconciliation of the funded status is as follows:

		2010	2009
Accumulated postretirement benefit obligation (APBO):			
Retirees	$	1,049,159	1,076,548
Active employees fully eligible		—	—
Active employees not yet fully eligible		—	—
Total		1,049,159	1,076,548
Fair value of plan assets		—	—
APBO in excess of plan assets		1,049,159	1,076,548
Unrecognized net gain		—	—
Accrued postretirement benefit cost	$	1,049,159	1,076,548

The assumed healthcare cost trend rate for fiscal year 2010 is 10%, grading down to an ultimate level of 4% over the next six years. Increasing the healthcare trend rate by 1% each year would increase the accumulated postretirement benefit obligation by $73,234 as of June 30, 2010, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year by $4,267. Decreasing the healthcare trend rate by 1% each year would decrease the accumulated postretirement benefit obligation by $65,788 as of June 30, 2010, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year by $3,842. The discount rate used in determining the accumulated postretirement benefit obligation was 6.0% at June 30, 2010 and 6.25% at June 30, 2009, respectively.

The benefits paid under this plan were approximately $98,000 and $126,000 for the years ended June 30, 2010 and 2009, respectively.

At June 30, 2010, the College's expected future benefit payments for future service are as follows:

Year ending June 30:		
2011	$	92,684
2012		96,152
2013		98,436
2014		99,408
2015 – 2019		544,200

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 $1,315,293 and $1,252,000 in 2010 and 2009, respectively.

(10) 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.

(11) Endowments

The College's endowment consists of approximately 1,020 individual 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.

(a) Interpretation of Relevant Law

The Commonwealth of Pennsylvania has not enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), or a version of the Uniform Management of Institutional Funds Act (UMIFA). 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.

(b) 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.

(c) 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, 2010 and 2009, the rate was 5.75% of the 20-quarter moving average market value of the pooled endowment.

(d) 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 $1,078,501 and $1,700,000 as of June 30, 2010 and 2009, respectively. Such deficiencies are recorded as unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

Net asset (deficit) classification by type of endowment as of June 30, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (1,078,501)	8,694,924	72,591,585	80,208,008
Board-designated endowment funds	20,039,062	—	—	20,039,062
	$ 18,960,561	8,694,924	72,591,585	100,247,070

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 16,466,280	6,567,694	68,691,294	91,725,268
Investment return:				
Investment income	2,284,636	82,736	6,565	2,373,937
Net depreciation (realized and unrealized gains and losses)	2,494,081	5,972,208	936,464	9,402,753
Total investment return	4,778,717	6,054,944	943,029	11,776,690
Contributions	200	—	3,196,768	3,196,968
Actuarial gain (loss) on annuity liabilities	—	26,174	(267,533)	(241,359)
Appropriation of endowment assets for expenditure	(2,284,636)	(3,879,609)	—	(6,164,245)
Other changes	—	(74,279)	28,027	(46,252)
	$ 18,960,561	8,694,924	72,591,585	100,247,070

Net asset (deficit) classification by type of endowment as of June 30, 2009:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (1,700,575)	6,571,694	68,691,294	73,562,413
Board-designated endowment funds	18,166,855	—	—	18,166,855
	$ 16,466,280	6,571,694	68,691,294	91,729,268

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	23,744,570	23,138,258	68,770,065	115,652,893
Investment return:					
Investment income		2,455,448	101,302	25,925	2,582,675
Net depreciation (realized and unrealized gains and losses)		(7,278,390)	(12,835,755)	(3,054,032)	(23,168,177)
Total investment return		(4,822,942)	(12,734,453)	(3,028,107)	(20,585,502)
Contributions		100	—	2,594,160	2,594,260
Actuarial gain (loss) on annuity liabilities		—	(23,225)	250,864	227,639
Appropriation of endowment assets for expenditure		(2,455,448)	(3,687,274)	—	(6,142,722)
Other changes		—	(125,612)	104,312	(21,300)
	$	16,466,280	6,567,694	68,691,294	91,725,268

(12) Subsequent Events

The College evaluated events subsequent to June 30, 2010 and through December 10, 2010, the date the financial statements were issued.