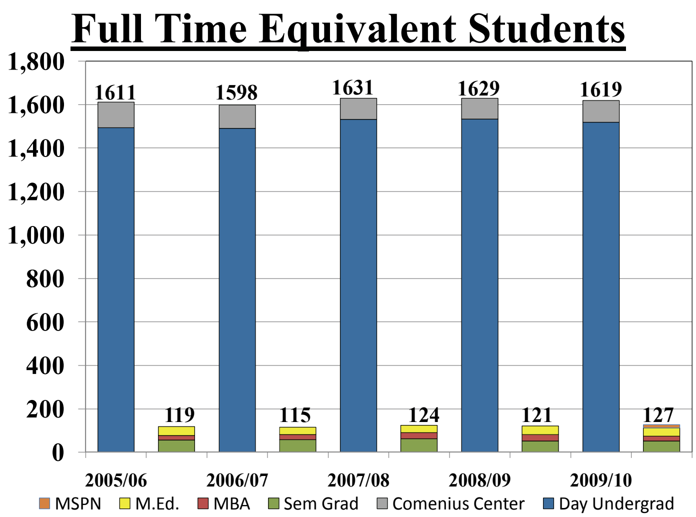
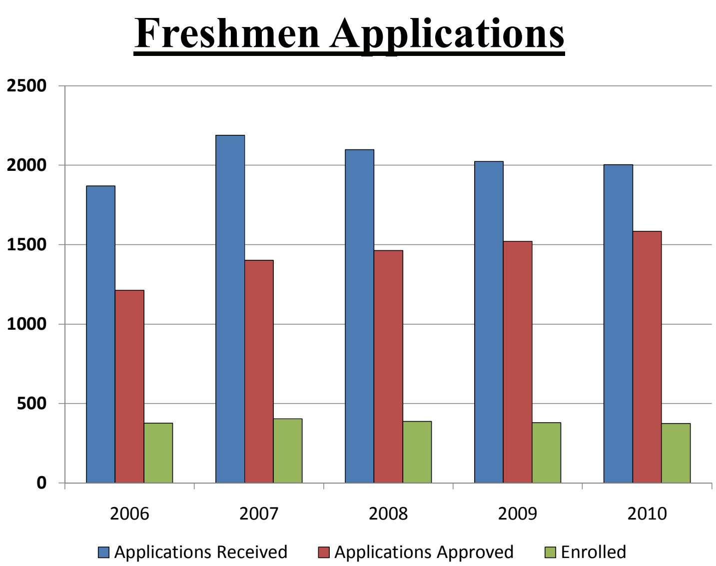
MORAVIAN COLLEGE

FINANCIAL REPORT

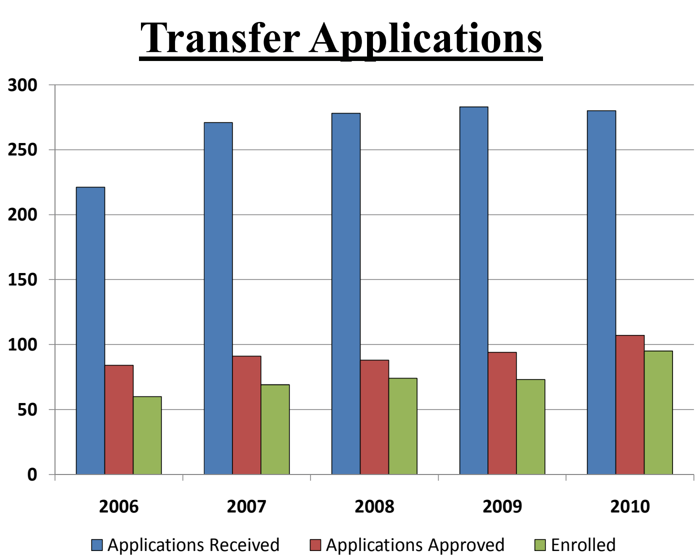
2009-2010



The College experienced a modest decrease in full time day students but experienced an increase in graduate and evening program students. The Seminary enrollment remained steady.

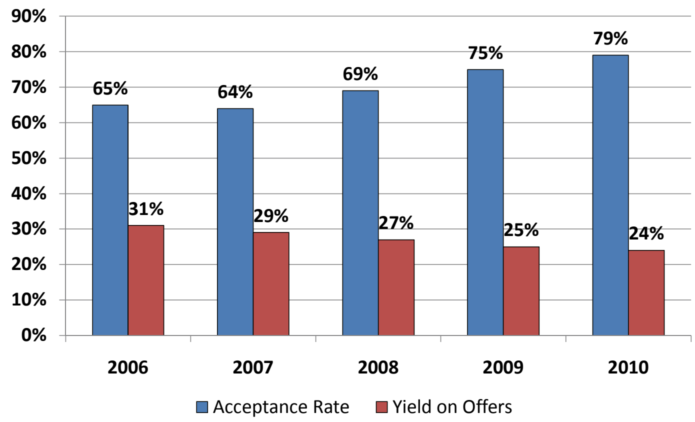


Freshman applications for admission were about flat with last year. A total of 373 freshmen enrolled, the ninth largest class in the College's history.



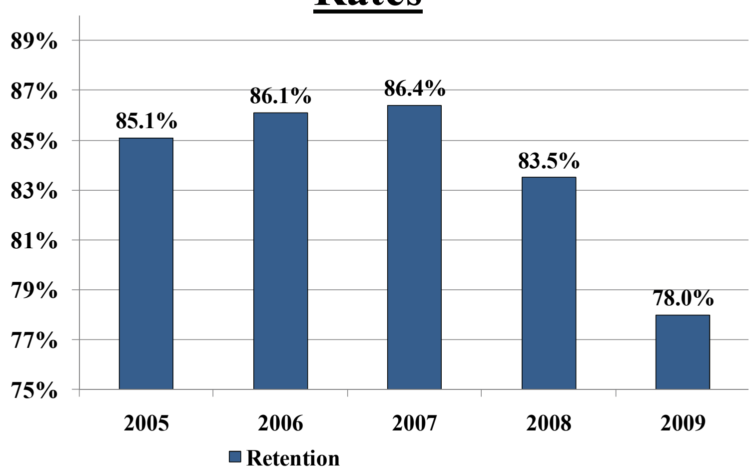
Moravian actively recruits and enrolls transfer students to help reach our enrollment targets. For the fall of 2010, 91 transfer students enrolled, the largest class of new transfer students in over thirty years.

Acceptance Rate & Yield on Offers



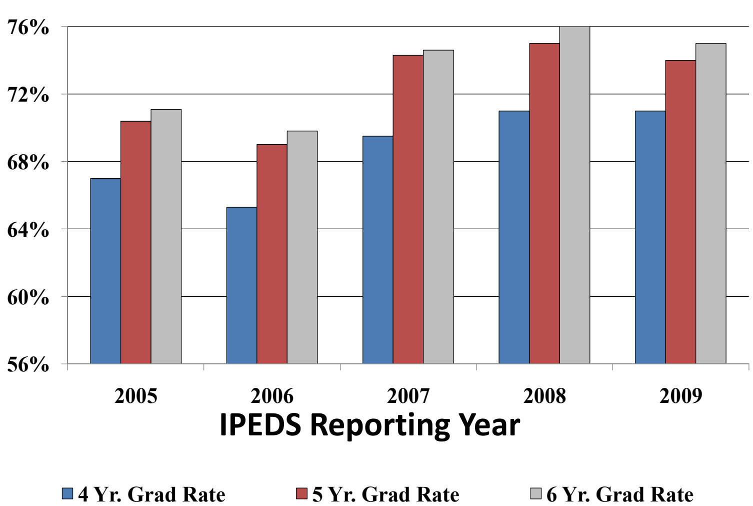
The College is developing a plan of action in response to increased competition for high quality students and to meet increased demand for financial aid. The continuing uncertain economic environment has created challenges for Moravian and for small liberal arts colleges in general.

Freshmen to Sophomore Retention Rates



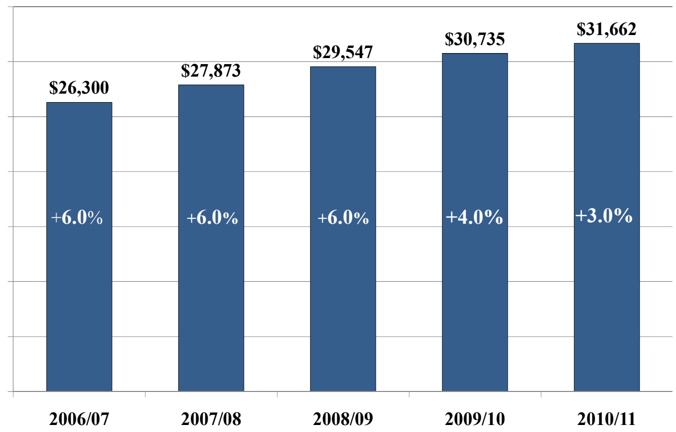
The decline in freshmen-to-sophomore retention rates since 2007 is of concern. Moravian has developed a detailed retention plan which includes community wide participation to identify and support students at risk.

Graduation Rates



Moravian's graduation rate in 2009 is comparable to 2008 and compares favorably to other private liberal arts institutions.

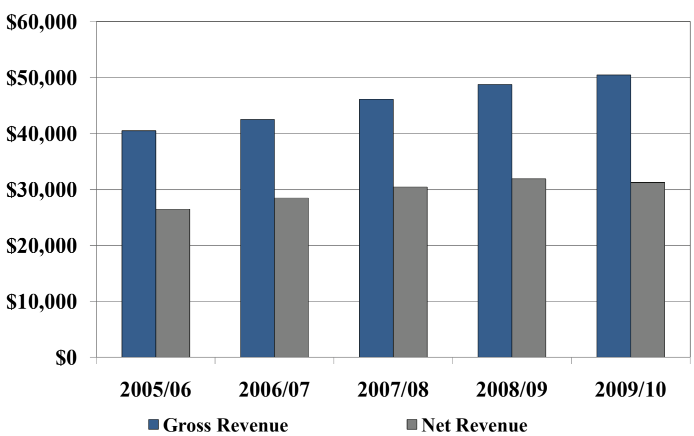
Full-Time Tuition Rate-College



In response to continuing difficult economic times, the College has worked hard to keep tuition affordable for our students. For the 2010/2011 school year, full-time tuition has been increased by 3%.

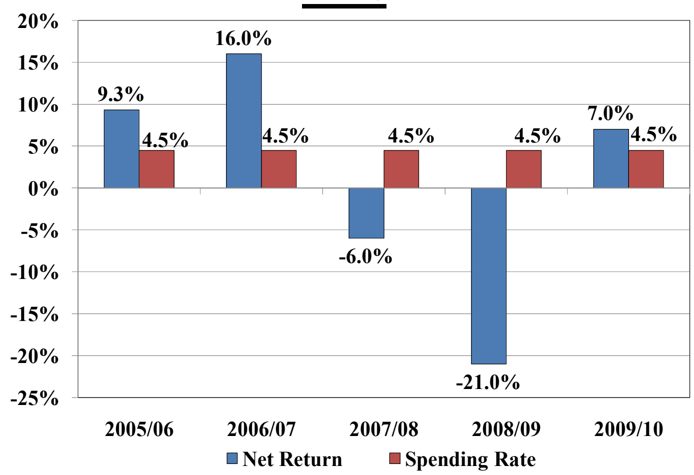
College Tuition Revenue

$Thousands



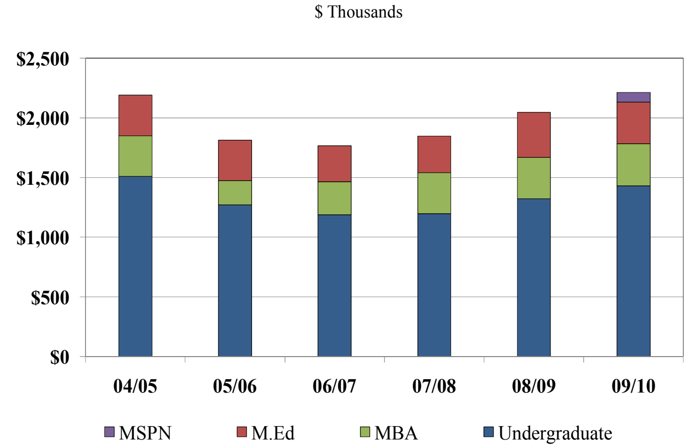
An increase in the full-time tuition rate pushed the College gross tuition revenue over $50 million. However, increases in financial aid costs resulted in a slight decrease in net tuition revenue.

Net Investment Returns vs. Spending Rate



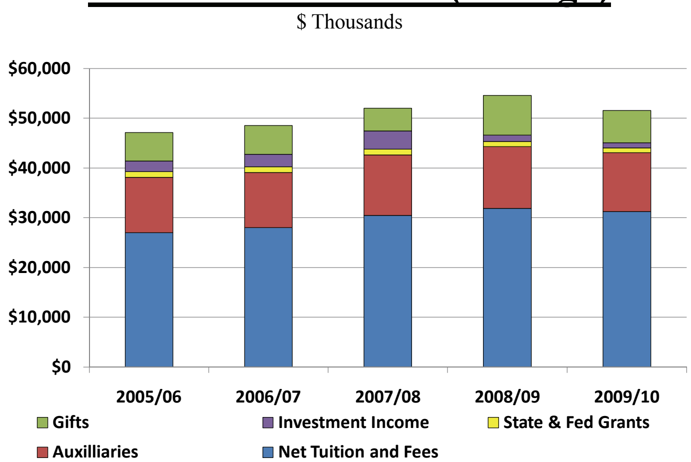
The endowment spending rate has remained at 4.5% for the past six years. The investment return of 7% for 2009/2010 enabled us to meet our spending needs while reinvesting excess returns back into the fund for future use.

Comenius Center Gross Revenue



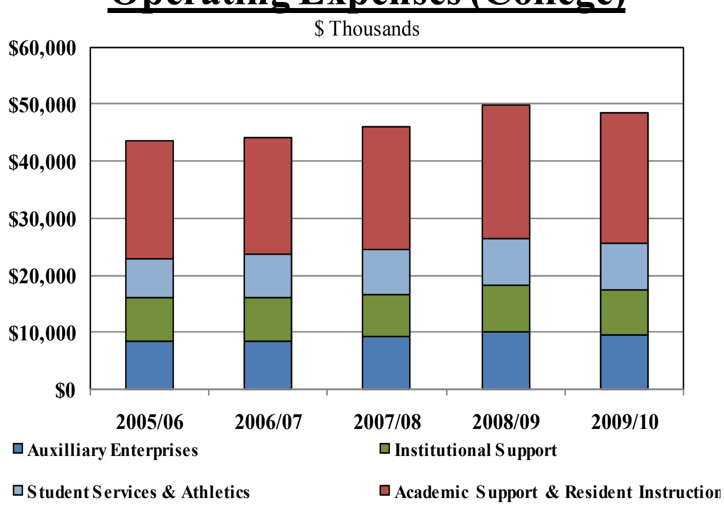
The launch of new graduate programs in Human Resources, Education and Nursing in the Comenius Center has had an immediate, positive impact on revenue.

Sources of Revenue (College)



Tuition and related auxiliary revenues continue to be the major source of revenue for the College. The revenue decrease from 2008/2009 levels is due to lower net tuition revenue and a decrease in gifts.

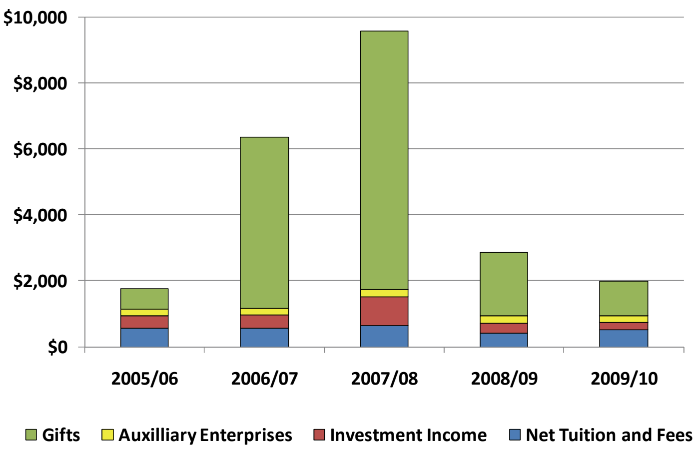
Operating Expenses (College)



In order to maintain a balanced budget, institutional expenses were pared back. Salaries were frozen and discretionary expenses were held to a minimum.

Sources of Revenue (Seminary)

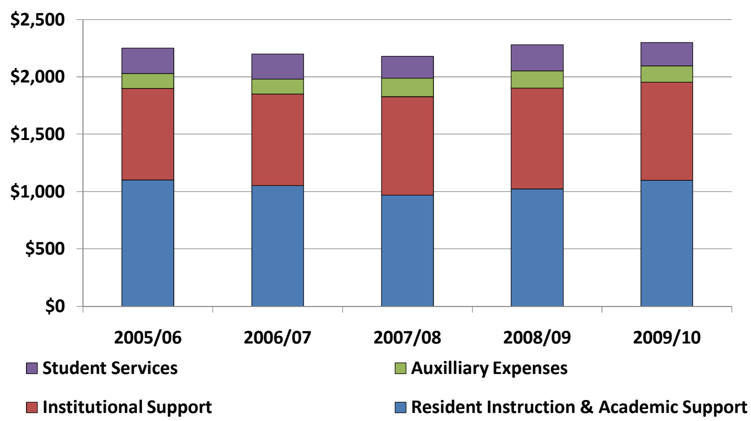
$ Thousands



The Seminary continues to receive the majority of its revenues from gifts and endowment income which accounted for 64% of total revenue. In 2009/2010, 74% of total gifts were unrestricted in nature. Net tuition and fees represented 26% of total revenues.

Operating Expenses (Seminary)

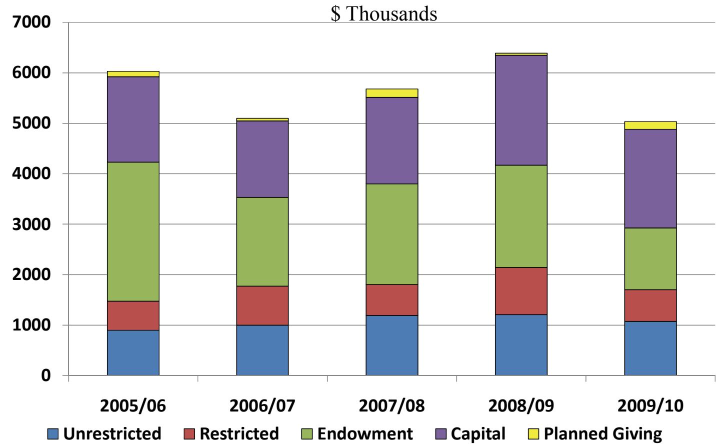
$ Thousands



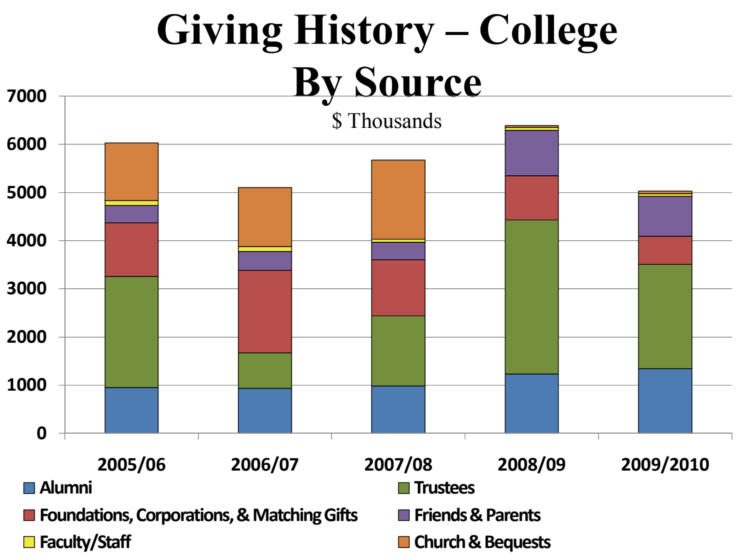
The Seminary continues to effectively manage operating expenses, with overall expenses in 2009/2010 increasing less than 1%. Resident Instruction and Academic Support account for 48% of total expenditures.

Giving History – College By Purpose

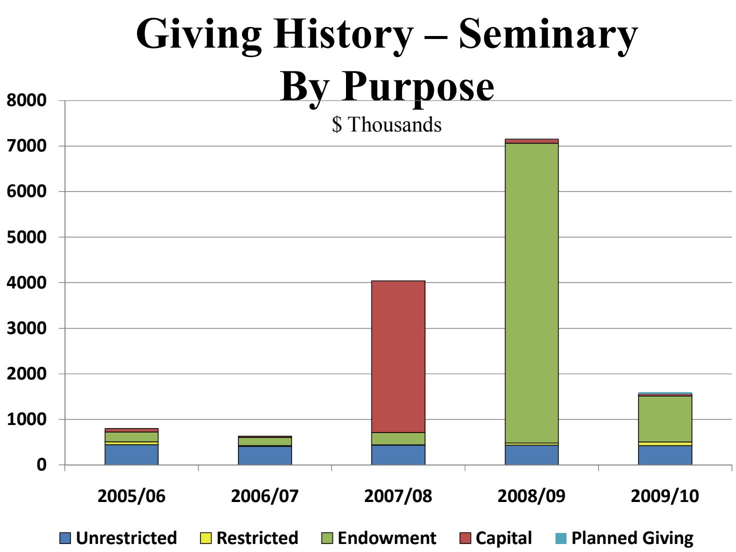
$ Thousands



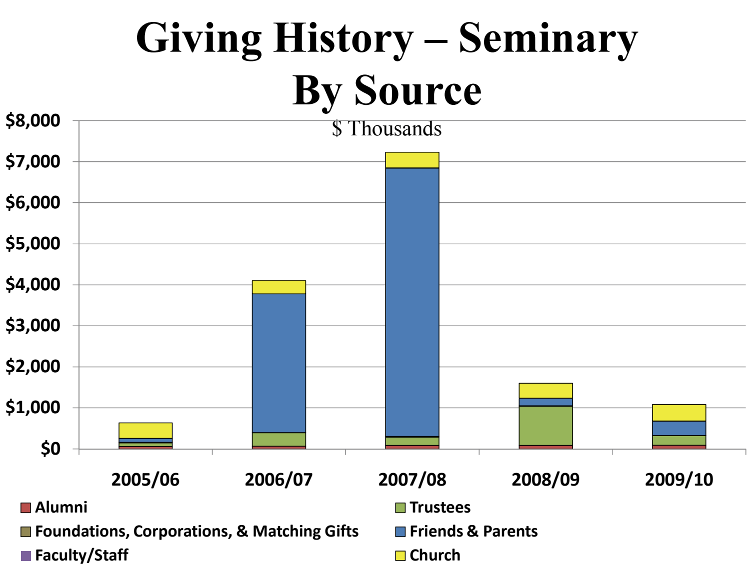
The decrease in College gifts from 2008/2009 was primarily in estate and endowment gifts. Gifts and pledges for capital projects over the past two years reflect success in the early stage of the comprehensive campaign which includes a focus on renovations to the Collier Hall of Science.



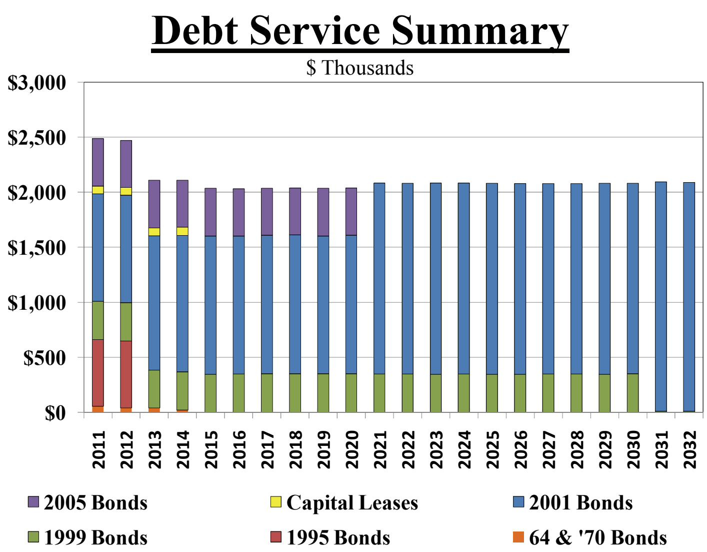
Gifts from Trustees in 2007/2008 and 2008/2009 reflect the "quiet phase" of the comprehensive campaign. 2009/2010 was negatively impacted by reduced foundation and corporate giving, as well as the elimination of many matching gift programs.



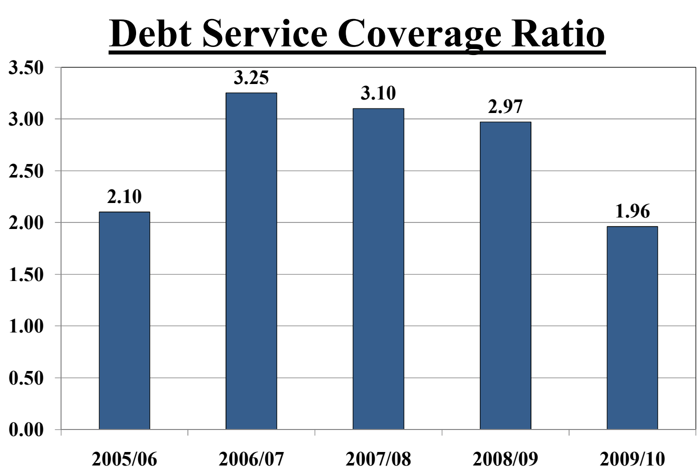
Two historic gifts were received during years 2006/2007 and 2007/2008. A bequest of $3.1 million was received in 2006/2007 and a transformational estate gift of $6.2 million was received in 2007/2008.



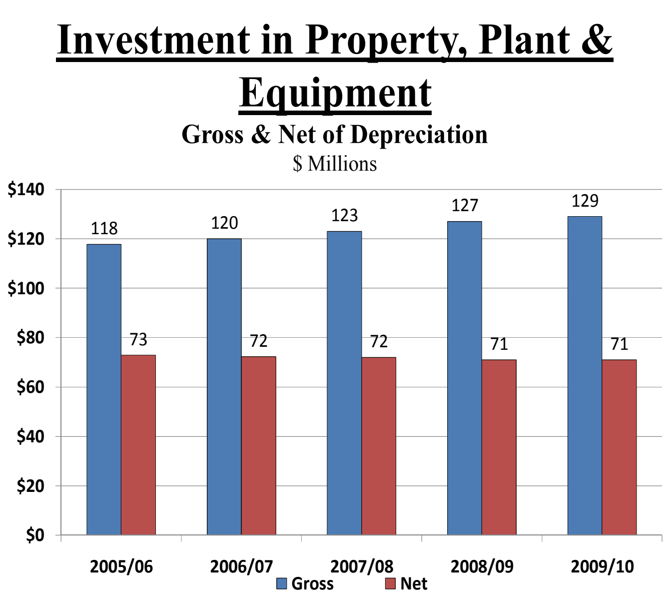
The two large estate gifts came from friends of the Seminary totaling $9.3 million during 2006/2007 and 2007/2008. They were directed to the Seminary's campaign – *A Mission that Matters*. This five-year campaign is expected to attain its goal of $15 million by 2011. The campaign will strengthen the Seminary's ability to fulfill its mission by funding additional student scholarships, endowing faculty chairs, and providing resources for the renovations and upgrades of the Bahnson Center.



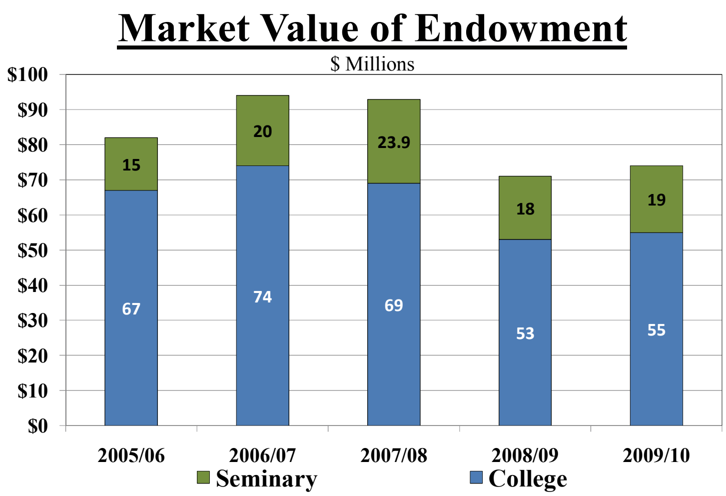
The College currently has six outstanding bond issues and one equipment lease totaling $27.7 million. The 1995 issue matures on 7/1/11.



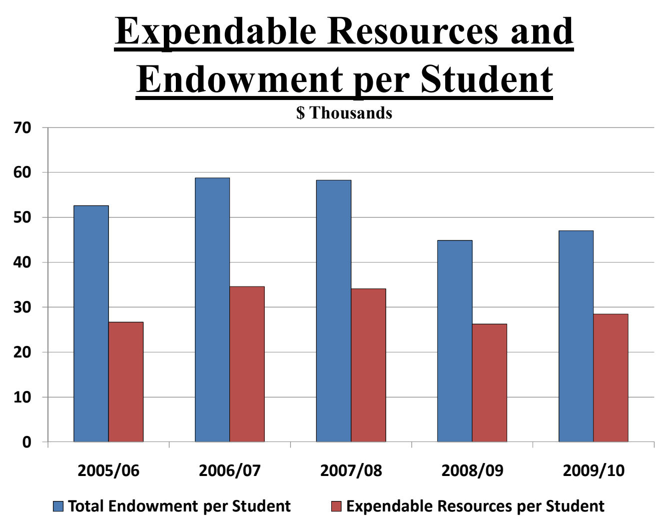
The debt service coverage ratio is a measure of the College net assets available to cover maximum annual debt service. The ratio is calculated in accordance with our bond covenants and is required to be at least 1.0.



For 2009/2010 $4.0 million was invested in various projects including improvements to the baseball facility, landscaping and parking improvements on the Hurd Campus, and several deferred maintenance projects that are part of a ten year capital plan. Deferred maintenance projects included renovations and restorations to several buildings including Comenius Hall, Memorial Hall, Zinzendorf, Collier Hall of Science, and the Day House.

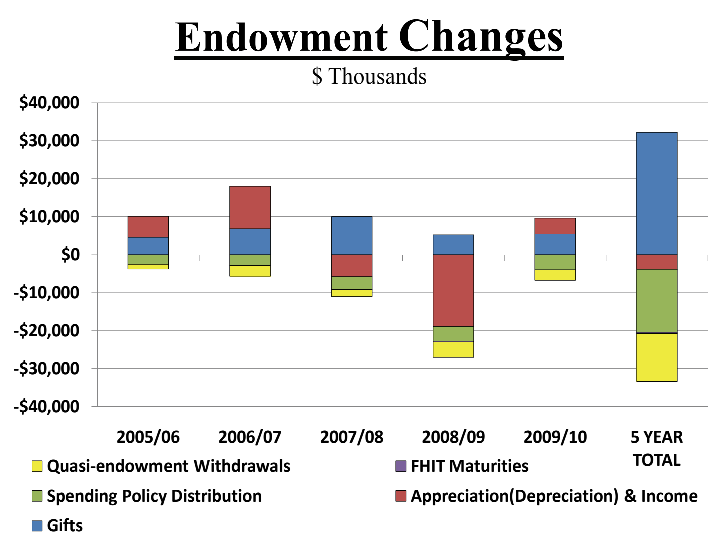


The endowment market value grew modestly from $71 million in 2008/2009 to $74 million in 2009/2010. Withdrawals for spending were offset by positive investment returns and new gifts.



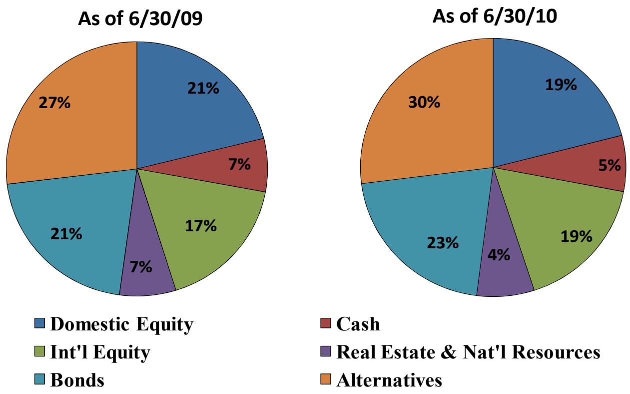
Endowment per student rose as a function of the higher endowment market value and slightly fewer students.

Expendable resources per student (unrestricted and temporarily restricted net assets less net property and equipment less debt) increased from $26,000 to $28,000 due to increases in the investment portfolio.



Over the past 5 years the endowment has provided $16.5 million in support to the operating budgets of the College and Seminary as well as $12.6 million for Capital and other strategic projects. New gifts since 2005/2006 total $32 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).

MORAVIAN COLLEGE

A SMALL NATIONAL TREASURE

1742

Moravian College and Theological Seminary completed another successful year despite the challenges of a difficult economic environment. Cost containment efforts throughout the campus allowed the institution to end the year with an operating surplus and we have continued to invest in our campus for future generations of students. The College enrollment remained strong with an average 2009/2010 enrollment of 1694 full time equivalent students in the undergraduate and graduate programs, a slight decrease from the previous year. Seminary enrollment remained steady 52 full time equivalent students.

The financial markets, while better than 2009, fluctuated significantly during the year. Our total return on investment for the fiscal year, net of fees, was 7.0%. The market value of the endowment at June 30, 2010 was $74 million, up from $71 million in 2009. In fiscal year 2009/2010 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 six years and will be the same for 2010/2011.

The Comenius Center for Continuing, Professional and Graduate Studies launched several new graduate programs in fall 2009. A Master of Science Program in Nursing was established in partnership with St. Luke's Hospital. This program complements the existing BSN and RN to BS programs. The graduate business school introduced the Master of Science in Human Resource Management Program and the graduate education school introduced several new certificate programs including Reading Specialist, Supervision and Principal.

Major facilities projects included the commencement of construction of a new administration building to support the expanded graduate programs in the Comenius Center, upgrades to the baseball field, a new Facilities Land Use and Master Plan and the engagement of an architectural firm to plan the renovation of the Collier Hall of Science.

Statement of Financial Position

Despite investment losses realized as a result of portfolio balancing, overall net assets increased by over $6.1 million. Each net asset class increased; unrestricted by $2.5 million, temporarily restricted by $2.1 million, and permanently restricted by $1.5 million. Liabilities decreased by $1.5 million in 2010 as a result of debt payments. Assets increased by $4.7 million primarily due to an increase in pledges receivable, new endowment gifts and unrealized gains on investments.

College Statement of Activities

The statement of activities highlights the transactions that changed net assets during the fiscal year. During the 2009/2010 year, the College operating revenues decreased by $3.0 million (5.5%). Tuition, net of financial aid, and the related auxiliary enterprise revenue decreased by $1.2 million (2.7%) due to a slight decrease in enrollment coupled with an increase in financial aid. Private gifts and grants decreased from $8.0 million in 2009 to $6.5 million in 2010. During the year, the investment portfolio underwent a major rebalancing, resulting in significant realized losses. However this was offset by a corresponding decrease in unrealized losses. The impact of the increased market value of the investment portfolio is also reflected in the decrease in unrealized losses of $8.7 million for the year.

College expenditures decreased modestly in all functional categories as a result of planned cost containment efforts. All salaries were frozen and discretionary expenditures were curtailed.

Seminary Statement of Activities
The net assets of the Seminary increased by $0.9 million in 2009/2010. An increase in net assets from non-operating activity of $1.2 million was slightly offset by a decrease in net assets from operating activity of $0.3 million.

Total operating revenues of $2.0 million for 2009/2010 were down $0.4 million as a result of a decline in private gifts and grants. An $88,000 increase in net tuition revenue was offset by an $83,000 decline in investment income.

Operating expenses increased by only $21,000, or less than 1% of all expenses.

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 $2.1 million from operations. 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 $4.0 million in capital projects including improvements to the baseball facility, landscaping and parking improvements on the Hurd Campus, and several deferred maintenance projects that are part of a 10 year capital plan. Deferred maintenance projects included renovations and restorations to several buildings including Comenius Hall, Memorial Hall, Zinzendorf, Collier Hall of Science and the Day House.

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 $1.6 million of debt and collected restricted gifts totaling $1.5 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 decrease in cash flows for the College and Seminary of $0.8 million. At June 30, 2010 the institution's cash remained strong at $13.1 million.

Moravian College & Theological Seminary
2009/10 Financial Statements
Executive Summary

Balance Sheet (College & Seminary)

	2009/10	2008/09	Variance
Current Assets	18,598	18,659	(61)
Current Liabilities	6,225	7,096	(871)
Current Ratio	3.0	2.6	
Assets	176,906	172,227	4,679
Liabilities	36,713	38,170	(1,457)
Net Assets/Equity	140,193	134,057	6,136
Unrestricted	72,534	70,054	2,480
Temporarily Restricted	20,422	18,282	2,140
Permanently Restricted	47,237	45,721	1,516
Total Net Assets/Equity	$ 140,193	$ 134,057	$ 6,136

Income Statement (College Only)

	2009/10	2008/09	Variance
Gross Tuition	50,389	48,757	1,632
Financial Aid	19,144	16,878	2,266
Net Tuition	31,245	31,879	(634)
Gifts & Grants	6,537	7,993	(1,456)
Investment Income	1,013	1,295	(282)
Auxiliary Enterprises	11,480	12,036	(556)
State, Fed, and Other	1,309	1,404	(95)
Total Revenue	51,584	54,607	(3,023)
Total Operating Expenses	48,497	49,707	(1,210)
Increase from Operating Activities	3,087	4,900	(1,813)
Increase from Investing Activities	2,119	(11,059)	13,178
Increase in Net Assets	$ 5,206	$ (6,159)	$ 11,365

Income Statement (Seminary Only)

	2009/10	2008/09	Variance
Gross Tuition	789	708	81
Financial Aid	282	289	(7)
Net Tuition	507	419	88
Gifts & Grants	1,045	1,433	(388)
Investment Income	223	306	(83)
Auxiliary Enterprises and Other	200	209	(9)
Total Revenue	1,975	2,367	(392)
Total Operating Expenses	2,301	2,280	21
Increase from Operating Activities	(326)	87	(413)
Increase from Investing Activities	1,256	(5,480)	6,736
Increase in Net Assets	$ 930	$ (5,393)	$ 6,323

Moravian College

Financial Statements

June 30, 2010

Moravian College

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June 30, 2010 and 2009

ParenteBeard

Independent Auditors' Report

Board of Trustees
Moravian College

We have audited the accompanying statement of financial position of Moravian College ("College") as of June 30, 2010, and the related statements of activities, statement of activities (College only), statement of activities (Theological Seminary only) 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 2009 financial statements and, in our report dated October 5, 2009, 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, 2010, 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 4, 2010

Moravian College

Statement of Financial Position
June 30, 2010 and 2009
(With Comparative Totals for the Year Ended June 30, 2009)
(In Thousands)

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 13,128	$ 13,951
Accounts receivable, net	761	671
Investment income receivable	238	152
Contributions receivable	1,599	832
Prepaids and other	841	485
Inventory	297	340
Deposits with trustee under debt agreement	1,734	2,228
Total current assets	18,598	18,659
Noncurrent Assets		
Contributions receivables, net	2,551	1,678
Note Receivable	1,000	1,000
Deposits with trustee under debt agreement	3,708	3,693
Investments	71,615	67,658
Split-Interest agreements	4,406	5,270
Student loans receivable (net of allowance of $219 in 2010; $209 in 2009)	2,090	1,985
Other non-current assets	582	-
Deferred financing costs, net	912	969
Land, buildings and equipment, net	71,444	71,315
Total noncurrent assets	158,308	153,568
Total assets	$ 176,906	$ 172,227

See notes to financial statements

Moravian College

Statement of Financial Position
June 30, 2010 and 2009
(With Comparative Totals for the Year Ended June 30, 2009)
(In Thousands)

	2010	2009
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	$ 1,085	$ 1,530
Accounts payable	390	755
Accrued interest	706	747
Accrued expenses and other liabilities	2,728	2,742
Deferred revenue and deposits	1,276	1,275
Current portion of postretirement benefit obligation	40	47
Total current liabilities	6,225	7,096
Noncurrent Liabilities		
Annuities payable	1,426	1,400
Long-term debt	26,697	27,520
Postretirement benefit obligation	458	466
Refundable federal grants and loan funds	1,153	1,176
Other liabilities	754	512
Total liabilities	36,713	38,170
Net Assets		
Unrestricted:		
College	61,119	59,081
Theological Seminary	11,415	10,973
Total unrestricted	72,534	70,054
Temporarily restricted:		
College	17,720	16,076
Theological Seminary	2,702	2,206
Total temporarily restricted	20,422	18,282
Permanently restricted:		
College	37,977	36,453
Theological Seminary	9,260	9,268
Total permanently restricted	47,237	45,721
Total net assets	140,193	134,057
Total liabilities and net assets	$ 176,906	$ 172,227

See notes to financial statements

Moravian College

Statement of Activities
Years Ended June 30, 2010
(With Comparative Totals for the Year Ended June 30, 2009)
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $19,426 in 2010; and $17,167 in 2009)	$ 31,752	$ -	$ -	$ 31,752	$ 32,298
Private gifts and grants	1,676	4,464	1,442	7,582	9,426
Investment income	1,069	-	167	1,236	1,601
Sponsored federal government programs and grants	532	-	-	532	478
State Grants	433	-	-	433	565
Auxiliary enterprises	11,678	-	-	11,678	12,244
Other sources	346	-	-	346	362
Net Assets released from restrictions, satisfaction of program restrictions	4,976	(4,976)	-	-	-
Total operating revenues and other additions	52,462	(512)	1,609	53,559	56,974
Operating Expenses					
Resident instruction	20,813	-	-	20,813	20,890
Academics support	3,209	-	-	3,209	3,391
Student services	4,428	-	-	4,428	4,542
Athletics	3,922	-	-	3,922	3,989
Institutional support	7,401	-	-	7,401	7,651
Fund raising	1,310	-	-	1,310	1,311
Auxiliary enterprises	9,649	-	-	9,649	10,133
Other	66	-	-	66	80
Total operating expenses	50,798	-	-	50,798	51,987
Increase (decrease) from operating activities	1,664	(512)	1,609	2,761	4,987
Nonoperating Expenses					
Realized net gain/(loss) on investments	(1,736)	(6,270)	29	(7,977)	(449)
Unrealized net gain/(loss) on investments	2,602	9,627	33	12,262	(19,251)
Gain/(loss) on the sale of assets	(50)	-	-	(50)	1,600
Change in value of split-interest agreements	-	(705)	(155)	(860)	(813)
Effect of post retirement benefit policy change	-	-	-	-	2,374
Increase (decrease) from nonoperating activities	816	2,652	(93)	3,375	(16,539)
Increase (Decrease) in Net Assets	2,480	2,140	1,516	6,136	(11,552)
Net Assets, Beginning	70,054	18,282	45,721	134,057	145,609
Net Assets, Ending	$ 72,534	$ 20,422	$ 47,237	$ 140,193	$ 134,057

See notes to financial statements

Moravian College

Statement of Activities (College Only)
Years Ended June 30, 2010
(With Comparative Totals for the Year Ended June 30, 2009)
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total (Summarized)
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of of $19,144 in 2010; and $16,878 in 2009)	$ 31,245	$ -	$ -	$ 31,245	$ 31,879
Private gifts and grants	906	4,151	1,480	6,537	7,993
Investment income	848		165	1,013	1,295
Sponsored federal government programs and grants	532	-	-	532	478
State Grants	433	-	-	433	565
Auxiliary enterprises	11,480	-	-	11,480	12,036
Other sources	344	-	-	344	361
Net Assets released from restrictions, satisfaction of program restrictions	4,475	(4,475)	-	-	-
Total operating revenues and other additions	50,263	(324)	1,645	51,584	54,607
Operating Expenses					
Resident instruction	19,887	-	-	19,887	20,053
Academic support	3,037	-	-	3,037	3,206
Student services	4,223	-	-	4,223	4,315
Athletics	3,922	-	-	3,922	3,989
Institutional support	6,707	-	-	6,707	6,942
Fund raising	1,148	-	-	1,148	1,139
Auxiliary enterprises	9,507	-	-	9,507	9,983
Other	66	-	-	66	80
Total operating expenses	48,497	-	-	48,497	49,707
Increase (decrease) from operating activities	1,766	(324)	1,645	3,087	4,900
Nonoperating Expenses					
Realized net gain/(loss) on investments	(707)	(4,977)	29	(5,655)	(346)
Unrealized net gain/(loss) on investments	1,029	7,650	12	8,691	(13,880)
Gain/(loss) on the sale of assets	(50)	-	-	(50)	1,600
Change in value of split-interest agreements		(705)	(162)	(867)	(692)
Effect of post retirement benefit policy change	-	-	-	-	2,259
Increase from nonoperating activities	272	1,968	(121)	2,119	(11,059)
Increase in Net Assets	2,038	1,644	1,524	5,206	(6,159)
Net Assets, Beginning	59,081	16,076	36,453	111,610	117,769
Net Assets, Ending	$ 61,119	$ 17,720	$ 37,977	$ 116,816	$ 111,610

See notes to financial statements

Moravian College

Statement of Activities (Theological Seminary Only)
Years Ended June 30, 2010
(With Comparative Totals for the Year Ended June 30, 2009)
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total (Summarized)
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $282 in 2010; and $289 in 2009)	$ 507	$ -	$ -	$ 507	$ 419
Private gifts and grants	770	313	(38)	1,045	1,433
Investment income	221	-	2	223	306
Auxiliary enterprises	198	-	-	198	208
Other sources	2	-	-	2	1
Net Assets released from restrictions, satisfaction of program restrictions	501	(501)	-	-	-
Total operating revenues and other additions	2,199	(188)	(36)	1,975	2,367
Operating Expenses					
Resident instruction	926	-	-	926	837
Academis support	172	-	-	172	185
Student services	205	-	-	205	227
Institutional support	694	-	-	694	709
Fund raising	162	-	-	162	172
Auxiliary enterprises	142	-	-	142	150
Total operating expenses	2,301	-	-	2,301	2,280
Increase (decrease) from operating activities	(102)	(188)	(36)	(326)	87
Nonoperating Expenses					
Realized net gain on investments	(1,029)	(1,293)	-	(2,322)	(103)
Unrealized net gain (loss) on investments	1,573	1,977	21	3,571	(5,371)
Change in value of split-interest agreements	-	-	7	7	(121)
Effect of post retirement benefit policy change	-	-	-	-	115
Increase from nonoperating activities	544	684	28	1,256	(5,480)
Increase (Decrease) in Net Assets	442	496	(8)	930	(5,393)
Net Assets, Beginning	10,973	2,206	9,268	22,447	27,840
Net Assets, Ending	$ 11,415	$ 2,702	$ 9,260	$ 23,377	$ 22,447

See notes to financial statements

Moravian College

Statement of Cash Flows
Years Ended June 30, 2010 and 2009
(In Thousands)

	2010	2009
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 6,136	$ (11,552)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,594	3,481
Change in value of split-interest agreement and annuities payable	890	950
Gifts and grants restricted for long-term investments	(3,513)	(4,657)
Gains on disposal of assets	50	(1,600)
Other restricted earnings for long-term investments	(167)	(195)
Net realized and unrealized losses (gains) on investments	(4,285)	19,700
(Increase) decrease in assets:		
Accounts receivable, net	(90)	74
Investment income receivable	(86)	(55)
Contributions receivable, net	341	(373)
Prepaids and other	(356)	158
Inventory	43	(19)
Other non-current assets	(582)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued interest payable	(138)	(74)
Accrued expenses and other liabilities	(14)	435
Deferred revenue and deposits	1	(158)
Accumulated postretirement benefit obligation	(15)	(2,253)
Other Liabilities	242	(123)
Net cash provided by operating activities	2,051	3,739
Cash Flows from Investing Activities		
Purchase of land, building and equipment	(3,984)	(2,549)
Purchase of investments	(24,817)	(7,792)
Proceeds from sale of investments	25,145	9,404
Proceeds from sale of assets	-	1,600
Change in deposits with trustee under debt agreements	479	(19)
Disbursement of student loans	(332)	(331)
Repayments of student loans	227	250
Net cash provided by (used in) investing activities	(3,282)	563
Cash Flows from Financing Activities		
Gifts and grants restricted for long-term investments	1,532	3,455
Other restricted earnings for long-term investments	167	195
Repayment of debt	(1,587)	(1,519)
Proceeds from issuance of long-term debt	319	-
Net repayment of refundable federal grants and loan funds	(23)	(22)
Net cash provided by financing activities	408	2,109
Net Increase (Decrease) in Cash and Cash Equivalents	(823)	6,411
Cash and Cash Equivalents, Beginning	13,951	7,540
Cash and Cash Equivalents, Ending	$ 13,128	$ 13,951
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,471	$ 1,534
Supplemental Disclosure of Noncash Investing Activities		
Fixed assets in accounts payable	$ -	$ 268

See notes to financial statements

1. Nature of Operations

Moravian College (the "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 1,512 full-time day students, 641 men and 871 women. The College enrolls students that come from a variety of socioeconomic, religious, racial, and ethnic backgrounds.

2. Summary of Significant Accounting Policies

New Accounting Pronouncements

In June 2009, the FASB established the FASB Accounting Standards Codification ("Codification") as the sole source of authoritative accounting principles generally accepted in the United States of America. As a result, all references to accounting literature will conform to the appropriate reference within the Codification. The adoption of the Codification, which became effective during September 2009, did not have any impact on the College's financial statements.

On September 30, 2009, the FASB issued Accounting Standards Update No. 2009-12, "Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)", ("ASU 2009-12"), which permits the use of net asset value ("NAV") as a practical expedient to estimate the fair value of certain alternative investments, if NAV is calculated consistent with accounting principles generally accepted in the United States of America for investment companies and sale of the investment at an amount different than NAV is not probable. ASU 2009-12 also provides guidance regarding the classification and disclosure of the applicable investments. The adoption of ASU 2009-12 had no material impact on the College's financial statements but expanded disclosures about certain fair value measurements.

Basis of Accounting

The financial statements of the College have been prepared on the accrual basis of accounting.

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

These financial statements present financial information showing the financial position, the activities, and the cash flows of the College reflecting the presence or absence of donor-imposed restrictions. Accordingly, the amounts of net assets are classified according to the nature of restrictions, as follows:

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

Net assets which are subject to donor-imposed restrictions that will be met when expenditures are made for the designated purposes or with passage of time. The expiration of temporary restrictions on net assets is reported in the statements of activities as net assets released from restrictions. Temporarily restricted contributions and temporarily restricted endowment income whose restrictions are not met in the same period as received or earned are reported as increases in temporarily restricted net assets.

Permanently Restricted Net Assets

Net assets which are subject to donor-imposed restrictions 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.

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.

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.

2. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are not collateralized. 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. The College's inventory consists primarily of bookstore merchandise.

Investments

Equity securities with readily determinable fair values and debt securities are valued at fair value based on quoted market prices. The College's 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.

2. Summary of Significant Accounting Policies (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 in 2010 and 2009.

Fixed Assets and Depreciation

Land, buildings and equipment are stated at an estimated of original cost, based on independent appraisals, or at 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, 2010 and 2009.

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, 2010, the estimated self insurance liability, which includes an estimate of incurred but not reported claims, based on data compiled from historical experience is calculated. Payments made to the trust throughout the year, net of all claims paid from the trust exceed the amount of this estimated liability. This overfunding is recorded in other non-current assets in the Statement of Financial Position. At June 30, 2009, this estimated liability exceeded the payments made to the trust. This underfunding 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 College is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a) of the Internal Revenue code.

The College accounts for uncertainties in income taxes in accordance with authoritative guidance, which 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.

The College’s federal Business Income Tax Returns for 2009, 2008, and 2007 remain subject to examination by the IRS.

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

2. Summary of Significant Accounting Policies (Continued)

Advertising

The College expensed advertising costs of approximately $192,000 and $225,000 during the fiscal years ended June 30, 2010 and 2009, 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. A substantial number of College students are dependent upon the College's continued participation in the Title IV programs for assistance in tuition payment.

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 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 1.5 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, 2010 and 2009 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 the 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.

2. Summary of Significant Accounting Policies (Continued)

Comparative Financial Information

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, 2009, from which the summarized information was derived.

Subsequent Events

Subsequent events were evaluated through October 4, 2010, the date the financial statements were issued.

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):

	2010	2009
Accounts receivable	$ 836	$ 767
Allowance for doubtful accounts	(75)	(96)
	$ 761	$ 671

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, 2010 and 2009 was approximately $1,153,000 and $1,176,000, respectively. The College contributes one-third of the amount contributed by the U.S. Government to the Program.

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 consisted of the following at June 30 (amounts in thousands):

	2010	2009
Due in one year or less	$ 1,599	$ 832
Due between one year and five years	2,869	1,903
Contributions receivable, gross	4,468	2,735
Unamortized discount	318	225
Contributions receivable, net	$ 4,150	$ 2,510

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, 2010 and 2009 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.

6. Investments

Investments consisted of the following at June 30, 2010 and 2009 (amounts in thousands):

	2010	2009
Cash and cash equivalents	$ 3,804	$ 4,924
Government bonds	2,130	2,466
Corporate bonds	1,891	1,591
Corporate stocks	920	822
Mutual funds	40,366	36,390
Alternative investments	22,504	19,149
Real estate	-	2,316
	$ 71,615	$ 67,658
Deposits with trustee under debt agreements:		
Cash and cash equivalents	$ 4,645	$ 5,005
U.S. Government securities	797	916
	$ 5,442	$ 5,921

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):

	2010	2009
Endowment funds	$ 67,401	$ 63,213
Annuity and life income funds	1,768	1,613
Capital campaign funds	2,446	2,832
	$ 71,615	$ 67,658

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.

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.

7. Split-Interest Agreements (Continued)

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.

8. Land, Buildings, and Equipment, Net

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

	2010	2009
Land and land improvements	$ 14,616	$ 13,072
Buildings	81,269	80,064
Equipment	22,090	20,949
Library books	8,708	8,413
Collection items	1,997	1,922
Construction in progress	377	1,221
	129,057	125,641
Accumulated depreciation	(57,613)	(54,326)
	$ 71,444	$ 71,315

Depreciation expense was approximately $3,537,000 and $3,423,000 in 2010 and 2009, respectively.

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, 2010 and 2009.

10. Long-term Debt

Long-term debt of the College consisted of the following at June 30, 2010 and 2009 (amounts in thousands):

	2010	2009
Dormitory Bonds of 1964:		
Series A - 3-3/8%, due serially in annual amounts through 2013.	$ 59	$ 78
Series B - 3-5/8%, due serially in annual amounts through 2014.	71	87
Dormitory Bonds of 1970 - 3.000%, due serially in annual amounts through 2011.	15	45
College Revenue Bonds of 1995 - due serially in annual amounts through 2012, with interest, payable semiannually, ranging from 4.60% to 6.250%.	1,140	2,195
College Revenue Bonds of 1999 - due serially in annual amounts through 2031, with interest, payable semiannually, ranging from 4.000% to 5.125%.	4,350	4,475
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%.	3,500	3,785
University Lease - 5.5%, due in equal installments through 2014 for equipment and furniture.	217	-
TCF Equipment Finance - 5.0%, due in equal installments through 2014 with a balloon payment in 2014 for a campus vehicle.	45	-
	27,782	29,050
Less current portion	1,085	1,530
Long-term debt	$ 26,697	$ 27,520

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.

10. Long-term Debt (Continued)

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.

Principal repayments of long-term debt for the years ending after June 30, 2010 are as follows (in thousands):

2011	$ 1,085
2012	1,125
2013	809
2014	843
2015	805
Later years	23,115
	$ 27,782

Interest expense related to long-term debt was approximately $1,488,000 and $1,557,000 in 2010 and 2009, respectively.

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 $3,792,000 and $2,770,000 in 2010 and 2009, respectively.

12. Employee Benefit Plan

The College participates in a defined contribution pension plan covering substantially all regular full-time employees. Pension expense was approximately $1,738,000 and $1,723,000 in 2010 and 2009, respectively.

13. Postretirement Benefits Other Than Pensions

The College provides postretirement benefits other than pensions to its employees. Effective June 30, 2009, the benefits were 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 for the year end June 30, 2009 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 $29,000 in 2010 and $152,000 in 2009. The measurement date used to determine the postretirement benefit obligation was June 30.

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):

	2010	2009
Projected benefit obligation, beginning	$ 513	$ 2,766
Service cost	40	84
Interest cost	29	161
Actuarial gain/loss	(55)	28
Benefits paid	(29)	(152)
Plan amendments	-	(2,374)
Projected benefit obligation, ending	$ 498	$ 513

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

	2010	2009
Current portion of postretirement benefit obligation	$ 40	$ 47
Noncurrent portion of postretirement benefit obligation	458	466
Accrued pension liability, net	$ 498	$ 513

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

	2010	2009
Discount rate	6.0 %	6.0 %
Rate of increase in compensation levels	4.0	4.0

13. Postretirement Benefits Other Than Pensions (Continued)

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

	2010	2009
Service cost	$ 40	$ 84
Interest cost	29	161
	$ 69	$ 245

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 $40,000.

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

2011	$ 40
2012	53
2013	56
2014	69
2015	82
2016 - 2019	389

14. Net Assets

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

	2010	2009
Net assets related to certain split-interest agreements	$ 2,705	$ 2,860
Assets held in perpetuity	44,532	42,861
	$ 47,237	$ 45,721

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

	2010	2009
Net assets related to certain split-interest agreements	$ 1,514	$ 2,219
Specified purposes	18,908	16,063
	$ 20,422	$ 18,282

14. Net Assets (Continued)

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

	2010	2009
Long-term investments	$ 14,239	$ 12,246
Plant facilities	49,104	48,186
Other	9,191	9,622
	$ 72,534	$ 70,054

15. Endowment

The College's endowment consists of 457 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 authoritative guidance, 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 College's policy is to require 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.

15. Endowment (Continued)

The following schedule represents the endowment net asset composition by type of endowment fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted (In Thousands)	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 9,713	$ 43,253	$ 52,966
Board-designated endowment funds	14,239	-	-	14,239
	$ 14,239	$ 9,713	$ 43,253	$ 67,205

The following schedule represents the changes in endowment net assets for the year ended June 30, 2010:

	Unrestricted	Temporarily Restricted (In Thousands)	Permanently Restricted	Total
Endowment assets, beginning of year	$ 12,246	$ 9,109	$ 41,677	$ 63,032
Investment income	157	570	-	727
Realized losses	(1,739)	(6,268)	-	(8,007)
Change in unrealized losses	2,566	9,627	-	12,193
Contributions	1,858	178	1,576	3,612
Appropriation for spending	(849)	(3,503)	-	(4,352)
Assets, end of year	$ 14,239	$ 9,713	$ 43,253	$ 67,205

15. Endowment (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
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	Permanently Restricted	Total
		(In Thousands)		
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

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 authoritative guidance, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at June 30, 2010 or 2009.

15. Endowment (Continued)

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.

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 2010 and 2009. 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 4.5% 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.

16. Fair Value of Financial Instruments

The Plan measures on a recurring basis its investments at fair value in accordance with FASB accounting standard "Fair Value Measurements and Disclosures," which provides the framework for measuring fair value. That framework provides fair value hierarchy used to classify the inputs used in measuring fair value. That hierarchy prioritizes the inputs used in determining valuations into three levels. The levels of fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Plan for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2010 and 2009 are as follows:

Description	2010	Level 1	Level 2	Level 3
Equity securities	$ 29,767	$ 29,767	$ -	$ -
Fixed income securities	15,540	15,540	-	-
Alternative investments	22,504	-	-	22,504
Total investments	67,811	45,307	-	22,504
Beneficial interest in perpetual trusts	1,754	-	-	1,754
Split interest agreements	2,652	-	-	2,652
	$ 72,217	$ 45,307	$ -	$ 26,910

16. Fair Value of Financial Instruments (Continued)

Description	2009	Level 1	Level 2	Level 3
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	$ 43,585	$ -	$ 24,419

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2010 and 2009 are as follows:

	Alternative Investments	Beneficial Interest in Perpetual Trusts	Split-Interest Agreements	Level 3 Total
Balance at June 30, 2008	$ 23,652	$ 2,122	$ 4,269	$ 30,043
Unrealized gains (losses)	(4,747)	(486)	(304)	(5,537)
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	$ 1,636	$ 3,634	$ 24,419
Unrealized gains (losses)	718	118	(982)	(146)
Purchases	2,637	-	-	2,637
Proceeds from sales	-	-	-	-
Realized gains (losses)	-	-	-	-
Balance at June 30, 2010	$ 22,504	$ 1,754	$ 2,652	$ 26,910

The following methods and assumptions were used to estimate fair values of the College's financial instruments as of June 30, 2010 and 2009:

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.

16. Fair Value of Financial Instruments (Continued)

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 using net asset value per share of the investment as 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 as a proxy for the discounted present value of future cash flows.

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.

Long-term Debt (Carried at Cost)

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

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, 2010 and 2009 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

16. Fair Value of Financial Instruments (Continued)

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 13,128	$ 13,128	$ 13,951	$ 13,951
Accounts receivable, net	761	761	671	671
Investment income receivable	238	238	152	152
Deposits with trustee under debt agreements	5,442	5,442	5,921	5,921
Contributions receivable, net	4,150	4,150	2,510	2,510
Notes receivable	1,000	1,000	1,000	1,000
Investments	71,615	71,615	67,658	67,658
Split-interest agreements	4,406	4,406	5,270	5,270
Student loans receivable	2,090	-	1,985	-
Liabilities				
Accounts payable	390	390	755	755
Long-term debt	27,782	28,620	29,050	23,432
Annuities payable	1,426	1,426	1,400	1,400
Refundable federal grants and loan funds	1,153	-	1,176	-

Alternative investments are funds and partnerships that invest in a variety of strategies including private equity, real estate, multi-strategy and long/short equities. These are generally illiquid investments, pooled and professionally managed with the goal of generating high returns. These investments are characterized as Level 3 within the hierarchy.

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2010 are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(In Thousands)			
Hedge Funds	$ 14,987	$ -	Various	35 - 65 days
Private Equity Funds	5,951	5,250	Illiquid	
Real Asset Funds	1,566	1,964	Illiquid	
	$ 22,504	$ 7,214		

16. Fair Value of Financial Instruments (Continued)

The Hedge Funds category includes investments in several funds. These funds allocate their assets to hedge fund managers that specialize in a wide range of alternative investment strategies. The funds offer the College exposure to a broad range of hedge fund strategies including long/short, global macro, emerging markets, event-driven, distressed, credit, multi-strategy and emerging markets. The hedge funds in this category have redemption frequencies that include monthly, quarterly, semi-annual or annual redemption requirements. One of the funds in this category has an annual redemption frequency and requires redemption requests to be made at least 100 days before the end of the calendar year.

The Private Equity Funds category includes investments in several funds. These funds invest in a variety of private equity partnerships and other private equity investments. Investments include leveraged buyouts, growth equity, venture capital, mezzanine debt, real estate, distressed debt and funds of funds as well as portfolios of direct and co-investments.

The Real Asset Funds category includes investments in several funds. Two of the funds in this category invest in various types of real estate, including retail, hotel, office, apartment, industrial and storage property throughout the United States, Mexico and Canada. One of the funds in this category invests in a select group of investment funds in the natural resource sector with an emphasis on crude oil and natural gas production and timberland, but with exposure to funds investing in farmland and metals and minerals as well.

17. Commitments

In connection with the construction of a new administrative building on campus, the College entered into a construction contract totaling $807,572. The College is using gifts and operating surpluses to fund this project. As of June 30, 2010, $0 had been expended on this contract.

In connection with the planning for renovations to the science building on campus, the College entered into a contract with an architectural firm totaling $158,700. As of June 30, 2010, $0 had been expended on this contract.

18. 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.

19. Investments in the Commonfund Short Term Fund

At June 30, 2009, approximately $2,203,000 was invested in the Commonfund Short Term Fund. At that time, those funds were not available for immediate withdrawal. In 2010, the trustee of the Short Term Fund sold the underlying securities and liquidated the fund. Upon liquidation, cash distributions were made to all participants. The fund was liquidated more than one year earlier than anticipated.

20. 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, 2010, consolidation of MCHI with the College is not required.