URSINUS COLLEGE

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

URSINUS COLLEGE

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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, 2011 and 2010, 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, 2011 and 2010, 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.

November 11, 2011, except for Note 12, as to which the date is May 1, 2012

URSINUS COLLEGE

Statements of Financial Position

June 30, 2011 and 2010

Assets		**2011**	**2010**
Cash and cash equivalents	$	7,102,502	6,583,967
Accounts receivable, net		1,070,686	1,595,851
Prepaid expenses		1,835,782	1,509,059
Pledges receivable, net		1,672,864	2,392,761
Loans receivable (net of allowances of $187,809 in 2011 and $176,003 in 2010)		1,982,512	2,175,480
Deposits with bond trustees		5,136,273	5,171,775
Bond issuance costs (net of accumulated amortization of $541,102 in 2011 and $468,846 in 2010)		1,597,828	1,670,084
Investments and funds held in trust by others		132,357,536	110,159,702
Land, buildings, equipment, and art		121,568,215	119,880,904
Other assets		710,626	717,011
Total assets	$	275,034,824	251,856,594
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	3,867,530	4,016,008
Accrued payroll		2,035,419	2,322,506
Short-term portion of long-term debt		1,070,000	1,104,785
Deferred revenues		796,002	778,191
Refundable deposits		932,455	948,260
Retirement obligations		906,243	1,049,159
Annuities payable		7,375,264	7,626,781
Conditional asset retirement obligations		1,654,304	1,613,729
Long-term debt		47,354,494	48,434,171
U.S. government grants refundable		1,620,615	1,620,615
Total liabilities		67,612,326	69,514,205
Net assets:			
Unrestricted		108,115,661	94,983,211
Temporarily restricted		20,375,048	13,636,752
Permanently restricted		78,931,789	73,722,426
Total net assets		207,422,498	182,342,389
Total liabilities and net assets	$	275,034,824	251,856,594

See accompanying notes to financial statements.

URSINUS COLLEGE

Statement of Activities

Year ended June 30, 2011

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenues and other additions:				
Tuition and fees	$ 71,036,515	—	—	71,036,515
Less student aid	(35,085,096)	—	—	(35,085,096)
Net tuition and fees	35,951,419	—	—	35,951,419
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	518,152	—	—	518,152
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	63,560,259	(129,455)	—	63,430,804
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	9,862,136	—	—	9,862,136
Support:				
Academic support	5,709,869	—	—	5,709,869
Management and general	11,383,048	—	—	11,383,048
Total operating expenses	60,479,242	—	—	60,479,242
Change in net assets from operations	3,081,017	(129,455)	—	2,951,562
Nonoperating activities:				
Contributions	342,206	1,914,861	2,553,699	4,810,766
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 (loss) on annuity liabilities		83,931	241,912	325,843
Other expenses	(97,249)	—	—	(97,249)
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

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	22,282,992	—	—	22,282,992
Research	431,000	—	—	431,000
Public service	1,053,066	—	—	1,053,066
Student services	8,826,492	—	—	8,826,492
Auxiliary enterprises	9,626,657	—	—	9,626,657
Support:				
Academic support	5,607,087	—	—	5,607,087
Management and general	11,180,573	—	—	11,180,573
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

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 25,080,109	15,848,422
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,683,252	3,495,358
Accretion of asset retirement obligations	40,575	57,074
Net unrealized and realized gains on long-term investments	(20,538,819)	(9,532,588)
Net realized gain on sales of property and equipment	(1,000)	—
Bond premium amortization	(9,678)	(9,678)
Amortization of bond issuance costs	72,256	72,254
Payments to annuitants	661,271	660,241
Actuarial (gain) loss on annuities payable	(325,844)	241,359
Contributions restricted for long-term investment and annuity contracts	(5,530,664)	(4,422,153)
Income reinvested	(31,252)	(29,719)
Changes in assets and liabilities:		
Accounts receivable	525,072	(1,140,250)
Accrued income receivable	93	132,565
Prepaid expenses	(326,723)	(284,637)
Pledges receivable	719,897	(1,104,630)
Accounts payable and accrued expenses	(1,241,501)	808,521
Accrued payroll	(287,087)	365,853
Deferred revenues	17,811	(118,742)
Refundable deposits	(15,805)	48,640
Retirement obligations	(142,916)	(27,389)
Net cash provided by operating activities	2,349,047	5,060,501
Cash flows from investing activities:		
Purchases of property and equipment	(4,277,540)	(6,672,487)
Sales of property and equipment	1,000	—
Proceeds from sales and maturities of investments	2,864,237	186,960,473
Purchases of investments	(4,426,710)	(185,004,359)
Payments on loans receivable	288,270	217,787
Loans issued to students	(75,630)	(166,839)
Net cash used in investing activities	(5,626,373)	(4,665,425)
Cash flows from financing activities:		
Contributions received restricted for long-term investment	5,453,388	3,641,867
Contributions received restricted for investments in annuity contracts	77,276	780,286
Payments on long-term debt	(1,104,784)	(1,269,964)
Payments to annuitants	(661,271)	(660,241)
Receipts of dividends and interest restricted for reinvestment	31,252	29,719
Net cash provided by financing activities	3,795,861	2,521,667
Net increase in cash and cash equivalents	518,535	2,916,743
Cash and cash equivalents at beginning of year	6,583,967	3,667,224
Cash and cash equivalents at end of year	$ 7,102,502	6,583,967
Supplemental disclosures:		
Cash paid for interest	$ 2,438,507	2,485,174
Construction-related payables	1,093,023	485,481

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 2010 – 2011 academic year, the College provided education to 1,787 full-time-equivalent day students from 34 states and 9 countries.

The College also offered Bachelor of Business Administration programs in the evening to approximately 52 part-time students. This program was discontinued at the end of the 2010-11 academic year. The College provides facilities for the Saint Joseph's University Masters in Business Administration and several Masters in Science degree programs, which attract approximately 210 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.

(Continued)

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 $2,416,184 and $2,019,446 in 2011 and 2010, 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, 2011 and 2010, no provision for income taxes has been made. The College accounts for uncertain tax positions, if any, in accordance with ASC 740, *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: Observable inputs other than Level 1 prices such as 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 are recorded at fair value as described above. Additional considerations used to categorize investments include:

Investments

Cash and Money Market Funds

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

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.

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.

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 and, therefore, alternative investments have been classified as Level 3.

(Continued)

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.

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.

Debt

The College's disclosure of the fair value of its debt in note 6 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

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, Fair Value Measurements and Disclosures (Topic 820): *Improving Disclosures about Fair Value Measurements*. This amends Accounting Standard Codification (ASC) 820 to require additional disclosures. Effective fiscal year 2010, ASU 2010-06 required disclosure of the amounts of significant transfers between Level 1 and Level 2 investments and the reasons for such transfers, the reasons for any transfers in or out of Level 3 investments and disclosure of the policy for determining when transfers among levels are recognized. ASU 2010-06 also clarified that disclosures should be provided for each class of assets and liabilities and clarified the requirement to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 measurements. Effective in fiscal year 2011, ASU 2010-06 also requires that information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements be provided on a gross basis. The adoption of ASU 2010-06 only required additional disclosures and did not have a material impact on the financial statements.

(o) Reclassifications

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, 2011 and 2010, information on pledges receivable is as follows:

		2011	2010
Less than one year	$	574,276	1,312,222
One to five years		1,395,182	1,428,599
Total pledges		1,969,458	2,740,821
Allowance for uncollectible pledges		(296,594)	(348,060)
	$	1,672,864	2,392,761

At June 30, 2011 and 2010, the unamortized discount was $40,664 and $33,709, 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, 2011 and 2010, information on pledges receivable is as follows:

		2011	2010
Students	$	237,661	277,704
Employees		24,649	40,384
Federal financial aid programs		—	880,295
Research and development grants		410,639	274,178
Accrued interest		121	214
Other		556,661	321,251
Total accounts receivable		1,229,731	1,794,026
Allowance for uncollectible receivables		(159,045)	(198,175)
	$	1,070,686	1,595,851

(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, 2011 and 2010, respectively:

	Fair value 2011	Fair value measurements at June 30, 2011 Level 1	Level 2	Level 3
Investments:				
Cash and money market funds	$ 6,330,800	6,330,800	—	—
U.S. government obligations	9,786,662	9,785,662	1,000	—
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	627,212	—	391,678	235,534
Funds held in trust by others (1)	8,902,293	—	—	8,902,293
	$ 132,357,536	113,022,073	392,678	18,942,785

	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 (1)	7,608,445	—	—	7,608,445
	$ 110,159,702	92,863,196	849,182	16,447,324

(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).

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.

There were no transfers into or out of Levels 1, 2, and 3 for the year ended June 30, 2011.

All investments in the alternative investment category are valued at estimated fair value using NAV per share as a practical expedient. At June 30, 2011, 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.

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-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 $1,573,953 from the fund during the year ended June 30, 2011 and the remaining balance of $1,300,730 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 approximately $1,718,349 is currently unfunded. The objective of the fund is to realize a long-term total return by investing in a diversified group of pooled investment vehicles. The fund 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 this fund is 15 years.

Private Equity – Distressed Debt Funds

The College has a total capital commitment of $5,000,000 to these funds, of which approximately $1,700,000 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 6 and 12 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, 2011 and 2010 respectively:

		Fair value measurements at June 30, 2011 using significant unobservable inputs (Level 3)		
Investment type		**Alternative investment funds**	**Funds held in trust by others**	**Total**
Beginning balance	$	8,838,879	7,608,445	16,447,324
Total gains/losses (realized and unrealized)		599,163	1,309,988	1,909,151
Purchases, issuances, and settlements		3,224,763	(16,140)	3,208,623
Sales		(2,622,313)	—	(2,622,313)
Transfers in/out of Level 3		—	—	—
	$	10,040,492	8,902,293	18,942,785

Investment type	Fair value measurements at June 30, 2010 using significant unobservable inputs (Level 3) 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

Return on the College's cash and investments for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Interest and dividends	$ 3,125,758	2,955,360
Investment fees	(430,099)	(402,501)
Realized gains	4,441,574	4,436,672
Unrealized gains	16,097,245	5,095,916
	$ 23,234,478	12,085,447

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

	2011	2010
Operating activities:		
Endowment funds used for operations	$ 6,165,674	6,164,245
Other investment income	91,503	128,617
Net realized and unrealized gains	54,671	64,825
Nonoperating activities:		
Endowment funds provided to operations	(3,726,123)	(3,879,609)
Other investment income	164,605	139,605
Net realized and unrealized losses	20,484,148	9,467,764
	$ 23,234,478	12,085,447

(5) Land, Buildings, Equipment, and Art

The components of land, buildings, equipment, and art at June 30, 2011 and 2010 were as follows:

	2011	2010
Nondepreciable assets, art	$ 3,701,895	3,532,830
Nondepreciable assets, primarily land	567,618	567,618
Buildings and improvements	161,146,932	153,121,314
Furniture and equipment	6,278,223	5,728,161
Construction in progress	3,434,103	6,823,902
	175,128,771	169,773,825
Less accumulated depreciation and amortization	(53,560,556)	(49,892,921)
	$ 121,568,215	119,880,904

The College has outstanding commitments on construction contracts of approximately $3,326,303 and $1,052,433 as of June 30, 2011 and 2010, respectively.

(6) Long-Term Debt

Total long-term debt consisted of the following at June 30, 2011 and 2010:

	2011	2010
PHEFA College Revenue Bonds – Series of 2003	$ 34,775,000	35,655,000
PHEFA College Revenue Bonds – Series of 2006	13,425,000	13,580,000
Capital lease obligation	—	69,785
	48,200,000	49,304,785
Plus unamortized bond premium	224,494	234,171
	$ 48,424,494	49,538,956

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

2012	$ 1,070,000
2013	1,120,000
2014	1,160,000
2015	1,205,000
2016	1,270,000
Thereafter	42,375,000
	$ 48,200,000

(Continued)

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 $49,159,451 and $51,180,076 as of June 30, 2011 and 2010, 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 interest rates of these fixed rate revenue bonds 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 interest rates of these fixed rate revenue bonds 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 continued through December 2010, with a final buyout payment of $1. The average annual interest rate on the lease was 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 2011 and 2010 was $2,430,385 and $2,479,092, respectively.

(Continued)

(7) Net Assets

The temporarily and permanently restricted net asset classes consisted of the following at June 30, 2011 and 2010:

		2011	2010
Temporarily restricted net assets:			
Unexpended gifts for instruction, scholarships, and capital expenditures	$	1,208,961	2,917,128
Pledges		1,205,961	2,024,698
Annuity and life income funds		4,217,195	3,586,889
Endowment – accumulated realized and unrealized investment gains unexpended for instruction, scholarships, and capital expenditures (note 10)		13,742,931	5,108,037
	$	20,375,048	13,636,752
Permanently restricted net assets:			
Annuity and life income funds	$	6,231,278	5,766,752
Student loans		924,169	762,777
Endowment principal:			
General endowment		32,520,468	31,156,217
Scholarship and prizes		27,183,157	25,307,957
Endowed chairs		11,110,775	10,572,659
Pledges		466,902	368,064
Endowment – accumulated realized and unrealized investment gains and losses		495,040	(212,000)
	$	78,931,789	73,722,426

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

At June 30, 2011 and 2010, the composition of net assets released on the statements of activities was as follows:

		2011	2010
Net assets released from restrictions:			
Donor restrictions met	$	4,943,531	1,647,494
Endowment gains under spending rule (see note 11)		3,726,123	3,879,609
	$	8,669,654	5,527,103

(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:

		2011	2010
Endowment (including funds functioning) funds used for operations:			
Endowment interest and dividends	$	2,439,551	2,284,636
Accumulated realized and unrealized investment gains		3,726,123	3,879,609
Total expended under spending rate	$	6,165,674	6,164,245

(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 $169,846 and $179,134 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010:

		2011	2010
Interest cost	$	50,141	61,334
	$	50,141	61,334

Reconciliation of the funded status is as follows:

		2011	2010
Accumulated postretirement benefit obligation (APBO):			
Retirees	$	906,243	1,049,159
Active employees fully eligible		—	—
Active employees not yet fully eligible		—	—
Total		906,243	1,049,159
Fair value of plan assets		—	—
APBO in excess of plan assets		906,243	1,049,159
Unrecognized net gain		—	—
Accrued postretirement benefit cost	$	906,243	1,049,159

The assumed healthcare cost trend rate for fiscal year 2011 is 9%, 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 $61,354 as of June 30, 2011, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year by $3,662. Decreasing the healthcare trend rate by 1% each year would decrease the accumulated postretirement benefit obligation by $55,200 as of June 30, 2011, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year by $3,289. The discount rate used in determining the accumulated postretirement benefit obligation was 5.0% at June 30, 2011 and 6.0% at June 30, 2010, respectively.

The benefits paid under this plan were approximately $87,000 and $98,000 for the years ended June 30, 2011 and 2010, respectively.

At June 30, 2011, the College's expected future benefit payments for future service are as follows:

Year ending June 30:		
2012	$	84,653
2013		86,748
2014		87,727
2015		87,528
2016 – 2019		465,294

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 $1,425,395 and $1,315,293 in 2011 and 2010, 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 990 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

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, 2011 and 2010, 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 $63,912 and $1,078,501 as of June 30, 2011 and 2010, 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, 2011:

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

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 18,960,561	8,694,924	72,591,585	100,247,070
Investment return:				
Investment income	2,439,551	98,551	6,753	2,544,855
Net depreciation (realized and unrealized gains and losses)	5,172,615	12,929,033	2,245,607	20,347,255
Total investment return	7,612,166	13,027,584	2,252,360	22,892,110
Contributions	250	—	2,494,299	2,494,549
Actuarial gain (loss) on annuity liabilities	—	83,931	241,913	325,844
Appropriation of endowment assets for expenditure	(2,439,551)	(3,726,123)	—	(6,165,674)
Other changes	—	(120,190)	(39,439)	(159,629)
	$ 24,133,426	17,960,126	77,540,718	119,634,270

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

(12) Subsequent Events

The College evaluated events subsequent to June 30, 2011 and through November 11, 2011, the date the financial statements were issued.

Subsequent to the issuance of the financial statements, 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.

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.

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.