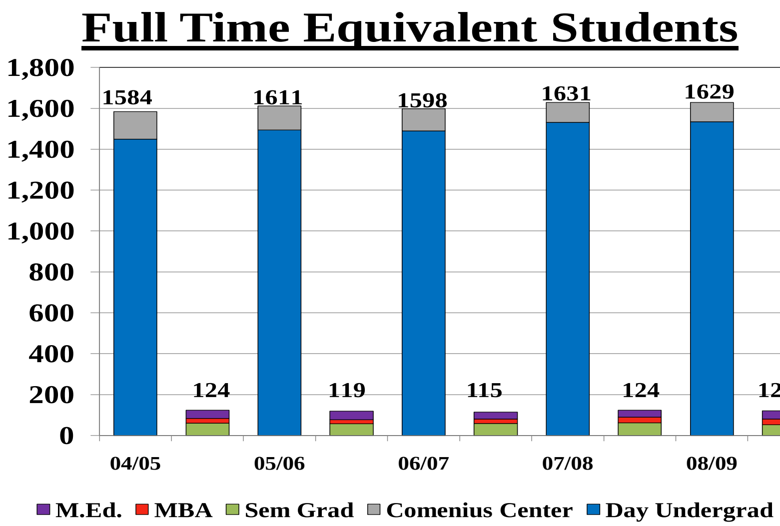
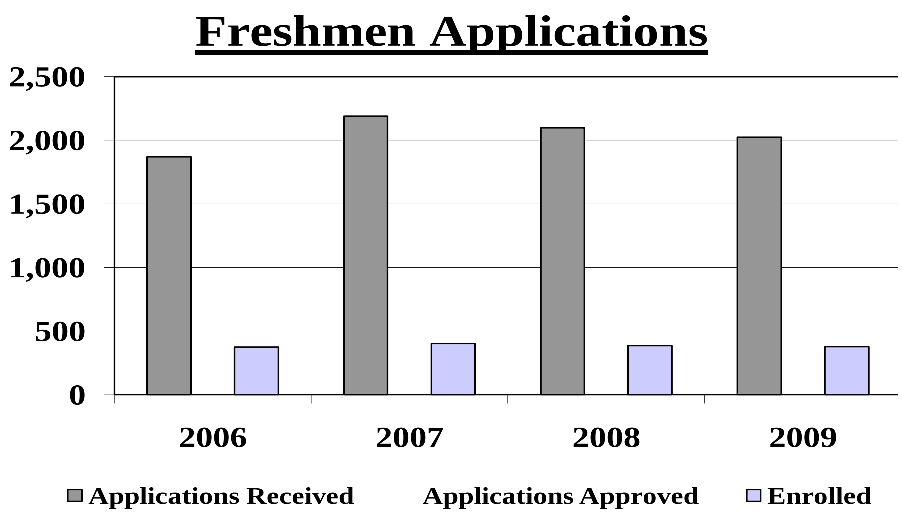
MORAVIAN COLLEGE

Hurd Campus Housing Project

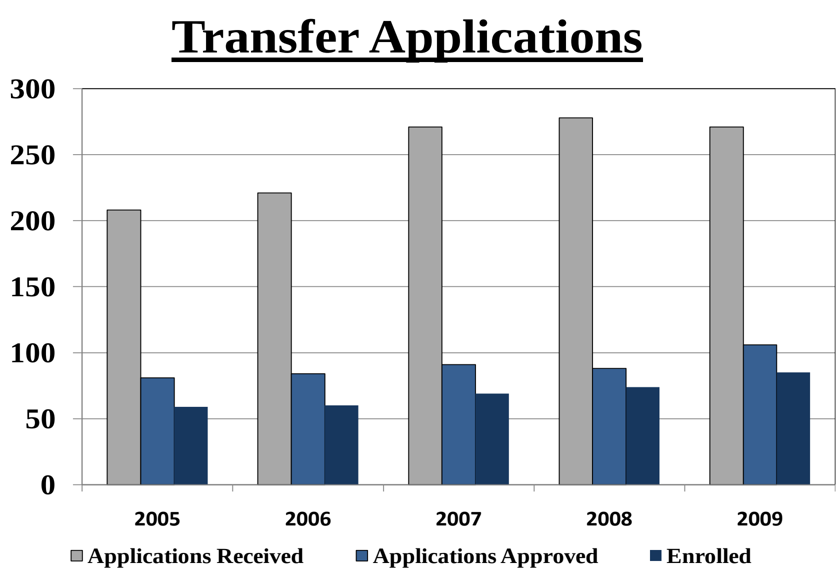
FINANCIAL REPORT 2008 – 2009



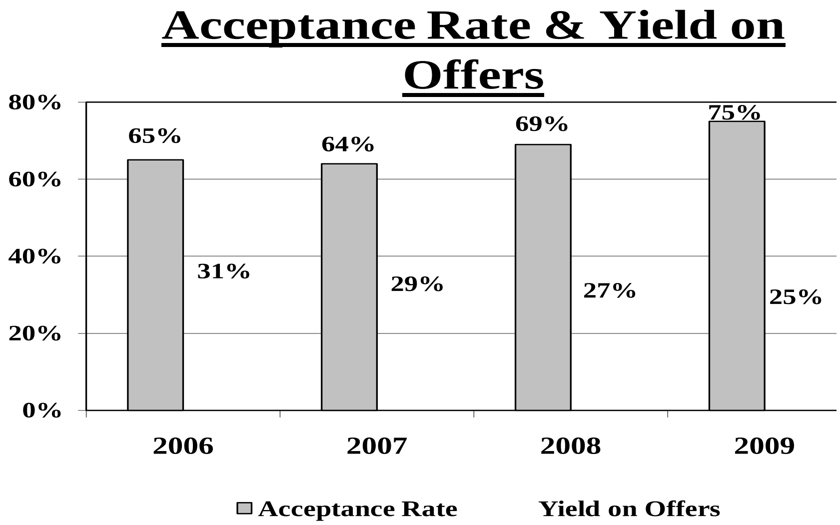
The number of full time equivalent College students remained steady. Day undergraduate students increased slightly from 1532 to 1534. The MBA and the M.Ed programs grew by a combined 11%. The Seminary experienced a decline in enrollment of 10 FTE students.



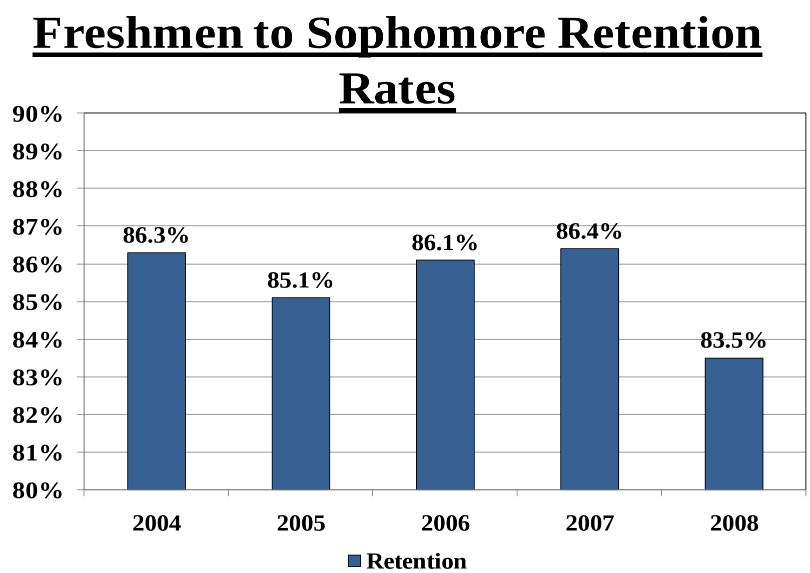
Freshman applications decreased slightly by 3.6% for the 2009/2010 academic year. Despite heavy competition, the freshman enrollment target was met.



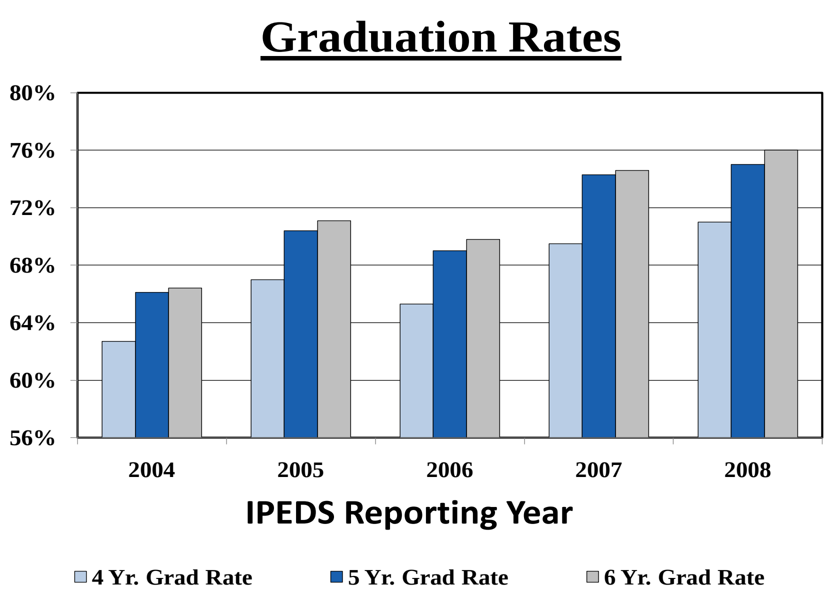
Moravian actively recruits and enrolls transfer students to help reach our total enrollment goals.



The increased acceptance rate and decreased yield are reflections of the challenging recruiting environment for small private institutions in a difficult economic environment.

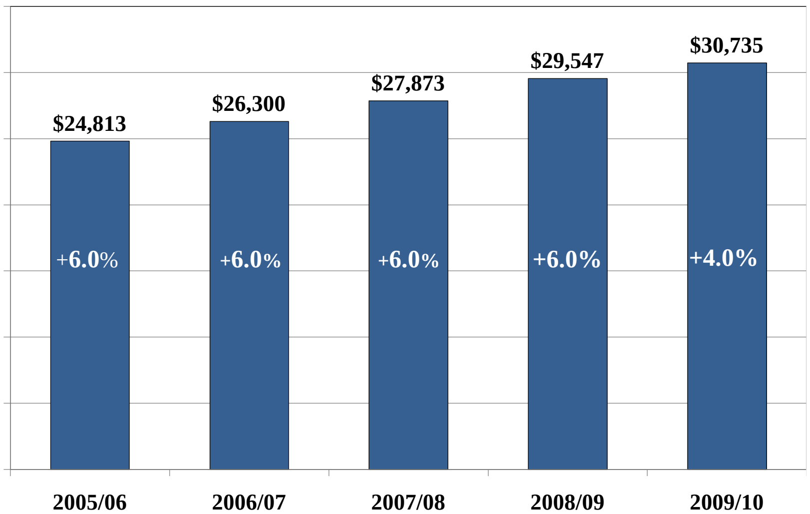


While Freshman to Sophomore retention rates have declined they are at the median for similar schools. The College has a newly formed Retention Committee to develop innovative retention strategies and assess results.



Graduation rates continue to improve with the College's six-year rates being well above the median for similar schools. In fact, compared to our 24 peer institutions, Moravian ranked fifth for six year graduation rates.

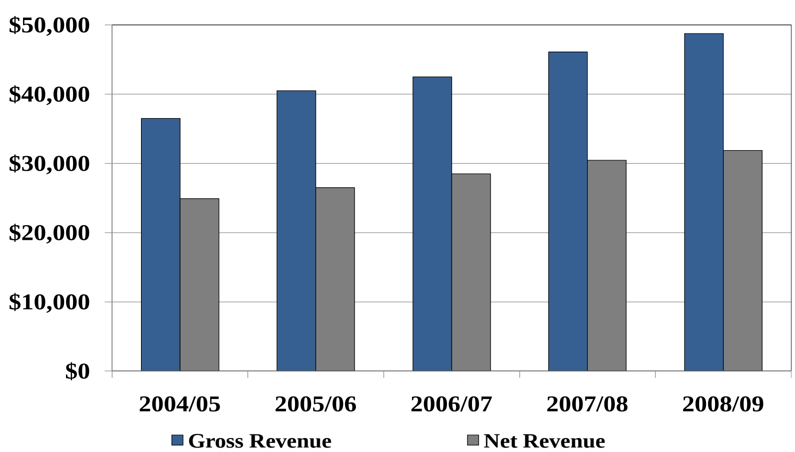
Full-Time Tuition Rate-College



The full time tuition rate for the College was increased by 4% for the 2009/2010 school year. This reflects a recognition of the financial constraints of our students coupled with a need to offset declining revenues from other sources.

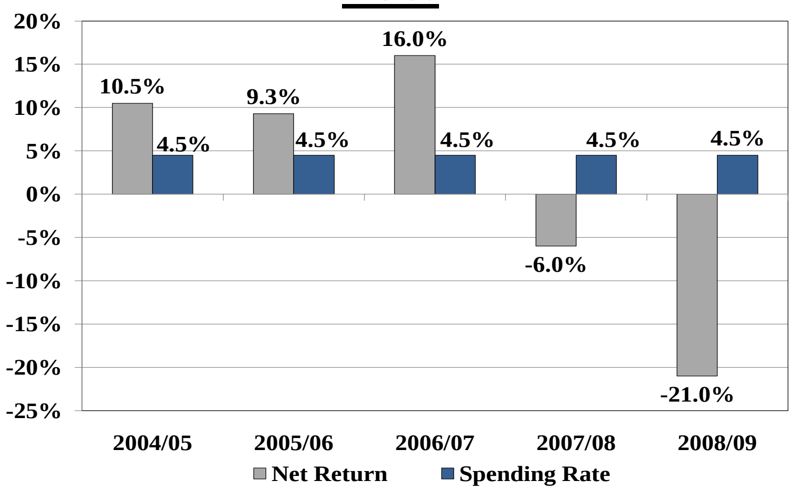
College Tuition Revenue

$Thousands



College net tuition revenue has continued to steadily increase due to the combination of rate and enrollment increases coupled with a relatively level discount rate.

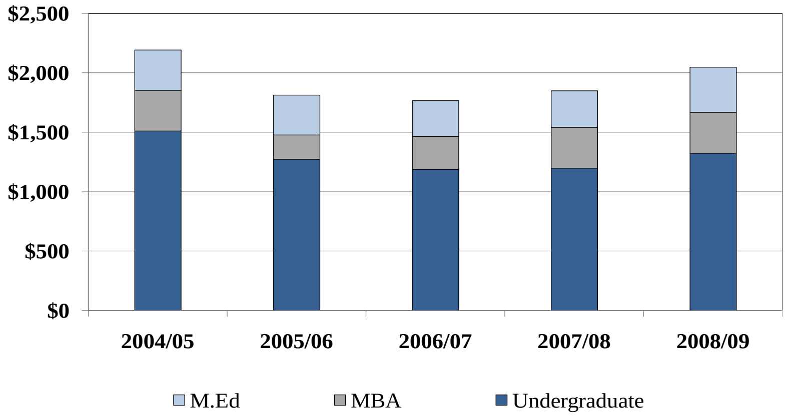
Net Investment Returns vs. Spending Rate



The 2008/2009 year was a challenging one for the endowment. Past positive returns and a modest spending rate have helped provide steady support to the budgets of the College and Seminary.

Comenius Center Gross Revenue

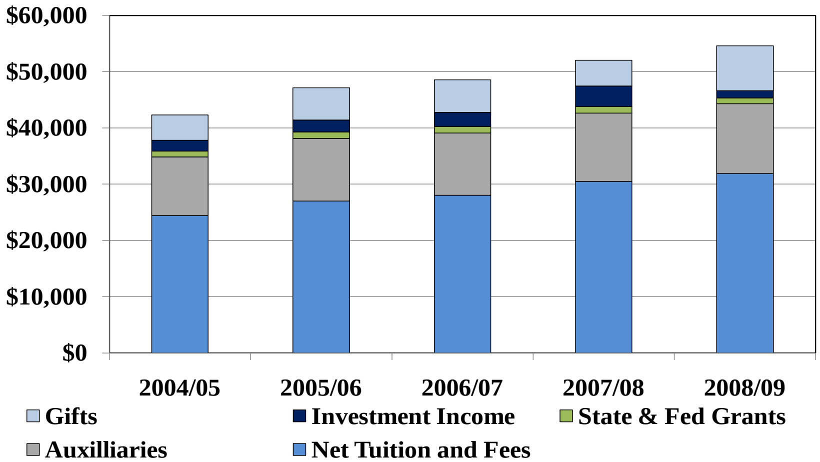
$ Thousands



The Comenius Center for Professional and Graduate Education has continued to experience growth in its program revenues. For 2009/2010 several new graduate programs are being launched.

Sources of Revenue (College)

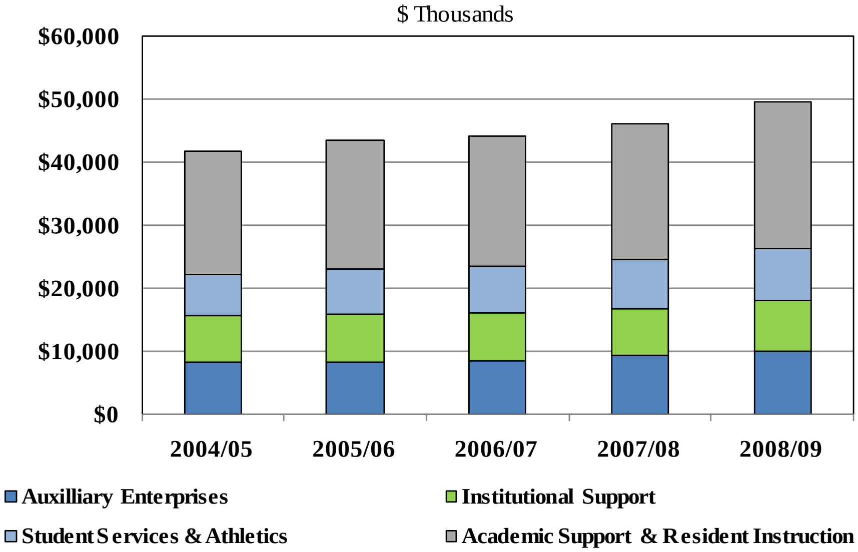
$ Thousands



Revenues increased by 5% from 2007/08 to 2008/09. Student related sources provided 80% of the revenue as compared with 82% in the prior year.

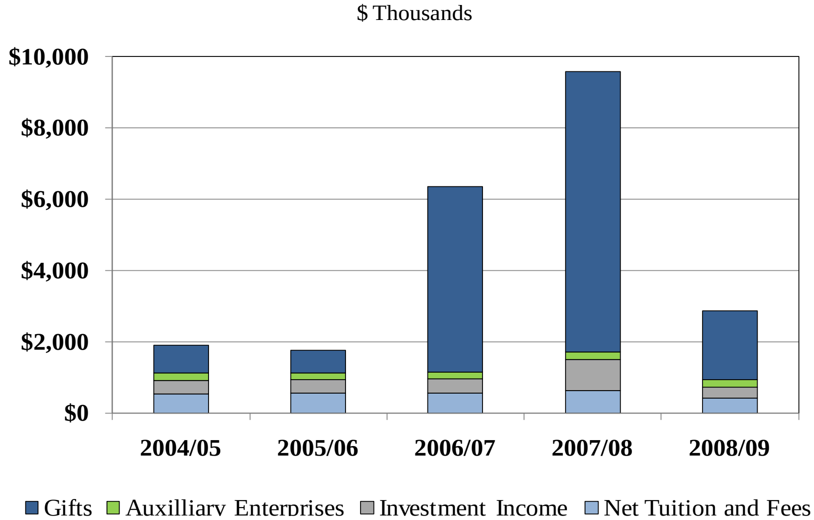
Operating Expenses (College)

$ Thousands



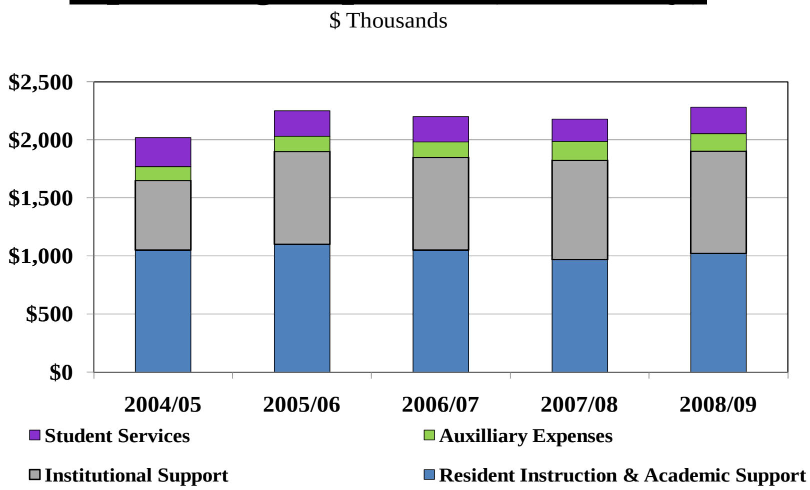
College Operating expenses increased by 7.8%, driven primarily by increases in compensation and the rising cost of healthcare. Non-compensation costs rose by only .4% in the past year. In response to recent issues in the financial markets the College has initiated new cost reduction guidelines.

Sources of Revenue (Seminary)



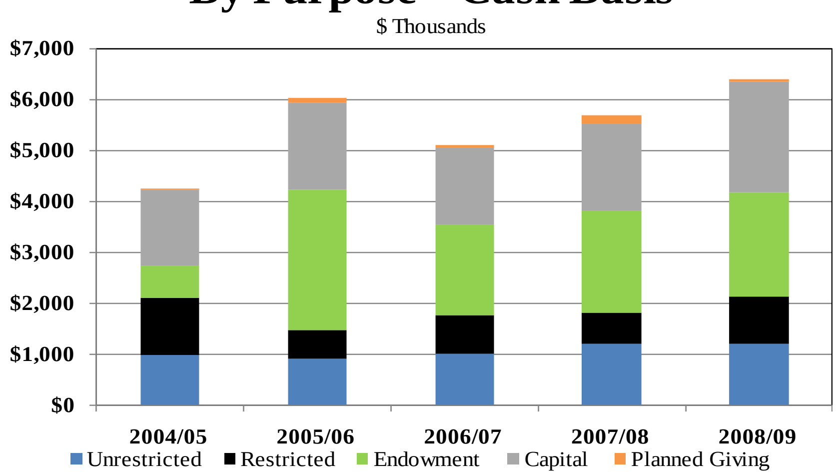
The Seminary continues to receive the majority of its revenue from gifts and endowment income. For 2008/09, 73% of total revenue came from these two sources. Tuition and Fees accounted for 18% of total revenue.

Operating Expenses (Seminary)

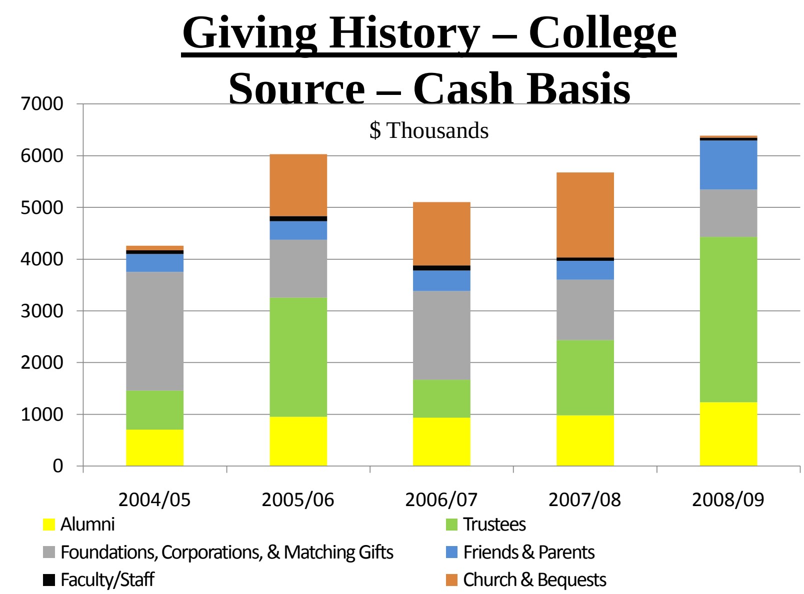


The Seminary has continued to effectively manage operating expenses, with overall expenses increasing by 5%. For the school year 2008/09. Resident Instruction related expenses accounted for 37% of all expenditures.

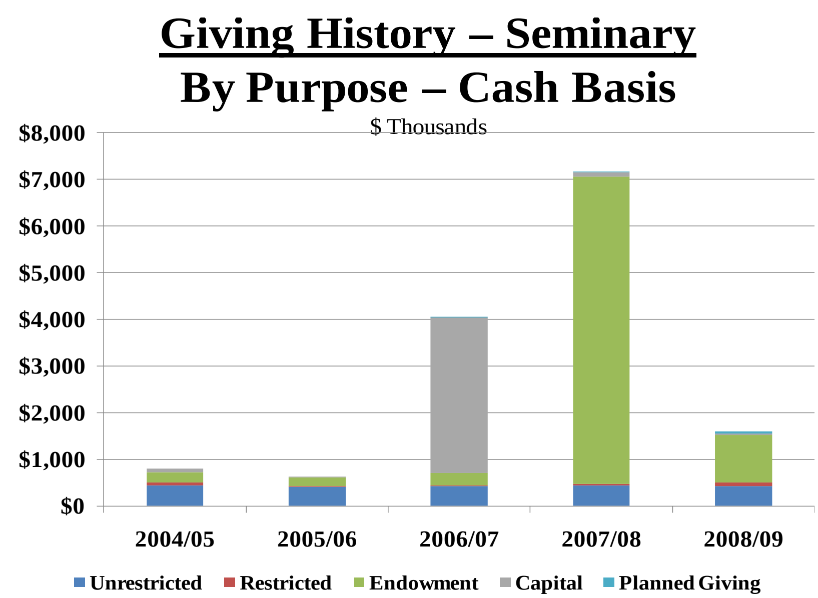
Giving History – College
By Purpose – Cash Basis



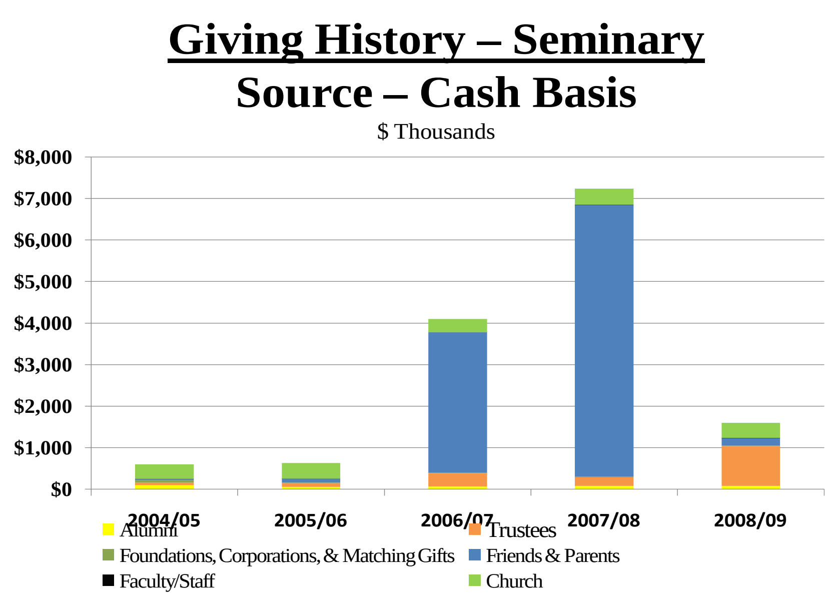
Increased gifts reflect capital campaign contributions from major donors plus bequests totaling $1.5 million. An increased focus on fundraising is expected to result in a sustained higher level of gifts going forward.



Trustees contributed 50% of total gifts including a bequest from an emeritus trustee. Alumni giving increased over the previous year as well.

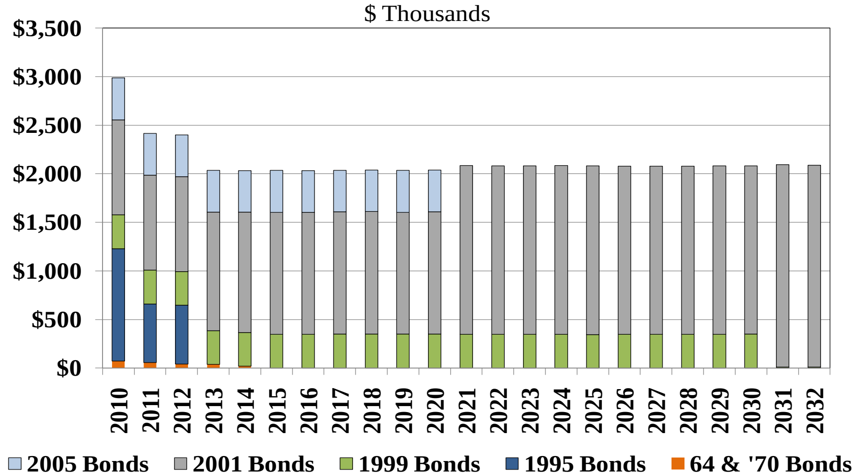


Gifts in 2006/07 and 2007/08 reflect two very significant bequests totaling over $9 million. Bequests in 2008/09 total $900,000.



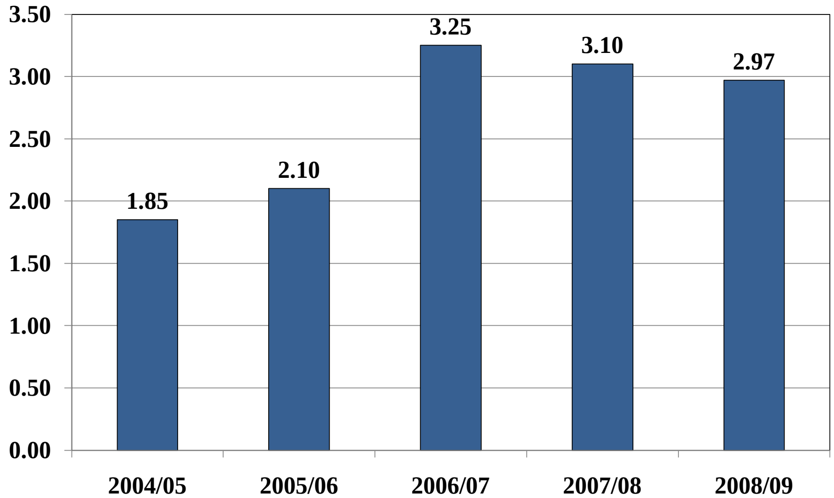
The spike in giving in 2006/07 and 2007/08 was due to two major bequests totaling $9 million. The 2008/09 totals include a Trustee bequest totaling nearly $1 million.

Debt Service Summary



The College debt service obligation continues to decline as outstanding debt has decreased to $29.1 million. Capacity for additional debt is limited until 2013 when the 1995 bonds will be fully retired.

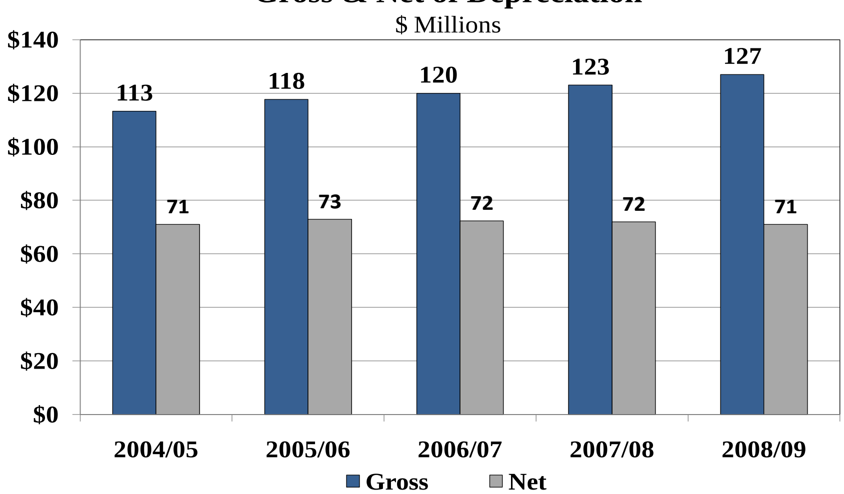
Debt Service Coverage Ratio



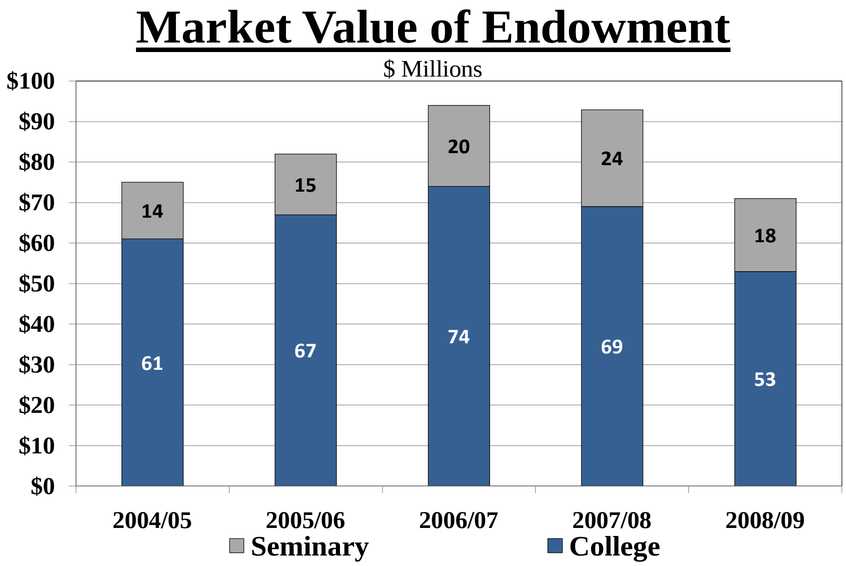
The Debt Service Coverage Ratio, a measure of the College net assets available to cover maximum annual debt service payments, decreased slightly to 2.97 in 2008/2009. The minimum ratio required by our bond covenants is 1.0.

Investment in Property, Plant & Equipment

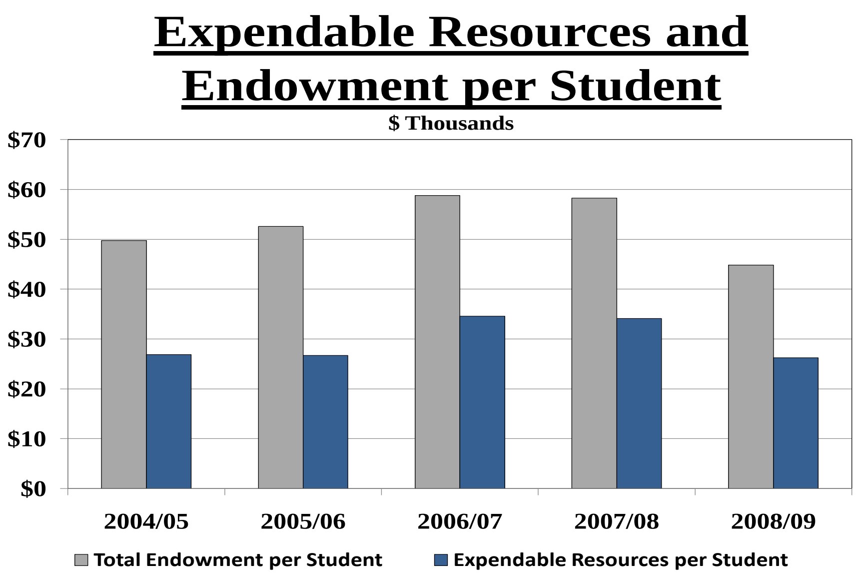
Gross & Net of Depreciation



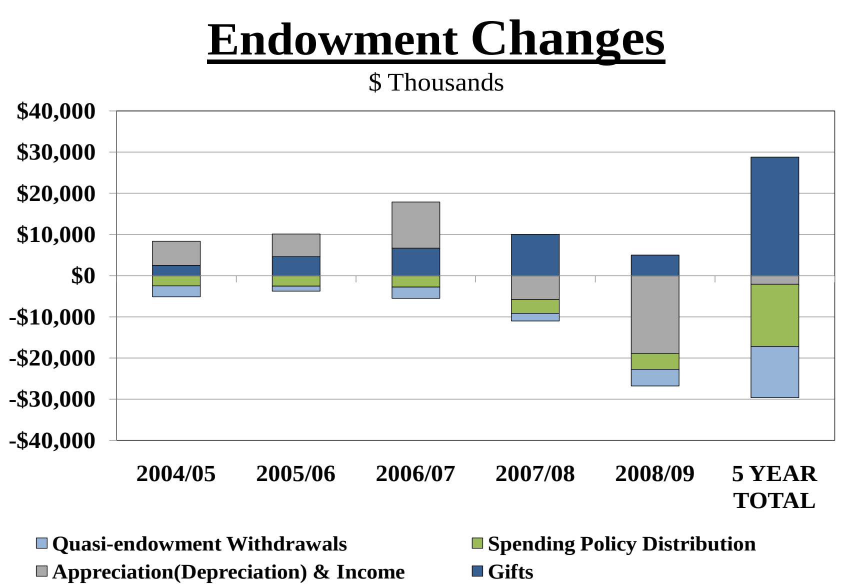
The College & Seminary continue to implement a 10-year Capital plan with a focus on deferred maintenance projects. For 2008/2009, a total of $2.5 million was invested in various projects including improvements to landscaping and parking as well as renovations to several buildings.



The endowment experienced a significant decline over the past year due to the worldwide financial crisis. Our well diversified portfolio and modest spending rate helped to mitigate the impact somewhat.

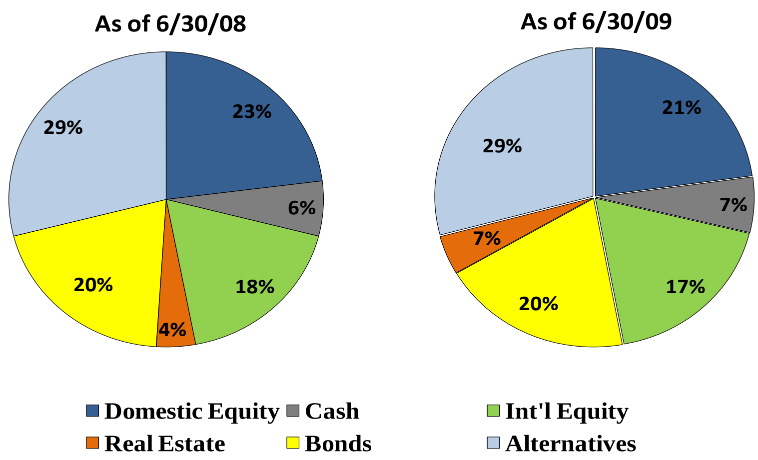


Endowment per student dropped from $58,000 in 2007/2008 to $45,000 in 2008/2009 as a direct result of the market decline. Expendable resources per full time student (unrestricted and temporarily restricted net assets less net property and equipment less debt) has decreased from $34,000 to $26,000 due primarily to the unrealized losses in the investment portfolio.



Over the past 5 years the endowment has provided $15 million in support to the College and Seminary budgets as well as $12.4 million for capital and other projects. New gifts since 2004/2005 total over $29 million.

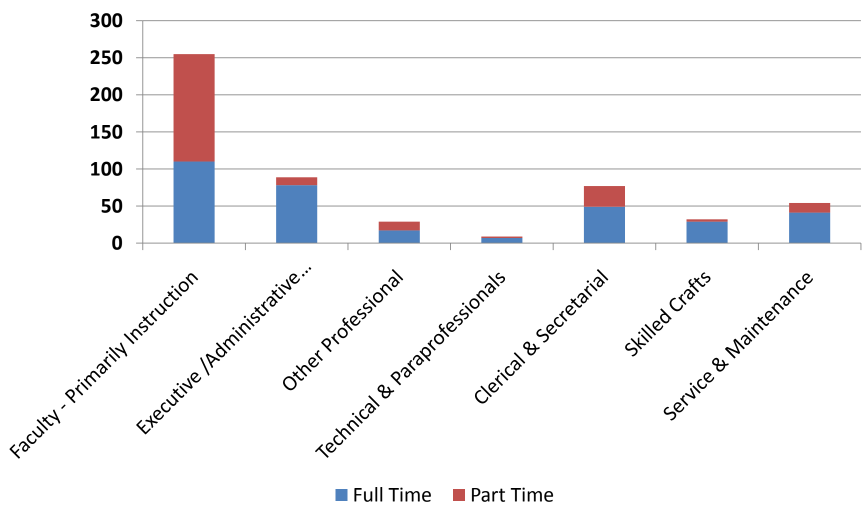
Endowment Asset Allocation



The endowment asset allocation has remained relatively stable over the past year. The broad target asset allocation includes 50% growth assets (domestic, international and private equity), 30% risk reduction assets (hedge funds and fixed income) and 20% inflation protection assets (real estate and TIPS).

Personnel by Occupation

(2008-09)



As programs have been added and the student body has grown so have the personnel needs of the institution. Some key additions have strengthened our Faculty, Administration and Support Staff.

MORAVIAN COLLEGE
A SMALL NATIONAL TREASURE
1742

Moravian College and Theological Seminary completed another successful year despite the difficult financial environment. We ended the year with a healthy operating surplus and have continued to reinvest in our campus for future generations of students. The College enrollment remained strong with an average 2008-2009 enrollment of 1696 full time equivalent students in the undergraduate, MBA and M.Ed. programs, a slight increase over the previous year. Seminary enrollment dipped to 52 full time equivalent students due to an extraordinarily large graduating class.

The unprecedented decline in the financial markets over the past year impacted negatively on our endowment. Our total return, net of fees, was -21.0%. The market value at June 30, 2009 was $71 million, down from a high of $94 million in 2007. In 2008/2009 the endowment provided $2.8 million in support for the College operations and $1.1 million in support for the Seminary operations. Our endowment spending rate has been held at 4.5% for the past five years and will be the same for 2008-2009.

The most exciting project this year was the completion of a new living and learning complex on the Hurd Campus. The facility was constructed and financed by the Bethlehem Area Moravians and opened for students in August 2009. It contains 231 single rooms grouped in suites, 4 multimedia classrooms, a fitness center and a café. The additional beds will allow the College to move toward its enrollment goal of 1610 full time equivalent students by 2012/2013.

Statement of Financial Position

The financial position of the College and Seminary remains strong despite an $11.6 million decrease in net assets from 2008 to 2009. Total unrestricted net assets increased by $1.9 million but the increase was eradicated by a decrease in temporarily restricted net assets of $14.9 million resulting from unrealized investment losses. Liabilities decreased by $3.7 million in 2009. Primary drivers include a decrease in debt of $1.5 million and a decrease in the postretirement benefit obligation of $2.3 million due to a decrease in the retiree healthcare benefit.

College Statement of Activities

The statement of activities highlights the transactions that changed net assets during the fiscal year. During the 2008-2009 year, the College operating revenues grew by $2.6 million (5.0%). Tuition, net of financial aid, and the related auxiliary enterprise revenue increased by $1.6 million (3.7%) due to increased tuition, room and board rates. Private gifts and grants increased from $4.6 million in 2007 to $8.0 million with the launch of the new capital campaign. Investment income decreased by $2.3 million due to a decrease in mutual fund distributions related to the downturn in the financial markets. The impact of the decreased market value of the investment portfolio is also reflected in the increase in unrealized losses of $13.9 million for the year.

College expenditures increased modestly in all functional categories and are primarily compensation & utility related. Salaries were increased by an average of 4.8% in order for the College to remain competitive in attracting high quality faculty and staff.

Seminary Statement of Activities
The Seminary experienced an overall decrease in net assets of $3.7 million. The decrease is a function of the realized and unrealized losses in the investment portfolio.

Operating revenues were $2.4 million for 2008/09. The decrease from the prior year level of $9.6 million relates to substantial estate gifts received in 2007/08. Net tuition decreased by $211,000 due to a decrease of 10 full time equivalent students coupled with a planned increase in funded financial aid of $95,000. .

Operating expenses increased by $101,000, or 4.6%. This modest increase resulted primarily from salary and benefit increases.

Statement of Cash Flows
The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an enterprise during a period. The information provided in a statement of cash flows, if used with related disclosures and information in the other financial statements, should help investors, creditors, and others to (a) assess the College's ability to generate positive future net cash flows; (b) assess the ability to meet current obligations, and needs for external financing; (c) assess the reasons for differences between the change in net assets and associated cash receipts and payments; and (d) assess the effects on the College's financial position of both its cash and non-cash investing and financing transactions during the period.

Operating activities generally involve those activities associated with providing the institution's services. During the year the College and Seminary generated $5.4 million from operations down from $13.2 million in the prior year. The determination of this amount results from adjustments to the change in net assets for non-cash revenues and expenses and the changes in certain asset and liability accounts.

Investing activities include acquiring and disposing of investments, property, plant, and equipment and other productive assets, that is, assets held for or used in providing services by the College. It also includes the initiation and collection of existing student loans. During the year the College invested cash of $2.5 million in capital projects including parking and landscaping on the Hurd Campus, and upgrades to Comenius and Johnston Halls. The College also used the proceeds from the sale of investments to help fund the annual spending policy draw thereby using cash of $1.6 million.

Financing activities include obtaining resources from outside sources and providing them with a return on, and a return of, their investment; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit. During the year the College repaid $1.5 million of debt and collected restricted gifts totaling $3.5 million that are earmarked for construction or long term investments outside of the general operating activities of the College.

Overall, these three categories (operations, investing and financing) provided for a net increase in cash flows for the College and Seminary of $6.4 million. At June 30, 2009 the institution's cash remained strong at $14.0 million.

ParenteBeard LLC

Moravian College

Financial Report

June 30, 2009

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June 30, 2009 and 2008

ParenteBeard LLC

Independent Auditor's Report

To the Board of Trustees
Moravian College

We have audited the accompanying statement of financial position of Moravian College ("College") as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the College's 2008 financial statements and, in our report dated October 15, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Moravian College as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Allentown, Pennsylvania
October 5, 2009

Statements of Financial Position
June 30, 2009 and 2008

	2009	2008
Assets	(In Thousands)	
Current Assets		
Cash and cash equivalents	$ 13,951	$ 7,540
Accounts receivable	671	745
Investment income receivable	152	97
Contributions receivable	832	275
Prepaids and other	485	643
Inventory	340	321
Deposits with trustee under debt agreements	2,228	2,193
Total Current Assets	18,659	11,814
Noncurrent Assets		
Contributions receivable, net	1,678	660
Note receivable	1,000	1,000
Deposits with trustee under debt agreements	3,693	3,709
Investments	67,658	88,970
Split-interest agreements	5,270	6,391
Student loans receivable (net of allowance of $209 in 2009; $207 in 2008)	1,985	1,904
Deferred financing costs, net	969	1,027
Land, buildings and equipment, net	71,315	72,038
Total Noncurrent Assets	153,568	175,699
Total Assets	$172,227	$187,513

See notes to financial statements.

Liabilities and Net Assets	2009	2008
	(In Thousands)	
Current Liabilities		
Current portion of bonds and mortgage note payable	$ 1,530	$ 1,519
Accounts payable	755	644
Accrued interest	747	781
Accrued expenses and other liabilities	2,742	2,307
Deferred revenue and deposits	1,275	1,433
Current portion of postretirement benefit obligation	47	175
Total Current Liabilities	7,096	6,859
Noncurrent Liabilities		
Annuities payable	1,400	1,571
Bonds and note payable	27,520	29,050
Postretirement benefit obligation	466	2,591
Refundable federal grants and loan funds	1,176	1,198
Other liabilities	512	635
Total Liabilities	38,170	41,904
Net Assets		
Unrestricted:		
College	59,081	54,247
Theological Seminary	10,973	13,881
Total Unrestricted	70,054	68,128
Temporarily restricted:		
College	16,076	27,742
Theological Seminary	2,206	5,421
Total Temporarily Restricted	18,282	33,163
Permanently restricted:		
College	36,453	35,780
Theological Seminary	9,268	8,538
Total Permanently Restricted	45,721	44,318
Total Net Assets	134,057	145,609
Total Liabilities and Net Assets	$172,227	$187,513

Moravian College

Statement of Activities
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total (Summarized)
			(In Thousands)		
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $17,167 in 2009; $15,841 in 2008)	$32,298	$ -	$ -	$ 32,298	$ 31,078
Private gifts and grants	2,491	4,458	2,477	9,426	12,423
Investment income	1,406	-	195	1,601	4,515
Sponsored federal government programs and grants	478	-	-	478	564
State grants	565	-	-	565	583
Auxiliary enterprises	12,244	-	-	12,244	12,122
Other sources	362	-	-	362	298
Net assets released from restrictions, satisfaction of program restrictions	4,123	(4,123)	-	-	-
Total Operating Revenues and Other Additions	53,967	335	2,672	56,974	61,583
Operating Expenses					
Resident instruction	20,890	-	-	20,890	19,251
Academic support	3,391	-	-	3,391	3,315
Student services	4,542	-	-	4,542	4,248
Athletics	3,989	-	-	3,989	3,727
Institutional support	7,651	-	-	7,651	7,122
Fund raising	1,311	-	-	1,311	1,150
Auxiliary enterprises	10,133	-	-	10,133	9,422
Other	80	-	-	80	59
Total Operating Expenses	51,987	-	-	51,987	48,294
Increase from Operating Activities	1,980	335	2,672	4,987	13,289
Nonoperating Expenses					
Realized net gain (loss) on investments	(94)	(307)	(48)	(449)	595
Unrealized net loss on investments	(3,934)	(14,710)	(607)	(19,251)	(9,830)
Gain on the sale of assets	1,600	-	-	1,600	-
Change in value of split-interest agreements	-	(199)	(614)	(813)	(550)
Effect of post retirement benefit policy change	2,374	-	-	2,374	-
Decrease from Nonoperating Activities	(54)	(15,216)	(1,269)	(16,539)	(9,785)
Increase (Decrease) in Net Assets	1,926	(14,881)	1,403	(11,552)	3,504
Net Assets - Beginning	68,128	33,163	44,318	145,609	142,105
Net Assets - Ending	$70,054	$18,282	$45,721	$134,057	$145,609

See notes to financial statements.

Moravian College

Statement of Activities (College Only)
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total (Summarized)
			(In Thousands)		
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $16,878 in 2009; $15,647 in 2008)	$31,879	$ -	$ -	$ 31,879	$30,448
Private gifts and grants	2,033	4,380	1,580	7,993	4,570
Investment income	1,103	-	192	1,295	3,628
Sponsored federal government programs and grants	478	-	-	478	564
State grants	565	-	-	565	583
Auxiliary enterprises	12,036	-	-	12,036	11,911
Other sources	361	-	-	361	297
Net assets released from restrictions, satisfaction of program restrictions	3,724	(3,724)	-	-	-
Total Operating Revenues and Other Additions	52,179	656	1,772	54,607	52,001
Operating Expenses					
Resident instruction	20,053	-	-	20,053	18,464
Academic support	3,206	-	-	3,206	3,134
Student services	4,315	-	-	4,315	4,057
Athletics	3,989	-	-	3,989	3,727
Institutional support	6,942	-	-	6,942	6,427
Fund raising	1,139	-	-	1,139	987
Auxiliary enterprises	9,983	-	-	9,983	9,260
Other	80	-	-	80	59
Total Operating Expenses	49,707	-	-	49,707	46,115
Increase from Operating Activities	2,472	656	1,772	4,900	5,886
Nonoperating Expenses					
Realized net gain (loss) on investments	(46)	(252)	(48)	(346)	593
Unrealized net loss on investments	(1,451)	(11,871)	(558)	(13,880)	(7,428)
Gain on the sale of assets	1,600	-	-	1,600	-
Change in value of split-interest agreements	-	(199)	(493)	(692)	(503)
Effect of post retirement benefit policy change	2,259	-	-	2,259	-
Increase (Decrease) from Nonoperating Activities	2,362	(12,322)	(1,099)	(11,059)	(7,338)
Increase (Decrease) in Net Assets	4,834	(11,666)	673	(6,159)	(1,452)
Net Assets - Beginning	54,247	27,742	35,780	117,769	119,221
Net Assets - Ending	$59,081	$16,076	$36,453	$111,610	$117,769

See notes to financial statements.

Statement of Activities (Theological Seminary Only)
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total (Summarized)
			(In Thousands)		
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $289 in 2009; $194 in 2008)	$ 419	$ -	$ -	$ 419	$ 630
Private gifts and grants	458	78	897	1,433	7,853
Investment income	303	-	3	306	887
Auxiliary enterprises	208	-	-	208	211
Other sources	1	-	-	1	1
Net assets released from restrictions, satisfaction of program restrictions	399	(399)	-	-	-
Total Operating Revenues and Other Additions	1,788	(321)	900	2,367	9,582
Operating Expenses					
Resident instruction	837	-	-	837	787
Academic support	185	-	-	185	181
Student services	227	-	-	227	191
Institutional support	709	-	-	709	695
Fund raising	172	-	-	172	163
Auxiliary enterprises	150	-	-	150	162
Total Operating Expenses	2,280	-	-	2,280	2,179
Increase (Decrease) from Operating Activities	(492)	(321)	900	87	7,403
Nonoperating Expenses					
Realized net gain (loss) on investments	(48)	(55)	-	(103)	2
Unrealized net loss on investments	(2,483)	(2,839)	(49)	(5,371)	(2,402)
Change in value of split-interest agreements	-	-	(121)	(121)	(47)
Effect of Post-Retirement Benefit Policy Change	115	-	-	115	-
Decrease from Nonoperating Activities	(2,416)	(2,894)	(170)	(5,480)	(2,447)
Increase (Decrease) in Net Assets	(2,908)	(3,215)	730	(5,393)	4,956
Net Assets - Beginning	13,881	5,421	8,538	27,840	22,884
Net Assets - Ending	$10,973	$2,206	$9,268	$22,447	$27,840

See notes to financial statements.

Moravian College

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
	(In Thousands)	
Cash Flows from Operating Activities		
Increase (decrease) in net assets	($11,552)	$ 3,504
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,481	3,416
Change in value of split-interest agreements	950	689
Gifts and grants restricted for long-term investments	(4,657)	(2,951)
Gain on disposal of assets	(1,600)	-
Other restricted earnings for long-term investment	(195)	(191)
Net realized and unrealized losses on investments	19,700	9,235
(Increase) decrease in assets:		
Accounts receivable, net	74	(101)
Investment income receivable	(55)	36
Contributions receivable, net	(373)	809
Prepaids and other	158	(72)
Inventory	(19)	(31)
Increase (decrease) in liabilities:		
Accounts payable and accrued interest payable	(74)	(840)
Accrued expenses and other liabilities	435	197
Deferred revenue and deposits	(158)	186
Accumulated postretirement benefit obligation	(2,253)	(650)
Other liabilities	(123)	(78)
Net Cash Provided by Operating Activities	3,739	13,158
Cash Flows from Investing Activities		
Purchase of land, buildings and equipment	(2,549)	(3,211)
Purchase of investments	(7,792)	(67,788)
Proceeds from sale of investments	9,404	59,042
Proceeds from sale of assets	1,600	-
Change in note receivable	-	(1,000)
Change in deposits with trustees under debt agreements	(19)	135
Disbursements of student loans	(331)	(338)
Repayments of student loans	250	239
Net Cash Provided by (Used in) Investing Activities	563	(12,921)

See notes to financial statements.

Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
	(In Thousands)	
Cash Flows from Financing Activities		
Gifts and grants restricted for long-term investments	$ 3,455	$2,564
Other restricted earnings for long-term investments	195	191
Repayment of debt	(1,519)	(1,564)
Net repayment of refundable federal grants and loan funds	(22)	(1)
Net Cash Provided by Financing Activities	2,109	1,190
Net Increase in Cash and Cash Equivalents	6,411	1,427
Cash and Cash Equivalents - Beginning	7,540	6,113
Cash and Cash Equivalents - Ending	$13,951	$ 7,540
Supplementary Cash Flows Information		
Interest paid	$ 1,534	$ 1,604
Supplementary Schedule of Noncash Investing Activities		
Fixed assets in accounts payable	$ 268	$ 117

See notes to financial statements.

Note 1 - Nature of Operations

Moravian College is a private, coeducational liberal arts college and theological seminary located in Bethlehem, Pennsylvania. Tracing its founding to 1742, it is recognized as America's sixth-oldest college.

Founded by the Moravian Church, the College today educates a socially and religiously diverse group of students. The College has an enrollment of approximately 1,529 full-time day students, 656 men and 873 women. The College enrolls students that come from a variety of socioeconomic, religious, racial, and ethnic backgrounds.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the College have been prepared on the accrual basis of accounting. Consequently, revenues are generally recognized when earned and expenditures are recognized when incurred.

Basis of Presentation

In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit* Organizations, the College is required to report information regarding its financial position and activities according to three classes of net assets according to donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Accordingly, net assets of the College and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or the passage of time.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes subject to limitations specified by Pennsylvania law.

Nonoperating Activities

Nonoperating activities reflect realized gains and losses on investments, unrealized gains and losses on investments, gains and losses associated with the sale of assets, changes in value of split interest agreements (primarily life income, annuity and trust agreements), and effect of postretirement benefit policy change.

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the College considers all highly liquid investments, with an original maturity of three months or less, to be cash equivalents.

The College maintains its cash accounts in various commercial banks. Accounts are insured by the Federal Deposit Insurance Corporation to $250,000.

Accounts Receivable

Student accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based on the College's historical losses and periodic review of individual accounts.

Promises To Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using the expected rate of return of a market participant applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Donor-Restricted Gifts

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the College reports the support as unrestricted.

Inventory

Inventory is reported at the lower of cost (first-in, first-out method) or market.

Investments

Equity securities and debt securities are valued at fair value based on quoted market prices. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used to determine the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Adjustments to reflect increases or decreases in fair value, referred to as unrealized gains and losses, are reported in the statement of activities.

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

All realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor imposed stipulations.

Deferred Financing Costs

Costs incurred in connection with debt financing are deferred and amortized over the term of the related debt using the straight-line method, which approximates the interest method. Amortization expense was $57,425 and $57,424 in 2009 and 2008, respectively.

Fixed Assets and Depreciation

Land, buildings and equipment are stated at cost, or estimated cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (50 years), land improvements (20 years), equipment and library books (10 years), automotive equipment (5 years) and certain computer equipment (3-5 years). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. The College reports expirations of donor restrictions when the donated or required long-lived assets are placed in service.

Collection items, such as works of art, are capitalized at cost, if purchased, or at their appraised or fair value, if contributed. Gains or losses from deaccessions of these items are reflected on the statement of activities as a change in the appropriate net asset class, depending on the existence and type of donor-imposed restriction.

At each statement of financial position date, management evaluates whether any property and equipment have been impaired. The College made no adjustments to carrying values of property and equipment during the years ended June 30, 2009 and 2008.

Note 2 - Summary of Significant Accounting Policies (Continued)

Advance from Federal Government for Student Loans

The College is a participant in the Federal Perkins Loan program which makes student loans available to eligible participants. This program is funded by both the federal government and the College, with the portion estimated to be allocable to the federal government recorded as a liability in the statement of financial position, and the portion allocable to the College included in unrestricted net assets.

Self Insurance

On January 1, 2009, the College entered into a health insurance consortium cooperation agreement ("Consortium Agreement") and a health plan trust agreement ("Trust Agreement"). The Consortium Agreement is a self-funded insurance plan to cover medical claims for the employees of the participants in the consortium. Under the terms of the Trust Agreement, a trust account was established to administer the cash receipts, stop/loss premium and medical claim payments. At June 30, 2009, the estimated self insurance liability, which includes an estimate of incurred but not reported claims, based on data compiled from historical experience, net of the trust account, is recorded in other liabilities in the Statement of Financial Position.

Functional Allocation of Expenses

The College adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, depreciation, interest expense and other expenses have been allocated to functional classifications based on various factors.

Income Taxes

The Internal Revenue Service has ruled that the College is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes is required in the accompanying financial statements.

In 2008, the College applied the guidance in FASB Staff Position FAS 126-1, *Applicability of Certain Disclosures an Interim Reporting Requirements of Obligors for Conduit Debt Securities* ("FSP 126-1"). FSP 126-1 amended certain accounting literature to include conduit debt obligors in the definition of a public entity or enterprise. As a result, the College adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109,* ("FIN 48") effective July 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. Management has determined that the adoption of FIN 48 did not have a material effect on the financial statements.

The College's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The College's federal Exempt Organization Business Income Tax Returns for 2007, 2006, and 2005 remain subject to examination by the Internal Revenue Service.

Note 2 - Summary of Significant Accounting Policies (Continued)

Advertising

Advertising expenses are recorded as incurred and were approximately $225,000 and $178,000 in 2009 and 2008, respectively.

Refundable Grants

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenues when the College has incurred expenditures in compliance with the contract. Amounts received but not yet earned are reported as refundable grants.

Title IV Requirements

The College participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (ED) for the payment of student tuitions. Substantial portions of the revenue and collection of ending accounts receivable as of June 30, 2009 and 2008, are dependent upon the College's continued participation in the Title IV programs.

Institutions participating in Title IV programs are also required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in the regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2009 and 2008, and for the years then ended, the College's composite score exceeded 1.5.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Note 2 - Summary of Significant Accounting Policies (Continued)

Subsequent Events

The College has evaluated subsequent events through October 5, 2009 which is the date the financial statements were issued.

Note 3 - Accounts Receivable

Accounts receivable represents amounts due for tuition, fees, room and board and other charges from students and other entities. The College extends unsecured credit to students and other entities in connection with studies and various activities. Some students are no longer enrolled or have completed their degrees. Accounts receivable consists of the following at June 30 (in thousands):

	2009	2008
Accounts receivable	$767	$822
Allowance for doubtful accounts	(96)	(77)
	$671	$745

Note 4 - Student Loans Receivable

These loans are made with funds advanced to the College by the federal government under the Perkins Student Loan Program (the "Program"). Such funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds at June 30, 2009 and 2008 was approximately $1,176,000 and $1,198,000, respectively. The College contributes one-third of the amount contributed by the U.S. Government to the Program.

Note 5 - Contributions Receivable

Contributions received, including unconditional promises, are recognized as revenue when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances (fair value).

Contributions receivable are as follows at June 30 (in thousands):

	2009	2008
Due in one year or less	$ 832	$ 275
Due between one year and five years	1,903	833
Contributions Receivable, Gross	2,735	1,108
Unamortized discount	225	173
Contributions Receivable, Net	$2,510	$ 935

The net present value of these cash flows was determined by using discount rates between 2.0% and 7.2% to account for the time value of money.

Management has not established an allowance for doubtful collections at June 30, 2009 and 2008 based upon information currently known. However, events impacting donors can occur in subsequent years that may cause a material change in the allowance for doubtful collections.

Note 6 - Investments

Investments are as follows at June 30 (in thousands):

	2009	2008
Cash and cash equivalents	$ 4,924	$ 5,727
Government bonds	2,466	2,822
Corporate bonds	1,591	1,878
Corporate stocks	822	1,059
Mutual funds	55,539	73,539
Real estate	2,316	3,945
	$67,658	$88,970
Deposits with trustee under debt agreements:		
Cash and cash equivalents	$ 5,005	$ 5,201
U.S. Government securities	916	701
	$ 5,921	$ 5,902

Note 6 - Investments (Continued)

The majority of endowment, annuity and life income funds are combined in investments pools with each individual account subscribing to or disposing of shares on the basis of the market value per share. The investment objective is to maximize long term total return through a combination of income and capital appreciation in a manner consistent with sound investment practices. Total investments at June 30 were as follows (in thousands):

	2009	2008
Endowment funds	$63,213	$82,103
Annuity and life income funds	1,613	2,173
Capital campaign funds	2,832	4,694
	$67,658	$88,970

The College has a formal investment policy that provides a portion of investment return for operating purposes. The Board of Trustees sets the level of distribution within the limitation imposed by Pennsylvania statute.

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

The College entered into an agreement under which it has committed to contribute an additional $8,840,000. This commitment can be funded through liquidation of current investments.

Note 7 - Split-Interest Agreements

Assets received under split-interest agreements, arrangements in which the College has a beneficial interest but is not the sole beneficiary, are recorded at fair value. Under the terms of certain of these agreements (charitable remainder trusts), the assets are held in trust for the lives of the other income beneficiaries, and upon death, the trusts are terminated and the remaining assets transferred to the College in accordance with the donor's stated restrictions, if any. Liabilities under split-interest agreements represent the present value of estimated contractual payments calculated on an actuarial basis. These calculations require assumptions to be made as to discount rates as of the date of each gift, consideration of the life expectancies of the other beneficiaries, estimated rate of return on invested assets and other factors. The difference between the fair value of assets received, and liabilities assumed, is recognized as gift revenue. During the term of these agreements, adjustments are made to recognize changes in the value of split-interest agreements resulting from changes in actuarial assumptions.

Gift revenues recognized under split-interest agreements are recorded as increases in temporarily restricted net assets unless the donor has permanently restricted the College's use of its interest or has given the College the right to use the assets without restriction. If assets become available for unrestricted use upon termination of the agreements, appropriate amounts are reclassified from temporarily restricted to unrestricted net assets.

Note 8 - Land, Buildings, and Equipment, Net

Land, buildings, and equipment consist of the following at June 30 (in thousands):

	2009	2008
Land and land improvements	$ 13,072	$ 13,015
Buildings	80,064	79,506
Equipment	20,949	20,195
Library books	8,413	8,074
Collection items	1,922	1,922
Construction in progress	1,221	230
	125,641	122,942
Accumulated depreciation	(54,326)	(50,904)
	$ 71,315	$ 72,038

Depreciation expense was approximately $3,423,000 and $3,359,000 in 2009 and 2008, respectively.

Note 9 - Note Payable, Demand

The College has a $1,000,000 unsecured line of credit, which is renewable March 31 of each year. Borrowings bear interest, payable monthly, at the London Interbank Offered Rates ("LIBOR") plus 1.50%. There were no borrowings at June 30, 2009 and 2008.

Note 10 - Bonds and Note Payable

Bonds payable at June 30 consist of the following (in thousands):

	2009	2008
Dormitory Bonds of 1964:		
Series A - 3-3/8%, due serially in annual amounts through 2013.	$ 78	$ 96
Series B - 3-5/8%, due serially in annual amounts through 2014.	87	103
Dormitory Bonds of 1970 - 3.000% due serially in annual amounts through 2011.	45	75
College Revenue Bonds of 1995 - due serially in annual amounts through 2012, with interest, payable semiannually, ranging from 4.750% to 6.250%.	2,195	3,195

Note 10 - Bonds and Note Payable (Continued)

	2009	2008
College Revenue Bonds of 1999 - due serially in annual amounts through 2031, with interest, payable semiannually, ranging from 4.000% to 5.125%.	$ 4,475	$ 4,595
College Revenue Bonds of 2001 - due serially in annual amounts through 2032, with interest, payable semiannually, ranging from 4.400% to 5.375%.	18,385	18,385
College Revenue Bonds of 2005 - due serially in annual amounts through 2020, with interest, payable semiannually, ranging from 3.000% to 5.000%.	3,785	4,060
Total Bonds Payable	$29,050	$30,509

The Dormitory Bonds are collateralized by certain buildings, their related sites, the net revenues from such buildings, and certain other revenues.

In addition, the bond indentures for the above-mentioned fixed interest rate bonds require that the College deposit with the Trustee (1) as additional collateral, securities having a market value of $140,000 and (2) additional securities yielding annual income of at least $9,700, which income is collateral for the bonds. Securities held by the Trustee, are pledged for this purpose.

The indentures of the College Revenue Bonds of 1995, 1999, 2001, and 2005 require the College to pledge as collateral its unrestricted gross revenues not previously pledged.

At June 30, 2008, the College had a $60,000 interest free loan related to Food Service renovations and equipment. The balance was paid in full at June 30, 2009.

The aggregate future principal payments on the fixed interest rate bonds payable and the notes payable are as follows (in thousands):

2010	$ 1,530
2011	1,026
2012	1,062
2013	743
2014	769
Later years	23,920
Total	$29,050

Note 10 - Bonds and Note Payable (Continued)

Interest expense related to the bonds payable was approximately $1,557,000 and $1,627,000 in 2009 and 2008, respectively.

Note 11 - Government Grants and Student Aid

The amounts under these captions do not include amounts remitted to students under the Pennsylvania Higher Education Assistance Agency (PHEAA), the PELL Grants Program, and other federal and state programs. The grants are similar to agency funds since the College acts only as custodian and disbursing agent for these funds. Had these amounts been included, revenues and expenditures would have increased by approximately $2,770,000 and $2,892,000 in 2009 and 2008, respectively.

Note 12 - Employee Benefit Plan

The College participates in a defined contribution pension plan covering substantially all regular full-time employees. Pension expense was approximately $1,723,000 and $1,693,000 in 2009 and 2008, respectively.

Note 13 - Postretirement Benefits Other Than Pensions

The College provides postretirement benefits other than pensions to its employees. Effective June 30, 2009, the benefits will be limited to retirees between ages 60 and 65. Previously, the Plan provided partial premium reimbursement to eligible retirees age 60 and over. The statement of activities reflects non-operating income of $2,374,000 as a result of the benefit change. These benefits include partial reimbursements of premiums on medical insurance policies for employees and certain spouses and are available to all employees hired prior to January 1, 2004 who retire after 15 years of service to the College at age 60 or older. The College does not prefund these postretirement benefit obligations. Payments made to or on behalf of beneficiaries under these obligations, representing both employer contributions and benefits paid were $152,000 in 2009 and $158,000 in 2008. The measurement date used to determine the postretirement benefit obligation was June 30.

Note 13 - Postretirement Benefits Other Than Pensions (Continued)

Changes in the College's postretirement benefit obligation related to the retiree healthcare plan were as follows for the year ended June 30 (in thousands):

	2009	2008
Projected benefit obligation, beginning	$2,766	$3,416
Service cost	84	142
Interest cost	161	198
Actuarial gain/loss	28	(832)
Benefits paid	(152)	(158)
Plan amendments	(2,374)	-
Projected benefit obligation - ending	$ 513	$2,766

Amounts recognized on the statement of financial position as liabilities consist of the following at June 30 (in thousands):

	2009	2008
Current portion of postretirement benefit obligation	$ 47	$ 175
Noncurrent portion of postretirement benefit obligation	466	2,591
Accrued Pension Liability, Net	$513	$2,766

Weighted average assumption used to develop the projected benefit obligations and net periodic pension cost is as follows at June 30:

	2009	2008
Discount rate	6.0%	6.0%
Rate of increase in compensation levels	4.0%	4.0%

The College's net postretirement benefit cost includes the following components for the years ended June 30 (in thousands):

	2009	2008
Service cost	$ 84	$142
Interest cost	161	198
	$245	$340

Note 13 - Postretirement Benefits Other Than Pensions (Continued)

The College limits the increase in its contribution to the lesser of 5% or the annual compensation rate of increase. Therefore, increases in the costs of the benefits provided have no effect on the College's postretirement benefits other than pension cost. Contributions in the next fiscal year are expected to be approximately $47,000.

The following benefit payments are expected to be paid (in thousands):

2010	$ 47
2011	60
2012	66
2013	59
2014	71
2015 - 2019	397

Note 14 - Net Assets

Permanently restricted net assets are restricted for the following as of June 30 (in thousands):

	2009	2008
Net assets related to certain split-interest agreements	$ 2,860	$ 3,706
Assets held in perpetuity	42,861	40,612
	$45,721	$44,318

Temporarily restricted net assets are available for the following purpose or in future periods as of June 30 (in thousands):

	2009	2008
Net assets related to certain split-interest agreements	$ 2,219	$ 2,419
Specified purposes	16,063	30,744
	$18,282	$33,163

Note 14 - Net Assets (Continued)

Unrestricted net assets are designated for the following as of June 30 (in thousands):

	2009	2008
Long-term investments	$12,246	$16,725
Plant facilities	48,186	47,371
Other	9,622	4,032
	$70,054	$68,128

Note 15 - Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the College's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the College could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The College adopted SFAS 157 effective for its fiscal year beginning July 1, 2008.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

Note 15 - Fair Value of Financial Instruments (Continued)

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2009 are as follows:

Description	June 30, 2009	Level 1	Level 2	Level 3
		(In Thousands)		
Equity securities	$30,604	$30,604	$ -	$ -
Fixed income securities	12,981	12,981	-	-
Alternative investments	19,149	-	-	19,149
Total Investments	62,734	43,585	-	19,149
Beneficial interest in perpetual trusts	1,636	1,636	-	-
Split interest agreements	3,634	-	-	3,634
	$68,004	$45,221	$ -	$22,783

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2009 is as follows:

	Alternative Investments	Split Interest Agreements	Level 3 Total
		(In Thousands)	
Balance at June 30, 2008	$23,652	$4,269	$27,921
Unrealized gains (losses)	(4,747)	(304)	(5,051)
Purchases	5,740	-	5,740
Proceeds from sales	(5,224)	(232)	(5,456)
Realized gains (losses)	(272)	(99)	(371)
Balance at June 30, 2009	$19,149	$3,634	$22,783

Note 15 - Fair Value of Financial Instruments (Continued)

The following methods and assumptions were used to estimate fair values of the College's financial instruments as of June 30, 2009 and 2008:

Cash and Cash Equivalents, Accounts Receivable, Investment Income Receivable, Deposits with Trustee, Annuities Payable and Accounts Payable (Carried at Cost)

The carrying amounts approximate fair value because of the short maturity of these instruments.

Contributions Receivable (Carried at Fair Value)

The carrying amounts of contributions receivable to be received in less than one year approximates fair value because of the short maturity of these instruments. The fair value of contributions receivable to be received in more than one year is estimated based on future cash flows discounted at rates between 2.0% and 7.2%.

Investments (Carried at Fair Value)

The fair value of equity and fixed income securities was based on quoted market prices for the identical securities. The fair value of alternative investments was based on estimated fair values provided by investment managers. Management reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. These assets are included in Level 3, based upon the lowest level of input that is significant to the fair value of measurement.

Beneficial Interest in Perpetual Trusts (Carried at Fair Value)

The fair value of the beneficial interest in perpetual trust was based on the Organization's percent ownership of the trust assets. The trust assets were valued based on quoted market prices for identical securities.

Split-interest Agreements (Carried at Fair Value)

The fair value of the split interest agreements was based on the present value of future cash inflows. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value of measurement.

Student Loans Receivable (Carried at Cost)

A reasonable estimate of the fair value of student loans receivable under government loan programs and refunded federal grants and loan funds could not be made because the loans receivable are not salable and can only be assigned to the U.S. government or its designees.

Bonds and Note Payable (Carried at Cost)

The fair value of bonds and note payable was based on quoted market prices for the same or similar issues.

Note 15 - Fair Value of Financial Instruments (Continued)

The College has a number of other financial instruments, none of which are held for investment purposes. The College estimates that the fair value of all financial instruments at June 30, 2009 and 2008 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

The carrying amount and estimated fair value of the College's financial instruments at June 30 are as follows (in thousands):

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$13,951	$13,951	$ 7,540	$ 7,540
Accounts receivable, net	671	671	745	745
Investment income receivable	152	152	97	97
Deposits with trustee under debt agreements	5,921	5,921	5,902	5,902
Contributions receivable, net	2,510	2,510	935	935
Investments	67,658	67,658	88,970	88,970
Split-interest agreements	5,270	5,270	6,391	6,391
Student loans receivable	1,985	-	1,904	-
Liabilities				
Accounts payable	755	755	644	644
Bonds and note payable	29,050	23,432	30,569	31,662
Annuities payable	1,400	1,400	1,571	1,571
Refundable federal grants and loan funds	1,176	-	1,198	-

Note 16 - Contingency

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The College has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate these buildings and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the buildings and sufficient information becomes available to estimate the liability, it will be recognized at that time.

Note 17 - Related Party Transactions

The College has collaborated with Moravian College Housing, Inc. ("MCHI") for the purpose of providing housing for the students of the College. MCHI is a 501(c)(3) special purpose entity ("SPE") which was formed for the purpose of constructing a residential hall complex. The residence hall complex is built on a tract of land leased from the College. MCHI was formed by Bethlehem Area Moravians ("BAM"), a non-related party. An individual, employed by the College, has a minority voting interest on the MCHI board. Neither this individual, nor the College has control over future board appointments.

The development of the residential hall complex (the "Project") includes the construction of a 231 bed living and learning center. The Project also includes a dining facility, fitness center, 4 classrooms, and an IT resource room. Construction related to the Project began on April 7, 2008. The Project was completed and occupied August 2009.

MCHI has entered into a bond financing agreement in the amount of $22,350,000 to support the Project. The bonds are not an obligation of the College, and the College does not guarantee payment of principal or interest. In addition, MCHI has secured a subordinated loan for $2,500,000 from Moravian Development Corporation ("MDC") a related company, and a subordinated loan for $1,000,000 from the College. The loans from MDC and the College are both subordinate to the bond financing agreement.

In connection with the transaction, the College has executed several agreements with MCHI. The agreements include:

Operating Agreement - Defines the roles and responsibilities of both parties with respect to the construction and financing of the Project.

Occupancy Agreement - The College leases certain "non-residential spaces" (i.e., classrooms, dining space, IT resource room, and fitness center) from MCHI. The College will pay to MCHI a total of $1,500,000 payable over the first 10 years of a 29 year 10 month lease.

Maintenance and Custodial Agreement - Defines the roles, responsibilities, and financial obligations related to the maintenance and security of the residence hall.

Land Lease Agreement - The College leases 1.15 acres of land to MCHI for $1 per year for a term of 29 years, 10 months.

Based upon the nature of this transaction, the agreements supporting it, and the current written accounting standards, as of June 30, 2009, consolidation of MCHI with the College is not required.

Note 18 - Investments in the Commonfund Short Term Fund

At June 30, 2009, approximately $2,203,000 is invested in the Commonfund Short Term Fund. This amount is not available for immediate withdrawal. The trustee of the Short Term Fund is liquidating this fund. The trustee is periodically distributing cash to the participating institutions as cash becomes available from the sale of the underlying securities. Subsequent to June 30, 2009, the College received distributions of $278,706 from the Short Term Fund. It is anticipated that, based upon the maturities of the securities held at June 30, 2009, the Short Term Fund will be completely liquidated by December 31, 2011.

Note 19 - Endowment

The College's endowment consists of 452 individual funds established for a variety of purposes. It includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by SFAS No. 117, 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.

Interpretation of Relevant Law

The Board of Trustees of the College has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent any explicit donor stipulations to the contrary. As a result of this interpretation, 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 the relevant state law. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the College considers the following factors:

1. The duration and preservation of the fund.
2. The purposes of the organization and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and appreciation of investments.
6. The investment policies of the College.

Note 19 - Endowment (Continued)

Interpretation of Relevant Law (Continued)

The following schedule represents the endowment net asset composition by type of endowment fund as of June 30, 2009:

	Unrestricted	Temporarily Restricted (In Thousands)	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$9,109	$41,677	$50,786
Board-designated endowment funds	12,246	-	-	12,246
	$12,246	$9,109	$41,677	$63,032

The following schedule represents the changes in endowment net assets for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted (In Thousands)	Permanently Restricted	Total
Endowment Assets - Beginning of Year	$16,725	$25,882	$39,246	$81,853
Investment income	223	795	-	1,018
Realized losses	(79)	(289)	-	(368)
Change in unrealized losses	(3,905)	(14,734)	-	(18,639)
Contributions	112	836	2,431	3,379
Appropriation for spending	(830)	(3,381)	-	(4,211)
Assets - End of Year	$12,246	$9,109	$41,677	$63,032

The following schedule represents the endowment net asset composition by type of endowment fund as of June 30, 2008:

	Unrestricted	Temporarily Restricted (In Thousands)	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$25,882	$39,246	$65,128
Board-designated endowment funds	16,725	-	-	16,725
	$16,725	$25,882	$39,246	$81,853

Note 19 - Endowment (Continued)

Interpretation of Relevant Law (Continued)

The following schedule represents the changes in endowment net assets for the year ended June 30, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Endowment Assets - Beginning of Year	$9,065	$33,167	$37,615	$79,847
Investment income	588	2,895	-	3,483
Realized gains and losses	(49)	589	-	540
Change in unrealized losses	(1,873)	(7,484)	-	(9,357)
Contributions	9,153	256	1,631	11,040
Appropriation for spending	(617)	(3,083)	-	(3,700)
Other changes - transfers	458	(458)	-	-
Assets - End of Year	$16,725	$25,882	$39,246	$81,853

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the College to retain as a fund of perpetual duration. In accordance with SFAS No. 117, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at June 30, 2009 or 2008.

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 endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College 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 spending policy rate plus the expected inflation rate. The College expects its endowment fund, over time, to provide an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount.

Note 19 - Endowment (Continued)

Strategies Employed for Achieving Objectives

The College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The College has a total return policy of appropriating for distribution each year a percent of its endowment fund's average fair value over the past twelve calendar quarters. This percentage was 4.5% for 2009 and 2008. If the spending policy distribution amount exceeds the actual earnings of the endowment funds in any one year, then the amount needed to fund such excess will be taken from accumulated excess earnings and net capital gains from prior years. Conversely, any undistributed income after the allocation of the spending policy distribution is added back to the temporarily restricted endowment fund balance. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects to allow its endowment to return an average rate of 9.0% annually prior to any distributions (spending policy). This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.