

Financial Statements and Report of Independent  
Certified Public Accountants

**Ursinus College**

June 30, 2016 and 2015

# Contents

	<b>Page</b>
Report of Independent Certified Public Accountants	3
Financial statements	
Statements of financial position	5
Statements of activities	6
Statements of cash flows	8
Notes to financial statements	9



## 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)  
[linked.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, 2016 and 2015, 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, 2016 and 2015, 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

October 13, 2016

Ursinus College

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	2016	2015
Cash and cash equivalents	\$ 4,950,403	\$ 8,461,271
Accounts receivable, net	375,913	553,406
Prepaid expenses	1,353,445	675,310
Pledges receivable, net	3,266,735	1,942,466
Student loans receivable, net	1,707,034	1,679,323
Deposits with bond trustees	2,342,331	2,081,512
Bond issuance costs (net of accumulated amortization of \$249,484 in 2016 and \$207,056 in 2015)	732,983	775,411
Investments and funds held in trust by others	161,934,690	164,388,092
Land, buildings, and equipment, net	113,448,331	114,852,208
Collections	7,538,394	6,710,669
Other assets	797,990	801,578
Total assets	\$ 298,448,249	\$ 302,921,246
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 5,664,702	\$ 4,470,043
Accrued payroll	2,117,521	2,154,856
Deferred revenues	622,290	586,878
Refundable deposits	828,286	875,947
Retirement obligations	673,964	745,089
Annuities payable	5,926,431	5,085,162
Conditional asset retirement obligations	1,829,702	1,795,841
Long-term debt	40,904,403	42,458,760
U.S. government grants refundable	1,614,884	1,614,883
Total liabilities	60,182,183	59,787,459
Net assets		
Unrestricted	124,434,599	125,091,837
Temporarily restricted	26,121,102	30,840,805
Permanently restricted	87,710,365	87,201,145
Total net assets	238,266,066	243,133,787
Total liabilities and net assets	\$ 298,448,249	\$ 302,921,246

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

**STATEMENT OF ACTIVITIES**

For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating activities</b>				
Revenues and other additions				
Tuition and fees	\$ 76,444,251	\$ -	\$ -	\$ 76,444,251
Less student aid	(44,204,691)	-	-	(44,204,691)
Net tuition and fees	32,239,560	-	-	32,239,560
Room and board	18,596,891	-	-	18,596,891
Contributions	2,428,429	885,751	-	3,314,180
Government grants and contracts	1,000,571	-	-	1,000,571
Endowment funds used for operations	6,713,736	54,218	-	6,767,954
Other investment income	1,096,962	1,114	-	1,098,076
Other auxiliary enterprises	60,019	-	-	60,019
Other income	1,178,492	-	-	1,178,492
Net realized and unrealized losses on investments	(99,860)	-	-	(99,860)
Net assets released from restrictions	784,638	(784,638)	-	-
Total revenues and other additions	63,999,438	156,445	-	64,155,883
<b>Operating expenses</b>				
Educational and general				
Instruction	21,116,018	-	-	21,116,018
Research	697,354	-	-	697,354
Public service	995,862	-	-	995,862
Student services	9,561,073	-	-	9,561,073
Auxiliary enterprises	10,491,691	-	-	10,491,691
Support				
Academic support	5,765,290	-	-	5,765,290
Management and general	14,193,023	-	-	14,193,023
Total operating expenses	62,820,311	-	-	62,820,311
Change in net assets from operating activities	1,179,127	156,445	-	1,335,572
<b>Nonoperating activities</b>				
Contributions	893,356	1,761,629	1,569,845	4,224,830
Other investment income	33,399	124,021	36,944	194,364
Net realized and unrealized losses on investments	(2,790,705)	(2,055,745)	(838,123)	(5,684,573)
Endowment funds provided to operations	(4,616,241)	-	-	(4,616,241)
Actuarial loss on annuities payable	-	(21,845)	(259,446)	(281,291)
Other expenses	(40,382)	-	-	(40,382)
Net assets released from restrictions	4,684,208	(4,684,208)	-	-
Change in net assets from nonoperating activities	(1,836,365)	(4,876,148)	509,220	(6,203,293)
Change in net assets	(657,238)	(4,719,703)	509,220	(4,867,721)
Net assets at beginning of year	125,091,837	30,840,805	87,201,145	243,133,787
Net assets at end of year	\$ 124,434,599	\$ 26,121,102	\$ 87,710,365	\$ 238,266,066

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

Ursinus College

**STATEMENT OF ACTIVITIES**

For the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating activities</b>				
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 on investments	(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
<b>Operating expenses</b>				
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
<b>Nonoperating activities</b>				
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 on investments	(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.

## STATEMENTS OF CASH FLOWS

For the years ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (4,867,721)	\$ 1,350,586
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	4,386,357	3,949,245
Accretion of asset retirement obligations	33,861	37,210
Net realized and unrealized losses on investments	5,784,433	962,466
Bond premium amortization	(84,357)	(91,077)
Amortization of bond issuance costs	42,428	44,330
Loss on retirement of long-term debt	-	645,730
Actuarial loss (gain) on annuities payable	281,291	(598,965)
Sale of donated investments	-	674,326
Contributions restricted for long-term investment and annuity contracts	(2,530,321)	(2,088,007)
Income reinvested	-	(33,959)
Changes in assets and liabilities		
Accounts receivable	177,493	(664,129)
Prepaid expenses	(678,135)	461,712
Pledges receivable	(1,685,184)	(976,981)
Other assets	-	(46,042)
Accounts payable and accrued expenses	1,194,659	2,739,990
Accrued payroll	(37,335)	87,041
Deferred revenues	35,412	(95,930)
Refundable deposits	(47,661)	3,205
Retirement obligations	(71,125)	156,495
Net cash provided by operating activities	<u>1,934,095</u>	<u>6,517,246</u>
Cash flows from investing activities		
Purchases of property, equipment and collections	(3,810,205)	(2,028,063)
Net purchases and sales of investments	(3,382,102)	(1,664,588)
Payments on loans receivable	256,393	317,708
Loans issued to students	(284,105)	(362,034)
Net cash used in investing activities	<u>(7,220,019)</u>	<u>(3,736,977)</u>
Cash flows from financing activities		
Contributions received restricted for long-term investment	3,692,388	2,203,182
Contributions received restricted for investments in annuity contracts	-	42,156
Repayment of long-term debt	-	(12,018,056)
Proceeds from issuance of long-term debt	-	12,160,000
Payments on long-term debt	(1,470,000)	(1,280,000)
Acquisition of bond issuance costs	-	(230,447)
Payments to annuitants	(447,332)	(579,435)
Receipts of dividends and interest restricted for reinvestment	-	33,959
Net cash provided by financing activities	<u>1,775,056</u>	<u>331,359</u>
Net (decrease) increase in cash and cash equivalents	(3,510,868)	3,111,628
Cash and cash equivalents at beginning of year	<u>8,461,271</u>	<u>5,349,643</u>
Cash and cash equivalents at end of year	<u>\$ 4,950,403</u>	<u>\$ 8,461,271</u>
Supplemental disclosures:		
Cash paid for interest	\$ 1,622,975	\$ 1,767,997
Construction-related payables	\$ 1,535,215	\$ 654

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

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2016 and 2015

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 2015-2016 academic year, the College provided education to 1,636 full-time-equivalent day students from 32 states and 26 countries.

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, 2016 and 2015

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 \$3,294,813 and \$3,424,868 in 2016 and 2015, 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, 2016 and 2015, 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

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU 2015-07 amendments remove the previous requirement to categorize all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The amendments apply to reporting entities that elect to measure the fair value of an investment through the NAV per share (or its equivalent) practical expedient (common practice for investment companies). ASU 2015-07 is effective for annual reporting periods beginning after December 15, 2016, and early adoption is permitted. As permitted, the College has elected to retrospectively adopt ASU 2015-07 for its June 30, 2016 financial statements.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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).

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 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, 2016 and 2015. The College added \$827,725 and \$42,800 to the collections for the years ended June 30, 2016 and 2015, 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, 2016 and 2015 is \$2,881,316 and \$3,086,309, respectively, as reserves for future payments of annuities payable.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

*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.

*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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 1.11%.

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

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 1,440,299	\$ 107,214
One to five years	1,590,224	1,438,368
More than five years	<u>606,793</u>	<u>794,661</u>
Total pledges	3,637,316	2,340,243
Allowance and discount for uncollectible pledges	<u>(370,581)</u>	<u>(397,777)</u>
	<u>\$ 3,266,735</u>	<u>\$ 1,942,466</u>

At June 30, 2016 and 2015, the unamortized discount was \$153,137 and \$136,857, respectively.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

## NOTE C - ACCOUNTS RECEIVABLE

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

	<u>2016</u>	<u>2015</u>
Students	\$ 84,307	\$ 82,696
Employees	6,911	9,004
Research and development grants	128,264	257,991
Other	<u>214,162</u>	<u>236,653</u>
Total accounts receivable	433,644	586,344
Allowance for uncollectible receivables	<u>(57,731)</u>	<u>(32,938)</u>
	<u>\$ 375,913</u>	<u>\$ 553,406</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, 2016 and 2015, student loans receivable represented 0.6% of total assets.

At June 30, student loans consisted of the following:

	<u>2016</u>	<u>2015</u>
Federal government programs	\$ 1,925,529	\$ 1,889,817
Institutional programs	<u>5,908</u>	<u>12,005</u>
	1,931,437	1,901,822
Less allowance for doubtful accounts:		
Beginning of year	(222,499)	(213,559)
Increases	(1,950)	(8,985)
Write-offs	<u>46</u>	<u>45</u>
End of year	<u>(224,403)</u>	<u>(222,499)</u>
Student loans receivable, net	<u>\$ 1,707,034</u>	<u>\$ 1,679,323</u>

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

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

The College participates in various federal revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of approximately \$1,615,000 at both June 30, 2016 and 2015 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, 2016 and 2015, 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>
2016	\$ 233,470	\$ 58,741	\$ 65,581	\$ 200,836	\$ 558,628
2015	161,493	45,787	72,495	203,087	482,862

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.
- 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.

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

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

The following tables present the College's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	Fair value investments at June 30, 2016			Fair value 2016
	Level 1	Level 2	Level 3	
Investments				
Cash and money market funds	\$ 30,079,399	\$ -	\$ -	\$ 30,079,399
U.S. government obligations	6,542,602	1,000	-	6,543,602
Fixed-income mutual funds	20,086,058	-	-	20,086,058
International fixed income mutual funds	131,870	-	-	131,870
Common stocks	4,793	-	-	4,793
Equity mutual funds	31,688,233	-	-	31,688,233
International equity mutual funds	38,358,260	-	-	38,358,260
Commodities fund	8,845,471	-	-	8,845,471
Real estate fund	1,612,204	-	-	1,612,204
Funds held in trust by others <sup>(1)</sup>	-	-	11,626,864	11,626,864
Deposits with bond trustees	<u>2,342,331</u>	<u>-</u>	<u>-</u>	<u>2,342,331</u>
Total assets in the fair value hierarchy	<u>139,691,221</u>	<u>1,000</u>	<u>11,626,864</u>	<u>151,319,085</u>
Investments measured at NAV				
Hedge funds	-	-	-	5,592,531
Private equity funds	-	-	-	6,832,543
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>532,862</u>
Total investments measured at NAV	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,957,936</u>
Total assets	<u>\$ 139,691,221</u>	<u>\$ 1,000</u>	<u>\$ 11,626,864</u>	<u>\$ 164,277,021</u>

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

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

	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
Funds held in trust by others <sup>(1)</sup>	-	-	12,146,349	12,146,349
Deposits with bond trustees	<u>2,081,512</u>	<u>-</u>	<u>-</u>	<u>2,081,512</u>
Total assets in the fair value hierarchy	<u>141,503,136</u>	<u>1,000</u>	<u>12,146,349</u>	<u>153,650,485</u>
Investments measured at NAV				
Hedge funds	-	-	-	6,066,215
Private equity funds	-	-	-	6,138,725
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>614,179</u>
Total investments measured at NAV	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,819,119</u>
Total assets	<u>\$ 141,503,136</u>	<u>\$ 1,000</u>	<u>\$ 12,146,349</u>	<u>\$ 166,469,604</u>

<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, 2016 and 2015.

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, 2016 and 2015

## 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 \$190,227 from the fund during the year ended June 30, 2016, and the remaining balance is now \$-0-.

Private Equity

The College has a total capital commitment of \$1,870,000 to these funds, of which \$313,215 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 11 years.

Private Equity - Distressed Debt Funds

The College has a total capital commitment of \$4,750,000 to these funds, of which \$721,591 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 \$771,849 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.

The schedule below summarizes the activity for the years ended June 30, 2016 and 2015 for investments which have been classified as a Level 3 assets:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 12,146,349	\$ 9,854,618
Realized and unrealized (losses) gains	(517,816)	2,293,239
Purchases	21,684	21,031
Settlements	<u>(23,353)</u>	<u>(22,539)</u>
Ending balance	<u>\$ 11,626,864</u>	<u>\$ 12,146,349</u>

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

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

Return on the College's cash and investments for the years ended June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 3,920,600	\$ 3,621,271
Investment fees	(476,447)	(485,336)
Realized gains	6,110,225	8,088,854
Unrealized losses	<u>(11,894,658)</u>	<u>(9,051,320)</u>
	<u>\$ (2,340,280)</u>	<u>\$ 2,173,469</u>

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

	<u>2016</u>	<u>2015</u>
Operating activities:		
Endowment funds used for operations	\$ 6,767,954	\$ 5,814,162
Other investment income	1,098,076	662,305
Net realized and unrealized losses on investments	(99,860)	(132,235)
Nonoperating activities:		
Endowment funds provided to operations	(4,616,241)	(3,572,397)
Other investment income	194,364	231,865
Net realized and unrealized losses on investments	<u>(5,684,573)</u>	<u>(830,231)</u>
	<u>\$ (2,340,280)</u>	<u>\$ 2,173,469</u>

## NOTE F - LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Nondepreciable assets, primarily land	\$ 792,618	\$ 792,618
Buildings and improvements	174,251,550	172,937,632
Furniture and equipment	9,168,132	7,780,383
Construction in progress	<u>2,380,983</u>	<u>2,312,200</u>
	186,593,283	183,822,833
Less accumulated depreciation	<u>(73,144,952)</u>	<u>(68,970,625)</u>
	<u>\$ 113,448,331</u>	<u>\$ 114,852,208</u>

The College has outstanding commitments on construction contracts of \$1,997,556 and \$63,646 as of June 30, 2016 and 2015, respectively.

Depreciation expense was \$4,386,357 and \$3,949,245 for the years ended June 30, 2016 and 2015, respectively.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

NOTE G - LONG-TERM DEBT

Total long-term debt consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
PHEFA College Revenue Bonds - Series of 2012	\$ 16,040,000	\$ 16,705,000
PHEFA College Revenue Bonds - Series of 2013	11,650,000	12,125,000
PHEFA College Revenue Bonds - Series of 2015	<u>11,830,000</u>	<u>12,160,000</u>
	39,520,000	40,990,000
Plus unamortized bond premium	<u>1,384,403</u>	<u>1,468,760</u>
	<u>\$ 40,904,403</u>	<u>\$ 42,458,760</u>

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

<u>Year ending June 30,</u>	
2017	\$ 1,385,000
2018	1,430,000
2019	1,475,000
2020	1,520,000
2021	1,585,000
Thereafter	<u>32,125,000</u>
	<u>\$ 39,520,000</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 \$43,474,841 and \$42,488,370 as of June 30, 2016 and 2015, respectively.

1. 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 it is in compliance with for the year ended June 30, 2016.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

NOTE G - LONG-TERM DEBT - Continued

2. 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 it is in compliance with for the year ended June 30, 2016.

3. 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 it is in compliance with for the year ended June 30, 2016.

4. Interest

Interest expense in 2016 and 2015 was \$1,538,619 and \$1,679,657, respectively.

NOTE H - NET ASSETS

Included in unrestricted net assets is \$30,535,552 and \$33,325,757 of board-designated endowment funds at June 30, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets:		
Unexpended gifts for instruction, scholarships and capital expenditures	\$ 10,024,438	\$ 9,369,294
Pledges	3,209,580	1,901,133
Annuity and life income funds	4,192,084	4,466,180
Endowment - accumulated realized and unrealized investment gains unexpended for instruction, scholarships and capital expenditures (Note L)	<u>8,695,000</u>	<u>15,104,198</u>
	<u>\$ 26,121,102</u>	<u>\$ 30,840,805</u>

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

## NOTE H - NET ASSETS - Continued

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets:		
Annuity and life income funds	\$ 2,450,251	\$ 3,087,810
Student loans	1,429,020	1,378,602
Endowment principal:		
General endowment	37,079,768	37,104,647
Scholarship and prizes	31,394,384	30,313,225
Endowed chairs	14,804,749	14,780,487
Pledges	57,153	41,334
Endowment - accumulated realized and unrealized investment gains	<u>495,040</u>	<u>495,040</u>
	<u>\$ 87,710,365</u>	<u>\$ 87,201,145</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>2016</u>	<u>2015</u>
Net assets released from restrictions:		
Donor restrictions met	\$ 852,605	\$ 950,236
Endowment gains under spending rule (see Note L)	<u>4,616,241</u>	<u>3,572,397</u>
	<u>\$ 5,468,846</u>	<u>\$ 4,522,633</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>2016</u>	<u>2015</u>
Endowment funds (including funds functioning) used for operations:		
Endowment interest and dividends	\$ 2,151,713	\$ 2,241,765
Accumulated realized and unrealized investment gains	<u>4,616,241</u>	<u>3,572,397</u>
Total expended under spending rate	<u>\$ 6,767,954</u>	<u>\$ 5,814,162</u>

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

## 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 \$135,575 and \$137,950 for the years ended June 30, 2016 and 2015, 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>2016</u>	<u>2015</u>
Interest cost	\$ <u>24,134</u>	\$ <u>20,827</u>
	<u>\$ 24,134</u>	<u>\$ 20,827</u>

Reconciliation of the funded status is as follows:

	<u>2016</u>	<u>2015</u>
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 673,964	\$ 745,089
Active employees fully eligible	-	-
Active employees not yet fully eligible	<u>-</u>	<u>-</u>
Total	673,964	745,089
Fair value of plan assets	<u>-</u>	<u>-</u>
APBO in excess of plan assets	673,964	745,089
Unrecognized net gain	<u>-</u>	<u>-</u>
Accrued postretirement benefit cost	<u>\$ 673,964</u>	<u>\$ 745,089</u>

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

NOTE J - POSTRETIREMENT BENEFIT PLANS - Continued

The assumed healthcare cost trend rate for fiscal year 2016 is 8%, grading down to an ultimate level of 3% over the next five years, 2021. Increasing the healthcare trend rate by 1% each year would increase the accumulated postretirement benefit obligation by \$39,681 as of June 30, 2016, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year by \$1,562. Decreasing the healthcare trend rate by 1% each year would decrease the accumulated postretirement benefit obligation by \$36,167 as of June 30, 2016, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year by \$1,414. The discount rate used in determining the accumulated postretirement benefit obligation was 3.40% and 3.75% at June 30, 2016 and 2015, respectively.

The benefits paid under this plan were \$71,760 and \$68,316 for the years ended June 30, 2016 and 2015, respectively.

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

<u>Year ending June 30,</u>	
2017	\$ 72,213
2018	71,649
2019	70,066
2020	67,499
2021	64,032
2022-2026	255,076

*(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 \$1,611,067 and \$1,594,740 in 2016 and 2015, 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.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2016 and 2015

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.

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, 2016 and 2015, the rate was 5.75% of the 20-quarter moving average market value of the pooled endowment.

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

## NOTE L - ENDOWMENTS - Continued

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 \$1,366,401 and \$109,831 as of June 30, 2016 and 2015, 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.

Net asset classification by type of endowment as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 12,887,084	\$ 86,224,192	\$ 99,111,276
Board-designated endowment funds	<u>30,535,552</u>	<u>-</u>	<u>-</u>	<u>30,535,552</u>
	<u>\$ 30,535,552</u>	<u>\$ 12,887,084</u>	<u>\$ 86,224,192</u>	<u>\$ 129,646,828</u>

Changes in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 33,325,757	\$ 19,570,379	\$ 85,781,210	\$ 138,677,346
Investment return:				
Investment income	2,097,494	124,021	4,955	2,226,470
Net depreciation (realized and unrealized losses)	<u>(1,455,505)</u>	<u>(3,390,944)</u>	<u>(856,551)</u>	<u>(5,703,000)</u>
Total investment return	641,989	(3,266,923)	(851,596)	(3,476,530)
Board designations	500	-	-	500
Contributions	-	-	1,424,261	1,424,261
Actuarial loss on annuity liabilities	-	(21,845)	(259,446)	(281,291)
Appropriation of endowment assets for expenditure	(2,097,494)	(4,670,460)	-	(6,767,954)
Other changes	<u>(1,335,200)</u>	<u>1,275,933</u>	<u>129,763</u>	<u>70,496</u>
Endowment net assets, end of year	<u>\$ 30,535,552</u>	<u>\$ 12,887,084</u>	<u>\$ 86,224,192</u>	<u>\$ 129,646,828</u>

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

## 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
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)
Other changes	<u>2,695,907</u>	<u>(1,379,309)</u>	<u>(1,264,308)</u>	<u>52,290</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>

## NOTE M - SUBSEQUENT EVENTS

The College evaluated its June 30, 2016 financial statements for subsequent events through October 13, 2016. The College is not aware of any subsequent events that would require recognition or disclosure in the financial statements.