

Financial Statements and Report of  
Independent Certified Public Accountants

**Ursinus College**

June 30, 2015 and 2014

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## Report of Independent Certified Public Accountants

The Board of Trustees  
Ursinus College

Grant Thornton LLP  
Two Commerce Square  
2001 Market St., Suite 700  
Philadelphia, PA 19103  
T 215.561.4200  
F 215.561.1066  
[GrantThornton.com](http://GrantThornton.com)  
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)  
[twitter.com/GrantThorntonUS](https://twitter.com/GrantThorntonUS)

### **Report on the financial statements**

We have audited the accompanying financial statements of Ursinus College (the College), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ursinus College as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Philadelphia, Pennsylvania

December 15, 2015

Ursinus College

**STATEMENTS OF FINANCIAL POSITION**

June 30,

ASSETS	2015	2014
Cash and cash equivalents	\$ 8,461,271	\$ 5,349,643
Accounts receivable, net	1,099,644	435,515
Prepaid expenses	675,310	1,137,022
Pledges receivable, net	1,942,466	1,080,660
Student loans receivable, net	1,679,323	1,634,997
Deposits with bond trustees	2,081,512	3,560,163
Bond issuance costs (net of accumulated amortization of \$207,056 in 2015 and \$181,209 in 2014)	775,411	899,624
Investments and funds held in trust by others	164,388,092	164,337,724
Land, buildings, and equipment, net	114,852,208	116,816,190
Collections	6,710,669	6,667,869
Other assets	801,578	755,536
Total assets	\$ 303,467,484	\$ 302,674,943
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 5,016,281	\$ 2,403,578
Accrued payroll	2,154,856	2,067,815
Deferred revenues	586,878	682,808
Refundable deposits	875,947	872,742
Retirement obligations	745,089	588,594
Annuities payable	5,085,162	6,333,277
Conditional asset retirement obligations	1,795,841	1,758,631
Long-term debt	42,458,760	44,569,414
U.S. government grants refundable	1,614,883	1,614,883
Total liabilities	60,333,697	60,891,742
Net assets		
Unrestricted	125,091,837	122,053,232
Temporarily restricted	30,840,805	36,455,822
Permanently restricted	87,201,145	83,274,147
Total net assets	243,133,787	241,783,201
Total liabilities and net assets	\$ 303,467,484	\$ 302,674,943

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

Ursinus College

**STATEMENT OF ACTIVITIES**

For the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating activities				
Revenues and other additions				
Tuition and fees	\$ 75,426,032	\$ -	\$ -	\$ 75,426,032
Less student aid	(41,916,642)	-	-	(41,916,642)
Net tuition and fees	33,509,390	-	-	33,509,390
Room and board	18,340,565	-	-	18,340,565
Contributions	1,838,417	502,180	-	2,340,597
Government grants and contracts	1,029,788	-	-	1,029,788
Endowment funds used for operations	5,760,615	53,547	-	5,814,162
Other investment income	661,338	967	-	662,305
Other auxiliary enterprises	63,650	-	-	63,650
Other income	1,112,328	-	-	1,112,328
Net realized and unrealized losses	(132,235)	-	-	(132,235)
Net assets released from restrictions	786,675	(786,675)	-	-
Total revenues and other additions	62,970,531	(229,981)	-	62,740,550
Operating expenses				
Educational and general				
Instruction	21,241,480	-	-	21,241,480
Research	373,155	-	-	373,155
Public service	965,471	-	-	965,471
Student services	9,633,658	-	-	9,633,658
Auxiliary enterprises	10,477,775	-	-	10,477,775
Support				
Academic support	5,261,831	-	-	5,261,831
Management and general	13,824,666	-	-	13,824,666
Total operating expenses	61,778,036	-	-	61,778,036
Change in net assets from operating activities	1,192,495	(229,981)	-	962,514
Nonoperating activities				
Contributions	2,643,905	1,254,851	833,156	4,731,912
Other investment income	29,477	168,429	33,959	231,865
Net realized and unrealized (losses) gains	(218,791)	(3,061,302)	2,449,862	(830,231)
Loss on retirement of long-term debt	(645,730)	-	-	(645,730)
Endowment funds provided to operations	(3,572,397)	-	-	(3,572,397)
Actuarial (loss) gain on annuities payable	-	(11,056)	610,021	598,965
Other expenses	(126,312)	-	-	(126,312)
Net assets released from restrictions	3,735,958	(3,735,958)	-	-
Change in net assets from nonoperating activities	1,846,110	(5,385,036)	3,926,998	388,072
Change in net assets	3,038,605	(5,615,017)	3,926,998	1,350,586
Net assets at beginning of year	122,053,232	36,455,822	83,274,147	241,783,201
Net assets at end of year	\$ 125,091,837	\$ 30,840,805	\$ 87,201,145	\$ 243,133,787

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

Ursinus College

**STATEMENT OF ACTIVITIES**

For the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating activities				
Revenues and other additions				
Tuition and fees	\$ 69,791,197	\$ -	\$ -	\$ 69,791,197
Less student aid	<u>(36,902,127)</u>	<u>-</u>	<u>-</u>	<u>(36,902,127)</u>
Net tuition and fees	32,889,070	-	-	32,889,070
Room and board	16,944,567	-	-	16,944,567
Contributions	1,711,305	590,436	-	2,301,741
Government grants and contracts	868,483	-	-	868,483
Endowment funds used for operations	5,213,485	52,891	-	5,266,376
Other investment income	23,196	1,474	-	24,670
Other auxiliary enterprises	62,732	-	-	62,732
Other income	929,654	-	-	929,654
Net realized and unrealized gains	231,178	-	-	231,178
Net assets released from restrictions	<u>911,167</u>	<u>(911,167)</u>	<u>-</u>	<u>-</u>
Total revenues and other additions	<u>59,784,837</u>	<u>(266,366)</u>	<u>-</u>	<u>59,518,471</u>
Operating expenses				
Educational and general				
Instruction	21,773,994	-	-	21,773,994
Research	333,264	-	-	333,264
Public service	1,003,494	-	-	1,003,494
Student services	9,529,871	-	-	9,529,871
Auxiliary enterprises	10,252,357	-	-	10,252,357
Support				
Academic support	5,626,036	-	-	5,626,036
Management and general	<u>11,770,380</u>	<u>-</u>	<u>-</u>	<u>11,770,380</u>
Total operating expenses	<u>60,289,396</u>	<u>-</u>	<u>-</u>	<u>60,289,396</u>
Change in net assets from operating activities	<u>(504,559)</u>	<u>(266,366)</u>	<u>-</u>	<u>(770,925)</u>
Nonoperating activities				
Contributions	3,035,883	7,113,942	1,904,459	12,054,284
Other investment income	34,375	234,830	29,596	298,801
Net realized and unrealized gains	4,317,643	12,460,302	1,333,992	18,111,937
Endowment funds provided to operations	(2,816,339)	-	-	(2,816,339)
Actuarial loss on annuities payable	-	(15,676)	(309,785)	(325,461)
Other expenses	(135,585)	-	-	(135,585)
Net assets released from restrictions	<u>3,269,963</u>	<u>(3,269,963)</u>	<u>-</u>	<u>-</u>
Change in net assets from nonoperating activities	<u>7,705,940</u>	<u>16,523,435</u>	<u>2,958,262</u>	<u>27,187,637</u>
Change in net assets	7,201,381	16,257,069	2,958,262	26,416,712
Net assets at beginning of year	<u>114,851,851</u>	<u>20,198,753</u>	<u>80,315,885</u>	<u>215,366,489</u>
Net assets at end of year	<u>\$ 122,053,232</u>	<u>\$ 36,455,822</u>	<u>\$ 83,274,147</u>	<u>\$ 241,783,201</u>

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

## STATEMENTS OF CASH FLOWS

For the years ended June 30,

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ 1,350,586	\$ 26,416,712
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	3,949,245	4,029,304
Accretion of asset retirement obligations	37,210	35,285
Net realized and unrealized losses (gains) on investments	962,466	(18,343,114)
Bond premium amortization	(91,077)	(92,324)
Amortization of bond issuance costs	44,330	46,232
Loss on retirement of long-term debt	645,730	-
Payments to annuitants	-	733,904
Actuarial (gain) loss on annuities payable	(598,965)	325,461
Non-cash contribution received	-	(2,465,010)
Sale of donated investments	674,326	-
Contributions restricted for long-term investment and annuity contracts	(2,088,007)	(9,078,693)
Income reinvested	(33,959)	(29,596)
Changes in assets and liabilities		
Accounts receivable	(664,129)	29,985
Accrued income receivable	-	832
Prepaid expenses	461,712	575,580
Pledges receivable	(976,981)	(230,977)
Other assets	(46,042)	-
Accounts payable and accrued expenses	2,739,990	(262,998)
Accrued payroll	87,041	39,110
Deferred revenues	(95,930)	(84,213)
Refundable deposits	3,205	68,153
Retirement obligations	156,495	(58,442)
Net cash provided by operating activities	<u>6,517,246</u>	<u>1,655,191</u>
Cash flows from investing activities		
Purchases of property, equipment and collections	(2,028,063)	(3,040,217)
Net purchases and sales of investments	(1,664,588)	(9,979,044)
Payments on loans receivable	317,708	348,687
Loans issued to students	(362,034)	(415,075)
Net cash used in investing activities	<u>(3,736,977)</u>	<u>(13,085,649)</u>
Cash flows from financing activities		
Contributions received restricted for long-term investment	2,203,182	8,926,299
Contributions received restricted for investments in annuity contracts	42,156	152,394
Repayment of long-term debt	(12,018,056)	-
Proceeds from issuance of long-term debt	12,160,000	-
Payments on long-term debt	(1,280,000)	(1,095,000)
Acquisition of bond issuance costs	(230,447)	-
Payments to annuitants	(579,435)	(733,903)
Receipts of dividends and interest restricted for reinvestment	33,959	29,596
Net cash provided by financing activities	<u>331,359</u>	<u>7,279,386</u>
Net increase (decrease) in cash and cash equivalents	3,111,628	(4,151,072)
Cash and cash equivalents at beginning of year	<u>5,349,643</u>	<u>9,500,715</u>
Cash and cash equivalents at end of year	<u>\$ 8,461,271</u>	<u>\$ 5,349,643</u>
Supplemental disclosures:		
Cash paid for interest	\$ 1,767,997	\$ 1,876,851
Construction-related payables	\$ 654	\$ 32,770

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



**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

Ursinus College (the College) is an independent, four-year liberal arts college founded in 1869. The mission of the College is to enable students to become independent, responsible, and thoughtful individuals through a program of liberal education. The College enrolls approximately 1,600 full-time students, approximately 93% of whom live in College residence halls. During the 2014-2015 academic year, the College provided education to 1,668 full-time-equivalent day students from 33 states and 16 countries.

The College provides facilities for the Saint Joseph's University Masters in Business Administration program, which attracts approximately 75 part-time evening students.

2. Basis of Presentation

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

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

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

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

3. Contributions and Related Expenses

Contributions are recognized as revenue when received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value on the date of donation. Gifts of cash and other noncapital assets are reported as unrestricted operating revenue if the gifts were received with no restrictions or if the specified restrictions have been satisfied within the current fiscal year. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Costs incurred for fund-raising activities are expensed as incurred. Total fund-raising costs, included in management and general expenses, were \$3,424,868 and \$2,917,403 in 2015 and 2014, respectively.

4. Cash Equivalents

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

5. Deferred Revenues

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

6. Student Loans Receivable

As of June 30, 2015 and 2014, student loans receivable are stated net of an allowance for doubtful loans. Uncollectible Federal Perkins Loans are not written off until approved for write-off or accepted for assignment by the U.S. Department of Education.

7. Allowances for Doubtful Accounts

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

8. Investments

Investments comprise all classes of investments held and invested by the College's professional portfolio managers. Investments with readily determinable market values are reported in the financial statements at fair value based on quoted market prices. The estimated fair value of alternative investments such as hedge funds and private equity interests are based on net asset value as provided by the external investment managers as a practical expedient for fair value. See Note A18 for additional information.

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

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Land, Buildings, and Equipment

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

10. Collections

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

Gains or losses on the deaccession of collection items are classified on the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession. There were no deaccessions of the collections recorded in the years ended June 30, 2015 and 2014. The College added \$42,800 and \$2,469,826 to the collections for the years ended June 30, 2015 and 2014, respectively.

11. Annuities Payable

Annuities payable represent the net present value of expected future payments to beneficiaries designated under annuity gift agreements. Adjustments related to changes in estimates of future payments to beneficiaries and actuarial assumptions are recorded as actuarial gains or losses. Included in investments on the statements of financial position for the years ended June 30, 2015 and 2014 is \$3,086,309 and \$4,338,871, respectively, as reserves for future payments of annuities payable.

12. Conditional Asset Retirement Obligations

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

13. Functional Expenses

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

14. Nonoperating Activities

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

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

15. Tax-Exempt Status

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

The College recognizes or derecognizes a tax position based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The College does not believe its financial statements include any material uncertain tax positions. As of June 30, 2015, the College’s tax years ended June 30, 2012 through June 30, 2014 for federal tax jurisdiction remain open to examination.

16. Management Estimates

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

17. Concentration of Credit Risk

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

18. Fair Value Measurements

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

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

19. Investments

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

*Cash and Money Market Funds*

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

*U.S. Government Obligations*

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

Debt securities, including corporate and international securities, are valued at the closing price reported in the active market in which the bond is traded, if available, and classified as Level 1 in 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 statement of financial position date. To the extent these mutual funds are actively traded, they are categorized in Level 1 of the fair value hierarchy.

*Equity Securities, Common Stocks and Commodities*

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

*Real Estate Fund*

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

*Alternative Investments*

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

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

*Other*

These include an absolute return fund, life insurance policies that support donor charitable gift annuities held by the College and other investments held by the College.

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

*Funds Held in Trust by Others*

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

20. Deposits with Bond Trustees

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

21. Pledges Receivable

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

22. Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation. These reclassifications had no impact on total assets, total liabilities, net assets or changes in net assets.

NOTE B - PLEDGES RECEIVABLE

The College records unconditional promises to give as pledges receivable. Pledges that were due beyond one year when initiated were discounted at discount rates that range from 0.21% to 4.87%.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

## NOTE B - PLEDGES RECEIVABLE - Continued

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

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 107,214	\$ 495,620
One to five years	1,438,368	685,715
More than five years	<u>794,661</u>	<u>19,398</u>
Total pledges	2,340,243	1,200,733
Allowance and discount for uncollectible pledges	<u>(397,777)</u>	<u>(120,073)</u>
	<u>\$ 1,942,466</u>	<u>\$ 1,080,660</u>

At June 30, 2015 and 2014, the unamortized discount was \$136,857 and \$9,089, respectively.

## NOTE C - ACCOUNTS RECEIVABLE

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

	<u>2015</u>	<u>2014</u>
Students	\$ 82,696	\$ 77,698
Employees	9,004	13,672
Research and development grants	257,991	86,725
Other	<u>782,891</u>	<u>342,492</u>
Total accounts receivable	1,132,582	520,587
Allowance for uncollectible receivables	<u>(32,938)</u>	<u>(85,072)</u>
	<u>\$ 1,099,644</u>	<u>\$ 435,515</u>

## NOTE D - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE

Student Loans Receivable

The College makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. At June 30, 2015 and 2014, student loans receivable represented 0.6% and 0.5% of total assets, respectively.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

## NOTE D - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE - Continued

At June 30, student loans consisted of the following:

	<u>2015</u>	<u>2014</u>
Federal government programs	\$ 1,889,817	\$ 1,831,229
Institutional programs	<u>12,005</u>	<u>17,327</u>
	1,901,822	1,848,556
Less allowance for doubtful accounts:		
Beginning of year	(213,559)	(215,972)
(Increases) decreases	(8,985)	2,379
Write-offs	<u>45</u>	<u>34</u>
End of year	<u>(222,499)</u>	<u>(213,559)</u>
Student loans receivable, net	<u>\$ 1,679,323</u>	<u>\$ 1,634,997</u>

The College participates in various federal revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of approximately \$1,615,000 at both June 30, 2015 and 2014 are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan.

At June 30, 2015 and 2014, the following amounts were past due under student loan programs:

<u>Year ended June 30,</u>	<u>Less than 240 days past due</u>	<u>240 days - 2 years past due</u>	<u>2 - 5 years past due</u>	<u>Over 5 years past due</u>	<u>Total past due</u>
2015	\$ 161,493	\$ 45,787	\$ 72,495	\$ 203,087	\$ 482,862
2014	167,122	56,755	112,531	156,884	493,292

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Perkins Loan Program are guaranteed by the government and, therefore, no reserves are placed on any past-due balances under the program.

## NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS

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.

(Continued)



## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

## NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose primary values are observable.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity funds and certain other alternative investments.

The following tables present the College's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2015 and 2014:

	Fair value investments at June 30, 2015			Fair value 2015
	Level 1	Level 2	Level 3	
Investments				
Cash and money market funds	\$ 29,518,186	\$ -	\$ -	\$ 29,518,186
U.S. government obligations	6,467,217	1,000	-	6,468,217
Fixed-income mutual funds	20,959,705	-	-	20,959,705
International fixed income mutual funds	176,634	-	-	176,634
Common stocks	11,072	-	-	11,072
Equity mutual funds	32,463,002	-	-	32,463,002
International equity mutual funds	38,958,401	-	-	38,958,401
Commodities fund	9,188,898	-	-	9,188,898
Real estate fund	1,678,509	-	-	1,678,509
Alternative investments:				
Hedge fund:				
Total return	-	-	5,820,941	5,820,941
Arbitrage	-	-	245,274	245,274
Private equity:				
Private equity	-	-	1,409,714	1,409,714
Distressed debt	-	-	1,481,933	1,481,933
Special opportunities	-	-	3,247,078	3,247,078
Other	-	420,530	193,649	614,179
Funds held in trust by others <sup>(1)</sup>	-	-	12,146,349	12,146,349
Total investments	139,421,624	421,530	24,544,938	164,388,092
Deposits with bond trustees	2,081,512	-	-	2,081,512
Total assets	\$ 141,503,136	\$ 421,530	\$ 24,544,938	\$ 166,469,604

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

## NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

	Fair value investments at June 30, 2014			Fair value 2014
	Level 1	Level 2	Level 3	
Investments				
Cash and money market funds	\$ 25,784,754	\$ -	\$ -	\$ 25,784,754
U.S. government obligations	6,783,996	1,000	-	6,784,996
Fixed-income mutual funds	21,583,820	-	-	21,583,820
International fixed income mutual funds	107,410	-	-	107,410
Common stocks	16,612	-	-	16,612
Equity mutual funds	35,861,387	-	-	35,861,387
International equity mutual funds	41,775,705	-	-	41,775,705
Commodities fund	9,243,495	-	-	9,243,495
Real estate fund	1,799,339	-	-	1,799,339
Alternative investments:				
Hedge fund:				
Total return	-	-	5,568,095	5,568,095
Arbitrage	-	-	335,862	335,862
Private equity:				
Private equity	-	-	1,131,185	1,131,185
Distressed debt	-	-	1,880,775	1,880,775
Special opportunities	-	-	1,797,236	1,797,236
Other	-	514,273	298,162	812,435
Funds held in trust by others <sup>(1)</sup>	-	-	9,854,618	9,854,618
Total investments	142,956,518	515,273	20,865,933	164,337,724
Deposits with bond trustees	3,560,163	-	-	3,560,163
Total assets	\$ 146,516,681	\$ 515,273	\$ 20,865,933	\$ 167,897,887

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

There were no transfers into or out of levels 1, 2 and 3 for the years ended June 30, 2015 and 2014.

All investments in the alternative investment category are valued at estimated fair value using NAV per share as a practical expedient. A description of these investments, 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 redeem on a quarterly basis with 60 days written notice.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

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 \$133,072 from the fund during the year ended June 30, 2015, and the remaining balance of \$245,274 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 \$554,655 is currently unfunded. The objective of the funds is to realize a long-term total return by investing in a diversified group of pooled investment vehicles. The funds may invest in any of the following strategies: venture, buyout, distressed, real estate, fund of funds and secondaries. These funds are not redeemable, and capital will be returned throughout the life of the funds as investments provide a cash flow stream or are liquidated. The remaining term of these funds is 12 years.

Private Equity - Distressed Debt Funds

The College has a total capital commitment of \$4,750,000 to these funds, of which \$671,612 is currently unfunded. The funds invest directly and indirectly in the securities of entities which are experiencing financial difficulties. These funds are not redeemable, and capital will be returned to investors through liquidation upon termination of the funds. Remaining lives of the funds are estimated at between 4 and 10 years.

Special Opportunities

The College has a total capital commitment of \$5,000,000 to these funds, of which \$1,891,341 is currently unfunded. The funds are permitted to make any and all types of investment that may present an attractive investment opportunity at that time. The overall investment horizon for each fund is about 5 to 7 years. Similar to private equity, there are no redemption rights and the investments should be considered illiquid.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

The following table presents assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2015 and 2014:

Investment type	Total return hedge fund	Arbitrage hedge fund	Private equity	Distressed debt	Special opportunities	Other (Glenmede)	Funds held in trust by others	Total Level 3 investments
<u>2015</u>								
Beginning balance	\$ 5,568,095	\$ 335,862	\$ 1,131,185	\$ 1,880,775	\$ 1,797,236	\$ 298,162	\$ 9,854,618	\$ 20,865,933
Gains (realized and unrealized)	252,846	42,484	120,084	130,146	212,010	-	2,321,100	3,078,670
Losses (realized and unrealized)	-	-	-	(116,147)	-	(937)	(27,861)	(144,945)
Purchases	-	-	188,625	14,045	2,066,395	11,137	21,031	2,301,233
Settlements	-	(133,072)	(30,180)	(426,886)	(828,563)	(114,713)	(22,539)	(1,555,953)
Transfers	-	-	-	-	-	-	-	-
	<u>\$ 5,820,941</u>	<u>\$ 245,274</u>	<u>\$ 1,409,714</u>	<u>\$ 1,481,933</u>	<u>\$ 3,247,078</u>	<u>\$ 193,649</u>	<u>\$ 12,146,349</u>	<u>\$ 24,544,938</u>
<u>2014</u>								
Beginning balance	\$ 5,319,970	\$ 557,487	\$ 758,926	\$ 1,879,938	\$ -	\$ 179,942	\$ 8,996,363	\$ 17,692,626
Gains (realized and unrealized)	248,125	27,291	159,741	410,244	9,437	10,820	976,072	1,841,730
Losses (realized and unrealized)	-	-	-	-	(14,421)	(232)	-	(14,653)
Purchases	-	-	225,093	79,241	1,948,468	112,836	5,416	2,371,054
Settlements	-	(248,916)	(12,575)	(488,648)	(146,248)	(5,204)	(123,233)	(1,024,824)
Transfers	-	-	-	-	-	-	-	-
	<u>\$ 5,568,095</u>	<u>\$ 335,862</u>	<u>\$ 1,131,185</u>	<u>\$ 1,880,775</u>	<u>\$ 1,797,236</u>	<u>\$ 298,162</u>	<u>\$ 9,854,618</u>	<u>\$ 20,865,933</u>

Return on the College's cash and investments for the years ended June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 3,621,271	\$ 3,265,228
Investment fees	(485,336)	(491,720)
Realized gains	8,088,854	9,867,343
Unrealized (losses) gains	<u>(9,051,320)</u>	<u>8,475,772</u>
	<u>\$ 2,173,469</u>	<u>\$ 21,116,623</u>

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

	<u>2015</u>	<u>2014</u>
Operating activities:		
Endowment funds used for operations	\$ 5,814,162	\$ 5,266,376
Other investment income	662,305	24,670
Net realized and unrealized (losses) gains	(132,235)	231,178
Nonoperating activities:		
Endowment funds provided to operations	(3,572,397)	(2,816,339)
Other investment income	231,865	298,801
Net realized and unrealized (losses) gains	<u>(830,231)</u>	<u>18,111,937</u>
	<u>\$ 2,173,469</u>	<u>\$ 21,116,623</u>

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

## NOTE F - LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Nondepreciable assets, primarily land	\$ 792,618	\$ 792,618
Buildings and improvements	172,937,632	172,720,273
Furniture and equipment	7,780,383	7,573,492
Construction in progress	<u>2,312,200</u>	<u>878,027</u>
	183,822,833	181,964,410
Less accumulated depreciation	<u>(68,970,625)</u>	<u>(65,148,220)</u>
	<u>\$ 114,852,208</u>	<u>\$ 116,816,190</u>

The College has outstanding commitments on construction contracts of \$63,646 and \$605,466 as of June 30, 2015 and 2014, respectively.

Depreciation expense was \$3,949,245 and \$4,029,304 for the years ended June 30, 2015 and 2014, respectively.

## NOTE G - LONG-TERM DEBT

Total long-term debt consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
PHEFA College Revenue Bonds - Series of 2006	\$ -	\$ 12,920,000
PHEFA College Revenue Bonds - Series of 2012	16,705,000	17,345,000
PHEFA College Revenue Bonds - Series of 2013	12,125,000	12,580,000
PHEFA College Revenue Bonds - Series of 2015	<u>12,160,000</u>	<u>-</u>
	40,990,000	42,845,000
Plus unamortized bond premium	<u>1,468,760</u>	<u>1,724,414</u>
	<u>\$ 42,458,760</u>	<u>\$ 44,569,414</u>

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

## NOTE G - LONG-TERM DEBT - Continued

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

<u>Year ending June 30,</u>	
2016	\$ 1,470,000
2017	1,385,000
2018	1,430,000
2019	1,475,000
2020	1,520,000
Thereafter	<u>33,710,000</u>
	<u>\$ 40,990,000</u>

Fair value is estimated based on the quoted market prices for the same or similar issues or on the net present value of the expected future cash flows using current interest rates. The estimated fair value of the College's debt is \$42,488,370 and \$45,226,442 as of June 30, 2015 and 2014, respectively.

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

In February 2006, the College issued \$14,000,000 of revenue bonds to pay for the costs of the planning, designing, acquiring, constructing, furnishing, and equipping of a new student residence hall to be located on the College's campus, and to plan, design, acquire, construct, renovate, remodel, furnish, equip, and improve other facilities and buildings, including Bomberger Hall. These serial bonds began repayment on January 1, 2008, with the final payment due January 1, 2036, with interest rates of these fixed rate revenue bonds ranging from 4.00% to 5.00% during the remaining term of the bonds. In accordance with the bond issue, the College must meet certain financial covenants related to the issuance of additional debt or guarantees and coverage of the College's debt service requirements as stipulated with the College's 2003 Series bonds, which were retired with the College's 2012 and 2013 Series bonds. The College is in compliance with these covenants for the year ended June 30, 2015.

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

In May 2012, the College issued \$18,865,000 of revenue bonds as an advanced refunding of a portion of the College's PHEFA Series 2003 revenue bonds. These serial bonds began repayment on January 1, 2013, with the final payment due January 1, 2033. Interest rates of these fixed rate revenue bonds range from 2.00% to 5.00% during the term of the bonds. In accordance with the bond issue, the College must follow the same financial covenants as stipulated with the College's 2003 Series bonds, which they are in compliance with for the year ended June 30, 2015.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE G - LONG-TERM DEBT - Continued

3. PHEFA College Revenue Bonds, Series of 2013 (Ursinus College)

In April 2013, the College issued \$12,880,000 of revenue bonds as a current refunding of the remaining portion of the College's PHEFA Series 2003 revenue bonds. These serial bonds began repayment on January 1, 2014, with the final payment due January 1, 2033. Interest rates of these fixed rate revenue bonds range from 3.00% to 5.00% during the term of the bonds. In accordance with the bond issue, the College must follow the same financial covenants as stipulated with the College's 2003 Series bonds, which they are in compliance with for the year ended June 30, 2015.

4. PHEFA College Revenue Bonds, Series of 2015 (Ursinus College)

In April 2015, the College issued \$12,160,000 of revenue bonds as a current refunding of the remaining portion of the College's PHEFA Series 2006 revenue bonds. These serial bonds began repayment on July 1, 2015, with the final payment due January 1, 2036. Interest rates of these fixed rate revenue bonds range from 2.00% to 4.00% during the term of the bonds. In accordance with the bond issue, the College must follow the same financial covenants as stipulated with the College's 2006 Series bonds, which they are in compliance with for the year ended June 30, 2015.

5. Interest

Interest expense in 2015 and 2014 was \$1,679,657 and \$1,784,528, respectively.

NOTE H - NET ASSETS

Included in unrestricted net assets is \$33,325,757 and \$30,068,306 of board-designated endowment funds at June 30, 2015 and 2014, respectively.

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

	<u>2015</u>	<u>2014</u>
Temporarily restricted net assets:		
Unexpended gifts for instruction, scholarships and capital expenditures	\$ 9,369,294	\$ 8,065,015
Pledges	1,901,133	964,793
Annuity and life income funds	4,466,180	5,877,134
Endowment - accumulated realized and unrealized investment gains unexpended for instruction, scholarships and capital expenditures (Note L)	<u>15,104,198</u>	<u>21,548,880</u>
	<u>\$ 30,840,805</u>	<u>\$ 36,455,822</u>

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

## NOTE H - NET ASSETS - Continued

	<u>2015</u>	<u>2014</u>
Permanently restricted net assets:		
Annuity and life income funds	\$ 3,087,810	\$ 4,345,292
Student loans	1,378,602	1,309,486
Endowment principal:		
General endowment	37,104,647	33,094,367
Scholarship and prizes	30,313,225	29,527,893
Endowed chairs	14,780,487	14,356,202
Pledges	41,334	145,867
Endowment - accumulated realized and unrealized investment gains	<u>495,040</u>	<u>495,040</u>
	<u>\$ 87,201,145</u>	<u>\$ 83,274,147</u>

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

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

	<u>2015</u>	<u>2014</u>
Net assets released from restrictions:		
Donor restrictions met	\$ 950,236	\$ 1,364,791
Endowment gains under spending rule (see Note L)	<u>3,572,397</u>	<u>2,816,339</u>
	<u>\$ 4,522,633</u>	<u>\$ 4,181,130</u>

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

	<u>2015</u>	<u>2014</u>
Endowment funds (including funds functioning) used for operations:		
Endowment interest and dividends	\$ 2,241,765	\$ 2,450,042
Accumulated realized and unrealized investment gains	<u>3,572,397</u>	<u>2,816,334</u>
Total expended under spending rate	<u>\$ 5,814,162</u>	<u>\$ 5,266,376</u>



## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

## NOTE J - POSTRETIREMENT BENEFIT PLANS

*(Emeriti program)*

In July 2005, the College revised its postretirement healthcare program for other than existing retirees receiving benefits under the plan. The College joined Emeriti Retirement Health Solution, a consortium of colleges and universities organized to address retiree healthcare needs. The College deposits a set amount for each employee who is 40 years of age or older into a Voluntary Employee Benefits Associations account in the employee's name. Employees will have access to these funds to use for their postretirement healthcare needs. Because the College is prefunding retiree healthcare costs in a defined contribution account, it will have no future obligation for these costs when active employees retire. Current retirees' healthcare benefits will continue to be funded through the plan in place prior to June 30, 2005. Total College contributions to the Emeriti plan were \$137,950 and \$149,896 for the years ended June 30, 2015 and 2014, respectively.

*(Postretirement benefits other than pensions)*

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

	<u>2015</u>	<u>2014</u>
Interest cost	\$ <u>20,827</u>	\$ <u>25,969</u>
	<u>\$ 20,827</u>	<u>\$ 25,969</u>

Reconciliation of the funded status is as follows:

	<u>2015</u>	<u>2014</u>
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 745,089	\$ 588,594
Active employees fully eligible	-	-
Active employees not yet fully eligible	<u>-</u>	<u>-</u>
Total	745,089	588,594
Fair value of plan assets	<u>-</u>	<u>-</u>
APBO in excess of plan assets	745,089	588,594
Unrecognized net gain	<u>-</u>	<u>-</u>
Accrued postretirement benefit cost	<u>\$ 745,089</u>	<u>\$ 588,594</u>

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE J - POSTRETIREMENT BENEFIT PLANS - Continued

The assumed healthcare cost trend rate for fiscal year 2014 is 7%, grading down to an ultimate level of 3% over the next five years, 2019. Increasing the healthcare trend rate by 1% each year would increase the accumulated postretirement benefit obligation by \$45,927 as of June 30, 2015, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year by \$1,948. Decreasing the healthcare trend rate by 1% each year would decrease the accumulated postretirement benefit obligation by \$41,591 as of June 30, 2015, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year by \$1,645. The discount rate used in determining the accumulated postretirement benefit obligation was 3.75% and 4.25% at June 30, 2015 and 2014, respectively.

The benefits paid under this plan were \$67,472 and \$72,971 for the years ended June 30, 2015 and 2014, respectively.

At June 30, 2015, the College's expected future benefit payments for future service are as follows:

<u>Year ending June 30,</u>	
2016	\$ 70,511
2017	71,237
2018	71,048
2019	69,915
2020	67,847
2021-2025	285,631

*(Defined contribution plan)*

The College also has a defined contribution retirement plan for eligible faculty, administration and staff employees. The plan is fully funded, and participant interests are fully vested. Employees are required to contribute at least 4% of their annual base salary. The College's contributions, based on 7% of salaries, were \$1,594,740 and \$1,608,768 in 2015 and 2014, respectively.

NOTE K - COMMITMENTS AND CONTINGENCIES

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

NOTE L - ENDOWMENTS

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

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE L - ENDOWMENTS - Continued

1. Interpretation of Relevant Law

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

2. Return Objectives and Risk Parameters

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

3. Spending Policy

In accordance with state law, net realized and unrealized gains on permanently restricted investments are included as temporarily restricted net assets, even absent donor restrictions on the use of gains. Commonwealth of Pennsylvania law permits the College to adopt a spending policy for endowment earnings, subject to certain limitations. The College follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. The College's spending rate is annually approved by the board of directors, and for the years ended June 30, 2015 and 2014, the rate was 5.75% of the 20-quarter moving average market value of the pooled endowment.

4. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. Deficiencies of this nature were \$109,831 and \$31,201 as of June 30, 2015 and 2014, respectively. Such deficiencies are recorded as unrestricted net assets from board-designated endowment funds. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

## NOTE L - ENDOWMENTS - Continued

Net asset classification by type of endowment as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 19,570,379	\$ 85,781,210	\$ 105,351,589
Board-designated endowment funds	<u>33,325,757</u>	<u>-</u>	<u>-</u>	<u>33,325,757</u>
	<u>\$ 33,325,757</u>	<u>\$ 19,570,379</u>	<u>\$ 85,781,210</u>	<u>\$ 138,677,346</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 30,848,141	\$ 27,426,014	\$ 81,818,794	\$ 140,092,949
Investment return:				
Investment income	2,188,218	221,976	6,414	2,416,608
Net (depreciation) appreciation (realized and unrealized gains and losses)	<u>(218,791)</u>	<u>(3,061,302)</u>	<u>2,408,291</u>	<u>(871,802)</u>
Total investment return	1,969,427	(2,839,326)	2,414,705	1,544,806
Gift of new annuity	-	35,026	-	35,026
Board designations	500	-	-	500
Contributions	-	-	2,201,998	2,201,998
Actuarial (loss) gain on annuity liabilities	-	(11,056)	610,021	598,965
Appropriation of endowment assets for expenditure	(2,188,218)	(3,625,944)	-	(5,814,162)
Net assets released from restrictions	-	(38,784)	-	(38,784)
Other changes	<u>2,695,907</u>	<u>(1,375,551)</u>	<u>(1,264,308)</u>	<u>56,048</u>
Endowment net assets, end of year	<u>\$ 33,325,757</u>	<u>\$ 19,570,379</u>	<u>\$ 85,781,210</u>	<u>\$ 138,677,346</u>

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

## NOTE L - ENDOWMENTS - Continued

Net asset classification by type of endowment as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 27,426,014	\$ 81,818,794	\$ 109,244,808
Board-designated endowment funds	<u>30,848,141</u>	<u>-</u>	<u>-</u>	<u>30,848,141</u>
	<u>\$ 30,848,141</u>	<u>\$ 27,426,014</u>	<u>\$ 81,818,794</u>	<u>\$ 140,092,949</u>

Changes in endowment net assets for the year ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 25,750,163	\$ 17,638,287	\$ 79,079,810	\$ 122,468,260
Investment return:				
Investment income	2,397,146	287,722	3,950	2,688,818
Net appreciation (realized and unrealized gains and losses)	<u>4,317,643</u>	<u>12,460,302</u>	<u>1,172,551</u>	<u>17,950,496</u>
Total investment return	6,714,789	12,748,024	1,176,501	20,639,314
Gift of new annuity	-	25,000	-	25,000
Board designations	500	-	-	500
Contributions	-	-	2,035,167	2,035,167
Actuarial loss on annuity liabilities	-	(15,676)	(309,785)	(325,461)
Appropriation of endowment assets for expenditure	(2,397,146)	(2,869,230)	-	(5,266,376)
Transfers from operations	779,835	-	-	779,835
Net assets released from restrictions	-	(38,471)	-	(38,471)
Other changes	<u>-</u>	<u>(61,920)</u>	<u>(162,899)</u>	<u>(224,819)</u>
Endowment net assets, end of year	<u>\$ 30,848,141</u>	<u>\$ 27,426,014</u>	<u>\$ 81,818,794</u>	<u>\$ 140,092,949</u>

## NOTE M - SUBSEQUENT EVENTS

The College evaluated its June 30, 2015 financial statements for subsequent events through December 15, 2015. The College is not aware of any subsequent events that would require recognition or disclosure in the financial statements.