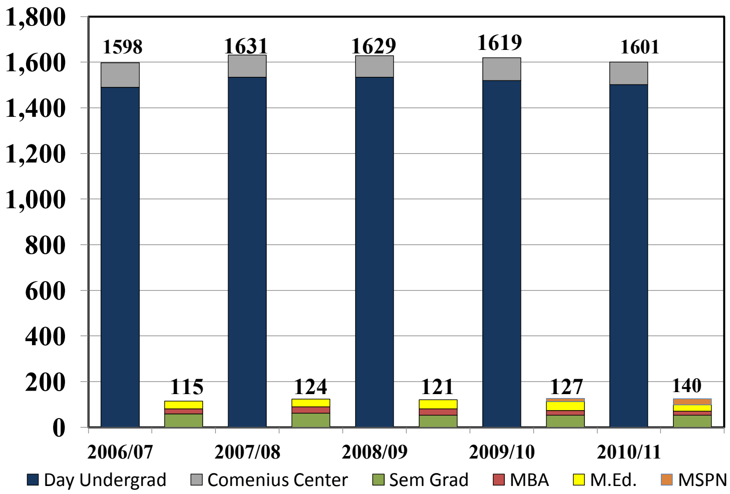
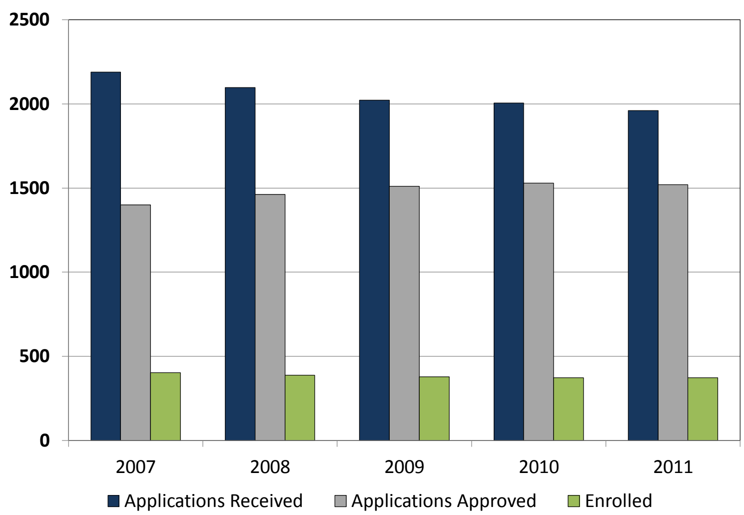
Full Time Equivalent Students



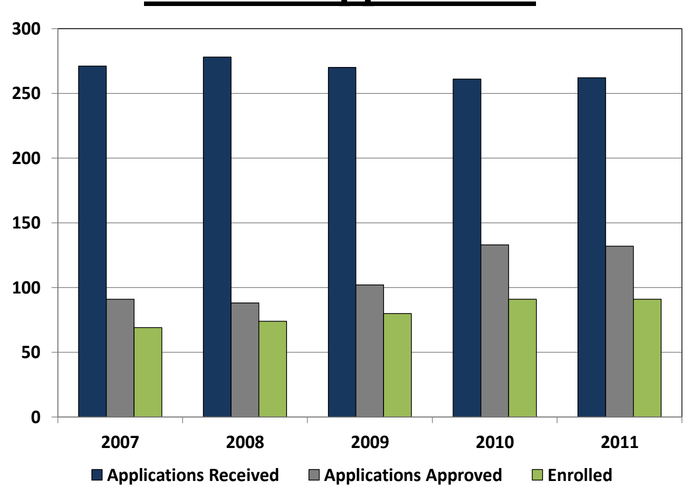
The College full time day student enrollment decreased slightly from 2010 to 2011. In response, the College has invested in improved dining and residence facilities and is constructing a new fitness center to help attract and retain more students.

Freshmen Applications



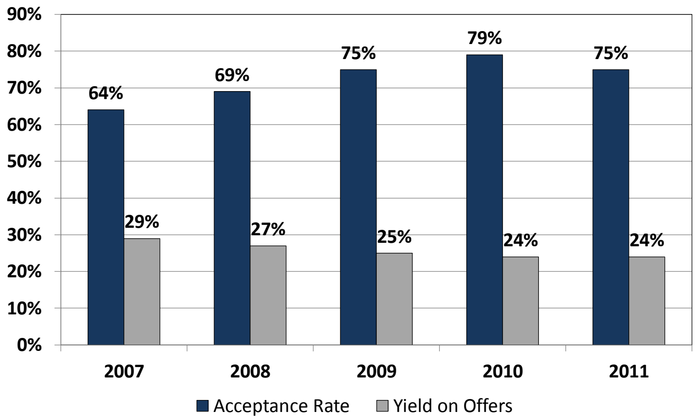
The number of freshman applications declined somewhat over the past four years. The College is implementing a new marketing plan and has overhauled the campus visit program to increase applicants.

Transfer Applications



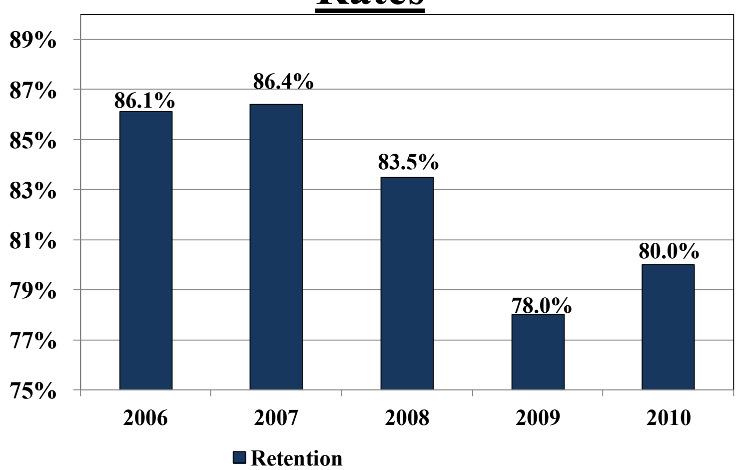
The number of transfer applications, acceptances and deposits remains consistent with 2010. Ninety-one new transfer students enrolled making this one of the largest transfer classes in our 269-year history.

Acceptance Rate & Yield on Offers



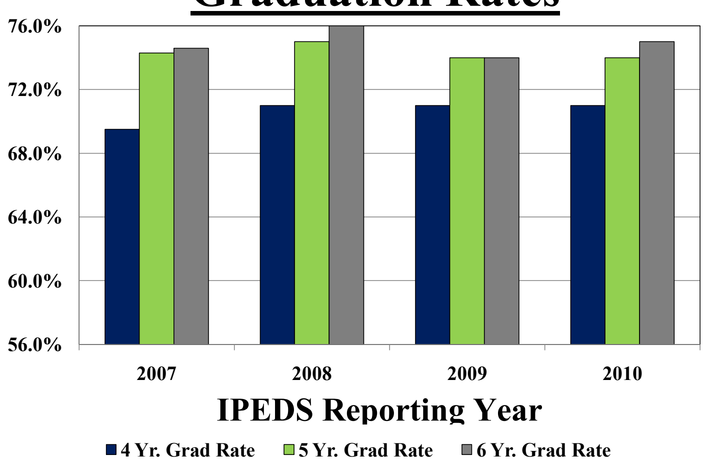
To address the increasingly competitive environment of college admissions recruiting, the College has implemented a new marketing campaign, improved facilities, and a revamped campus visit program are now in place.

Freshmen to Sophomore Retention Rates



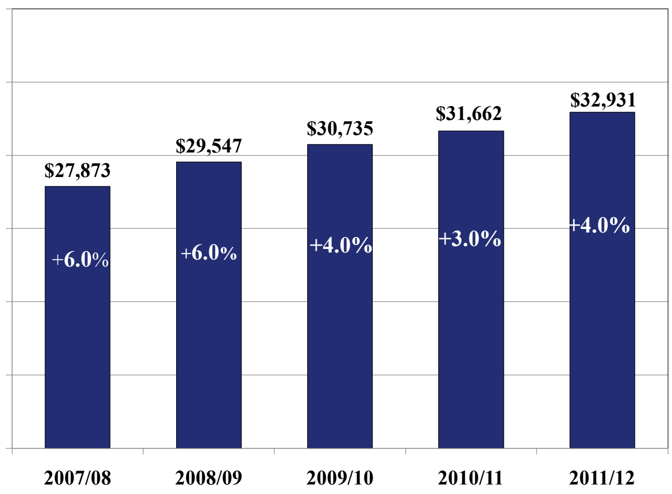
A new Retention Committee has implemented actions to identify "at risk" students and after the first year of implementation the College is seeing an upturn in retention.

Graduation Rates



The College's graduation rate remains stable and compares favorably to other private liberal arts institutions.

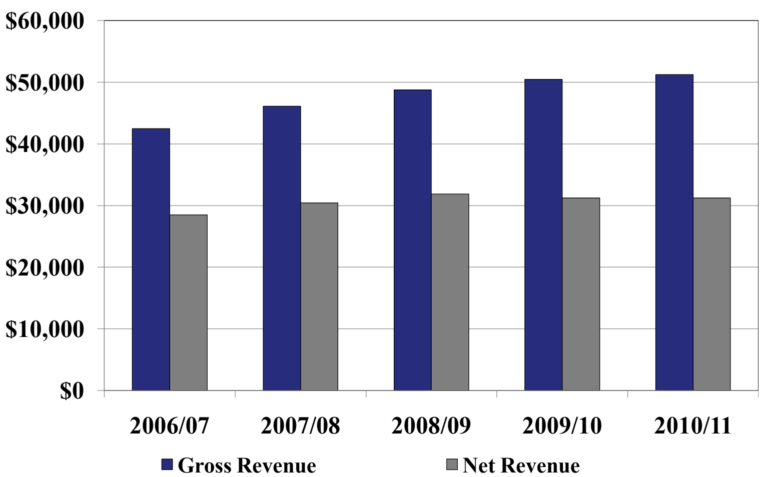
Full-Time Tuition Rate-College



The College has maintained modest tuition increases while addressing the budget challenges associated with increased operating costs and financial aid.

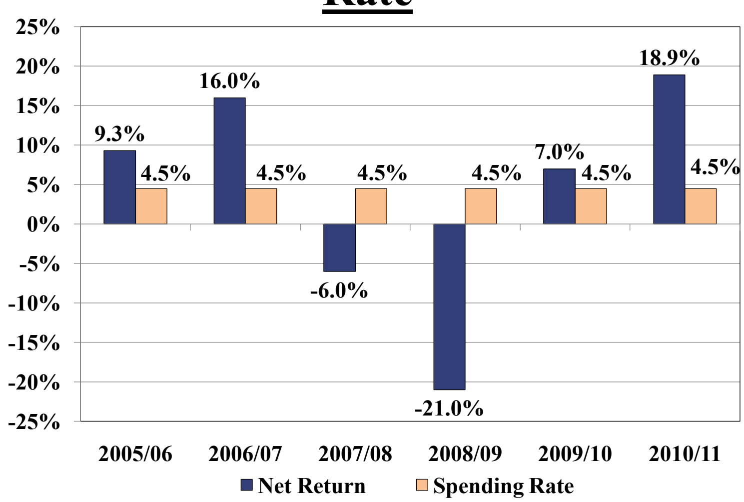
College Tuition Revenue

$Thousands



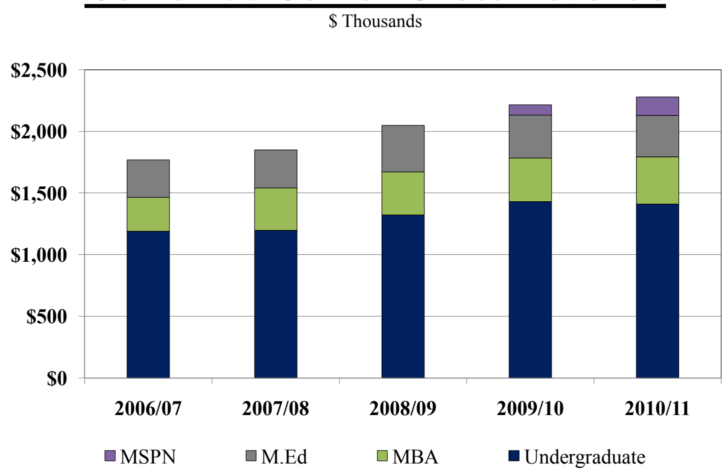
Net tuition revenue remained flat over last year. The increase in the tuition rate was offset by the increased financial need of our students and the slightly lower enrollment.

Net Investment Returns vs. Spending Rate



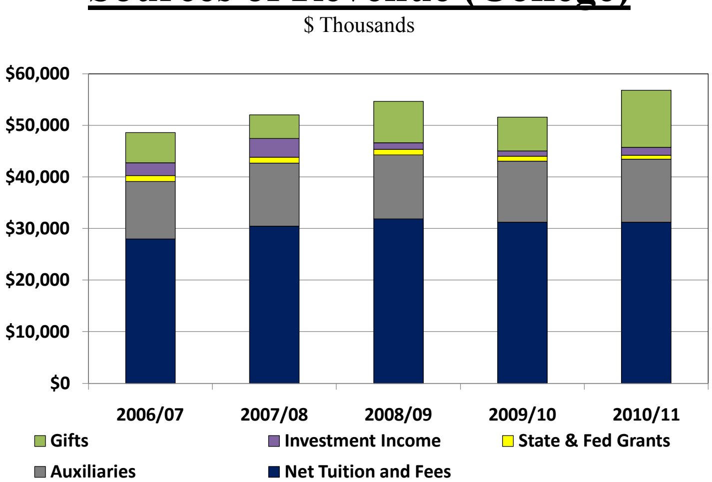
The financial markets rebounded in 2010/2011. The endowment return of 18.9% matched our benchmark as a result of manager changes implemented in the previous year. The College continues to use a conservative spending rate of 4.5% to preserve the endowment for the future.

Comenius Center Gross Revenue



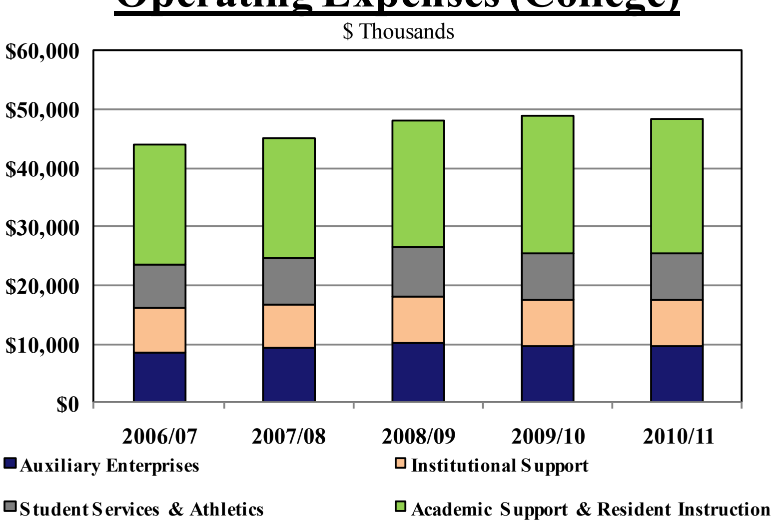
The Comenius Center continues to be an important source of revenue for the College. The new graduate programs in nursing, education and human resource management continue to grow and the undergraduate program has remained stable.

Sources of Revenue (College)



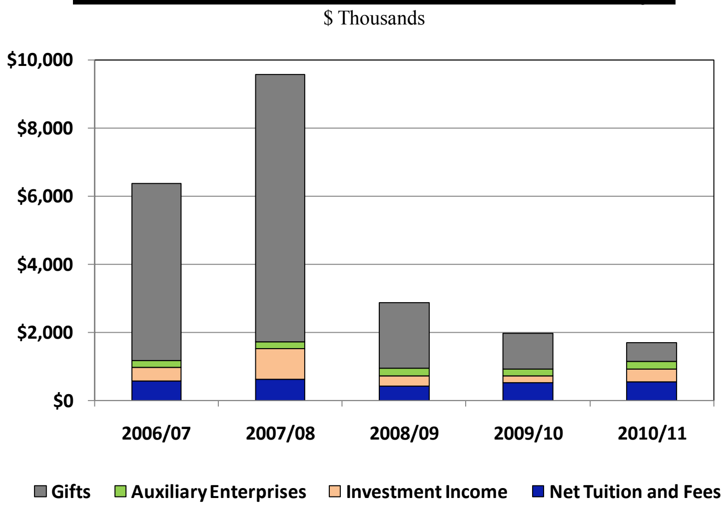
Tuition and related auxiliary enterprise revenues have remained stable. Gift income rose significantly in 2010/2011 as a result of a large estate bequest to the endowment during the year.

Operating Expenses (College)



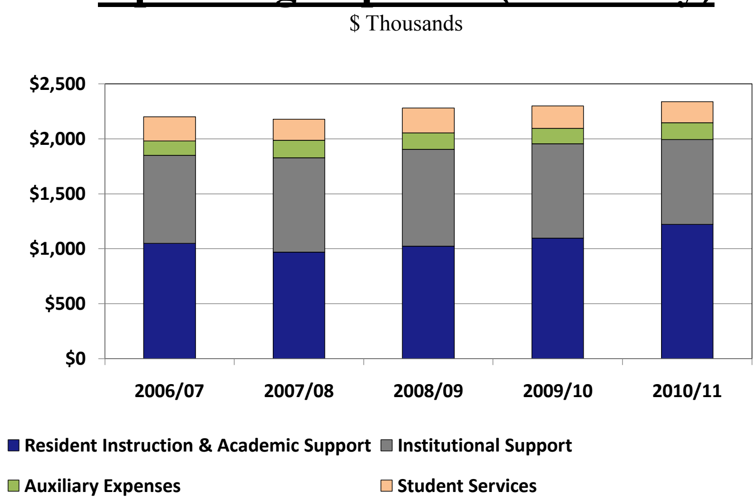
Operating expenses decreased in 2010/2011 as a result of a salary freeze and campus-wide cost containment efforts.

Sources of Revenue (Seminary)



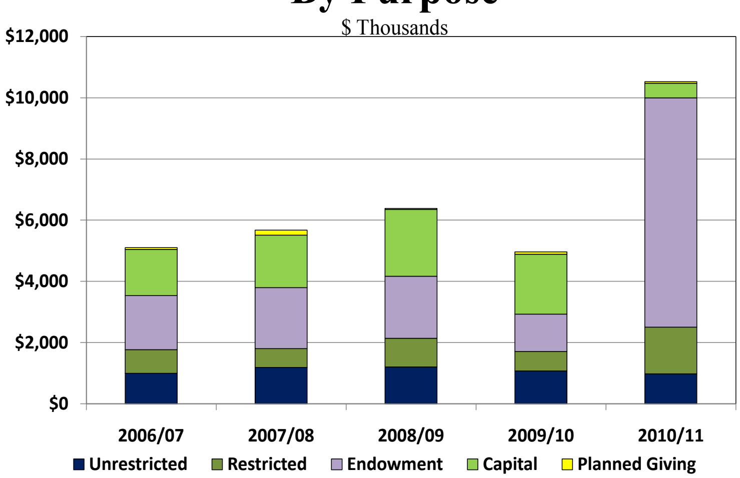
Seminary revenues for 2010/11 were down 14% as a result of a decline in private gifts and grants as the capital campaign came to a close. Net tuition revenue and investment income both increased during the year to help mitigate the decline.

Operating Expenses (Seminary)

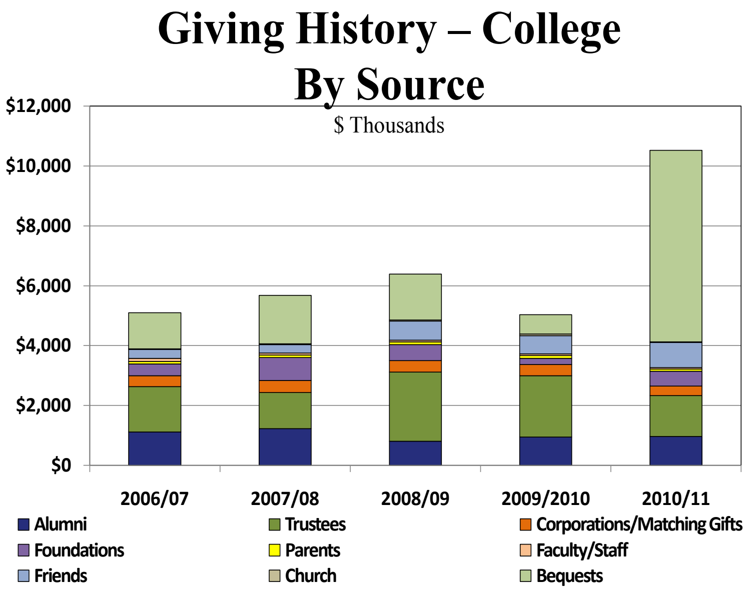


Seminary operating expenses increased by a modest 1.7% reflecting the implementation of several cost saving initiatives.

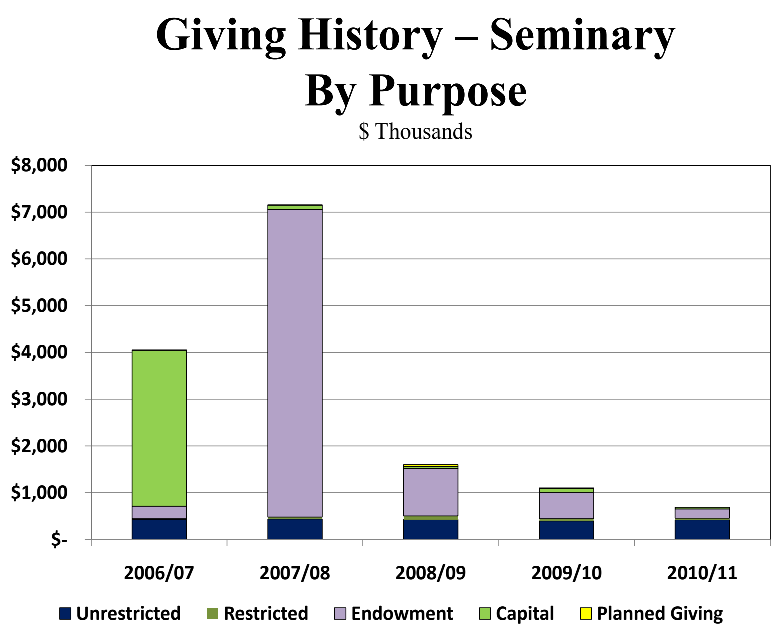
Giving History – College By Purpose



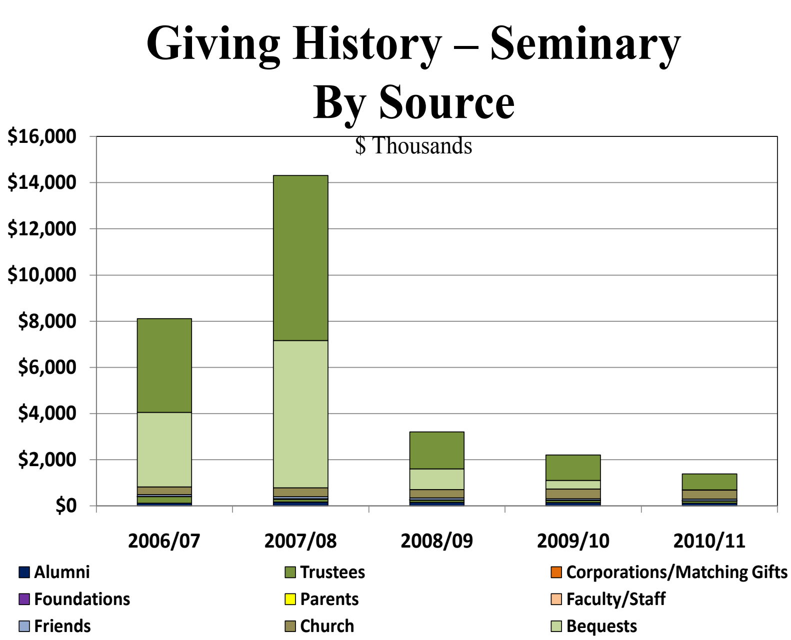
The College endowment received a $5 million bequest from a generous alumnus in 2011. The gift was evenly divided between general endowment and scholarship endowment.



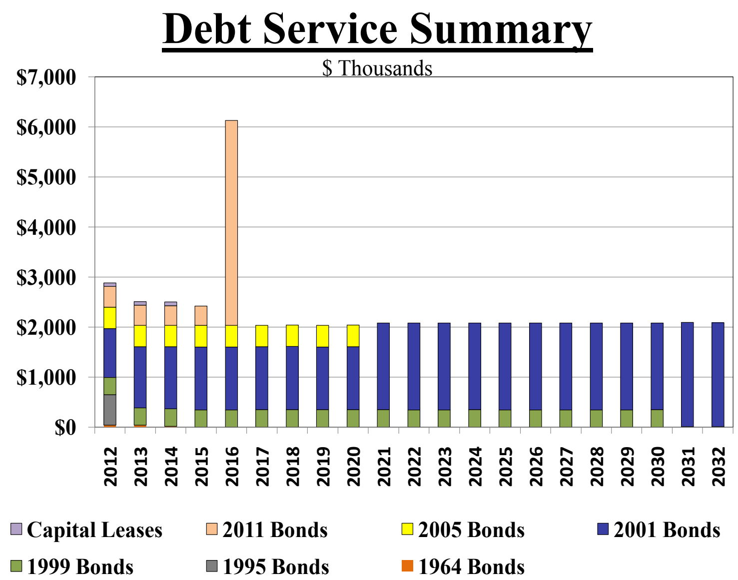
The significant increase in giving is due to a $5 million bequest from an alumnus, one of the largest gifts in the College's history.



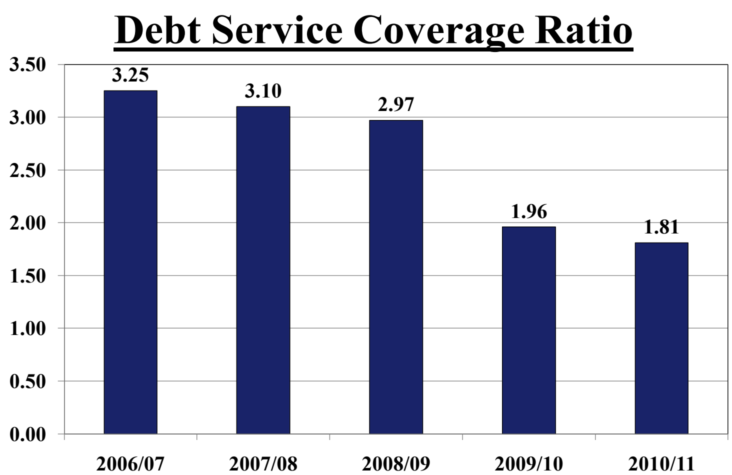
The Seminary completed its five-year campaign – A Mission that Matters – by attaining the goal of $15 million dollars. Funds from the campaign are being used to benefit students through scholarships, endowment of faculty chairs, and major renovations and upgrades to the Bahnson Center.



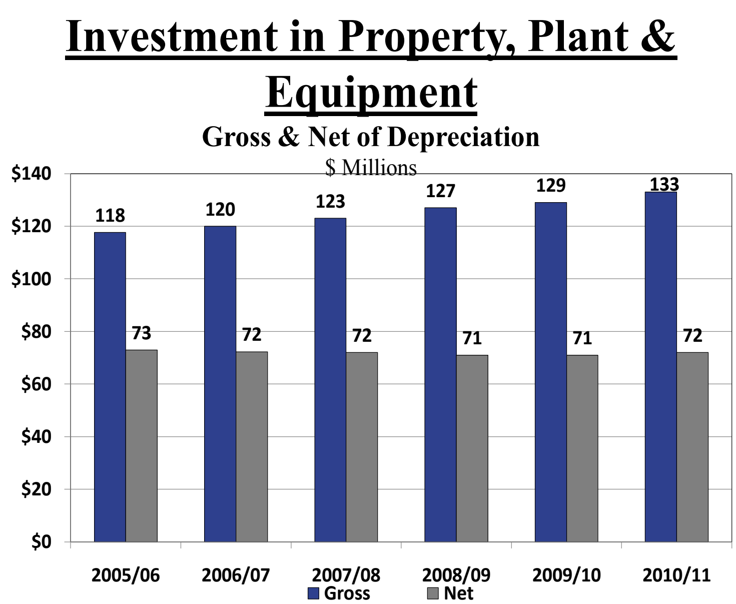
The Seminary received historic, transformational gifts from bequests of friends of the Seminary in 2006/07 and 2007/08. These gifts emphasize the value of planned giving as a critical component of the overall fundraising efforts now and in the foreseeable future.



During the year the College issued bank-qualified debt of $5 million to fund improvements to our dining and residence hall facilities as well as the construction of a new fitness center. The new debt issue has a balloon payment due in 2016. The College's 1995 bond issue was retired in July 2011.

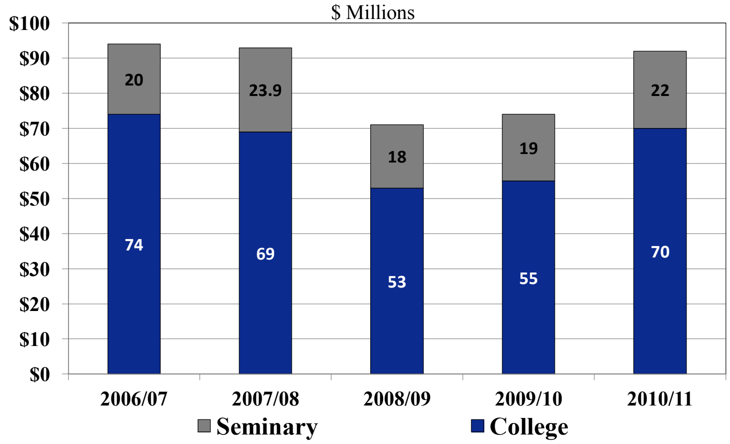


The debt service coverage ratio is a measure of the College net assets available to cover maximum annual debt service. The ratio is calculated in accordance with our bond covenants and is required to be at least 1.0.



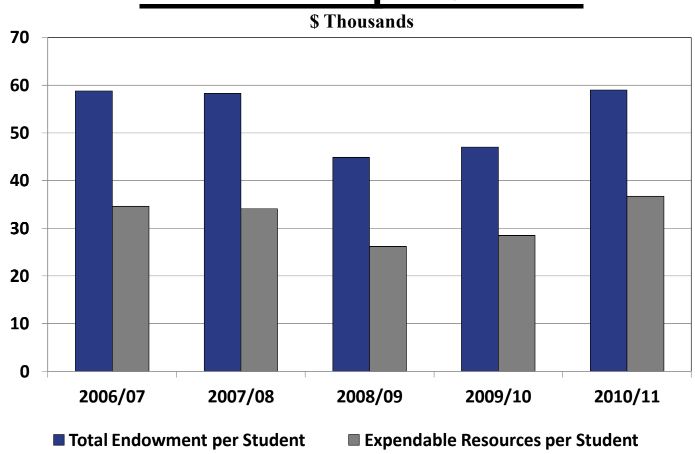
The College and Seminary continue to invest in improvements to campus facilities. Projects completed or underway during the year include major renovations to the Bahnson Center, completion of the new Comenius Center administration building, and several major repair projects. In addition, a generous gift from a donor allowed us to add significantly to our Payne Gallery art collection.

Market Value of Endowment



The endowment benefitted from the addition of $8.4 million in new gifts as well as a healthy investment return of 18.9% for the year.

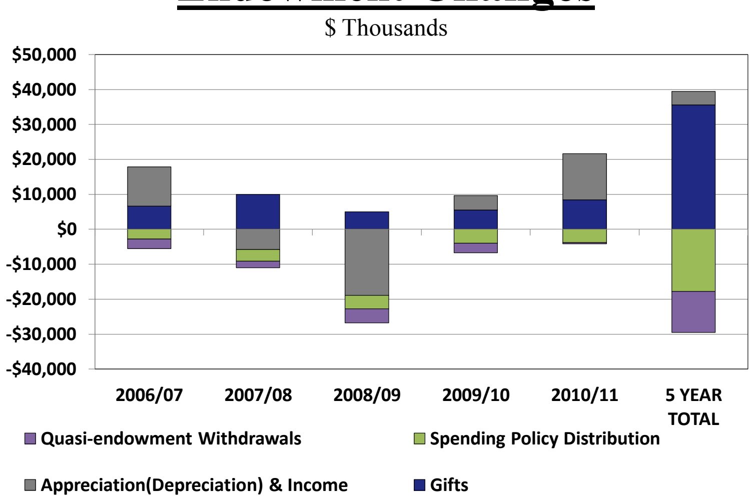
Expendable Resources and Endowment per Student



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

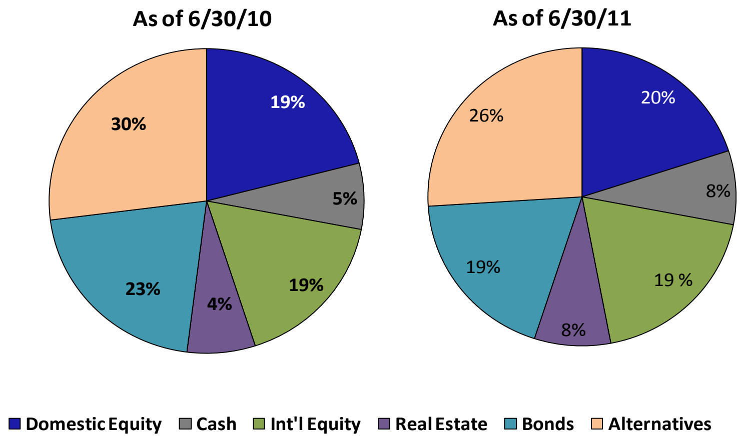
Expendable resources per student (unrestricted and temporarily restricted net assets less net property and equipment less debt) increased significantly from $28,000 to $37,000.

Endowment Changes



Over the past 5 years the endowment has provided $17.8 million in support to the operating budgets of the College and Seminary as well as $11.8 million for capital and other strategic projects. New gifts since 2006/2007 total $36 million.

Endowment Asset Allocation



The endowment portfolio target allocations remained stable at 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). There were no manager changes during the year.

MORAVIAN COLLEGE

Live. Learn. Enjoy.

Moravian College and Theological Seminary completed another successful year despite the challenges of an increasingly competitive environment. Cost containment efforts throughout the campus coupled with the generosity of our donors allowed the institution to end the year with an operating surplus. The College enrollment remained strong with an average 2010/2011 enrollment of 1686 full time equivalent students in the undergraduate and graduate programs, a slight decrease from the previous year. Seminary enrollment remained steady 53 full time equivalent students.

The financial markets recovered significantly during the year. Our total return on investment for the fiscal year, net of fees, was 18.9%. The market value of the endowment at June 30, 2011 was $92 million, up from $74 million in 2010. The College endowment benefitted from a $5 million bequest this spring, the largest single gift in its history. In fiscal year 2010/2011 the endowment provided $2.8 million in support for the College operations and $1.0 million in support for the Seminary operations. Our endowment spending rate has been held at 4.5% for the past seven years and will be the same for 2011/2012.

The Comenius Center for Continuing, Professional and Graduate Studies continued to see steady growth in the new graduate programs launched 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 completion of Benigna Hall, a new administration building to support the expanded graduate programs in the Comenius Center, as well as upgrades to our dining and residence hall facilities, and the construction of a new fitness center attached to the existing Breidegam Field House. Planning continues for a future renovation of the Collier Hall of Science. We continued to address technology strategies and priorities with the creation of the College Technical Advisory Committee and the Technology Sub-Committee of the Board of Trustees.

Statement of Financial Position

Overall net assets increased by over $20.0 million through a combination of positive operating results and significant unrealized investment gains. Each net asset class increased; unrestricted by $3.6 million, temporarily restricted by $7.4 million, and permanently restricted by $9.0 million. Liabilities increased by $4.1 million in 2011 primarily due to the issuance of $5 million in bank qualified debt to fund several recent campus improvement projects. Assets increased by $24.1 million reflecting the increased market value of the investment portfolio.

College Statement of Activities

The statement of activities highlights the transactions that changed net assets during the fiscal year. During the 2010/2011 year, the College operating revenues increased by $5.2 million (9.9%). Tuition, net of financial aid, and the related auxiliary enterprise revenue increased by $.342 million (.8%). A slight decrease in enrollment and increased financial aid were offset by the increased tuition rate.

Private gifts and grants increased from $6.5 million in 2010 to $11.1 million in 2011 due to a record setting year for endowment gifts and bequests. During the year, the investment portfolio allocation remained stable resulting in minimal realized losses and significant unrealized gains of $8.6 million. College expenditures decreased modestly in virtually 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 $2.3 million in 2010/2011. An increase in net assets from non-operating activity of $2.9 million was slightly offset by a decrease in net assets from operating activity of $0.6 million.

Total operating revenues of $1.7 million for 2010/2011 were down $0.3 million as a result of a decline in private gifts and grants as the capital campaign came to a close. Student related revenue and investment income increased by $217,000 (23.3%) while operating expenses increased by only $38,000, less than 1.7% 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 $1.4 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 million in capital projects including the completion of Benigna Hall, landscaping, 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 Bernhard Wilhelm, Payne Gallery, Collier Hall of Science and the Haupert Union Building.

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 $1.1 million of debt, issued debt of $5 million and collected restricted gifts totaling $9.3 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 4.2 million. At June 30, 2011 the institution's cash remained strong at $17 million.

Moravian College

Financial Statements

June 30, 2011

ParenteBeard

CONFIDENCE THROUGH CLARITY

Moravian College

Table of Contents
June 30, 2011 and 2010

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, 2011, and the related statements of activities, activities (College only), 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 2010 financial statements and, in our report dated October 4, 2010, 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, 2011, 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 10, 2011

Moravian College

Statement of Financial Position
(In Thousands)
June 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 17,289	$ 13,128
Accounts receivable, net	684	761
Investment income receivable	231	238
Contributions receivable	1,938	1,599
Prepaids and other	789	841
Inventory	277	297
Deposits with trustee under debt agreement	1,755	1,734
Total current assets	22,963	18,598
Noncurrent Assets		
Contributions receivables, net	2,472	2,551
Note receivable	1,000	1,000
Deposits with trustee under debt agreement	3,716	3,708
Investments	89,712	71,615
Split-Interest agreements	4,838	4,406
Student loans receivable (net of allowance of $222 in 2011; $219 in 2010)	2,130	2,090
Other non-current assets	1,418	582
Deferred financing costs, net	922	912
Land, buildings and equipment, net	71,808	71,444
Total noncurrent assets	178,016	158,308
Total assets	$ 200,979	$ 176,906

See notes to financial statements

Moravian College

Statement of Financial Position
(In Thousands)
June 30, 2011 and 2010

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	$ 1,375	$ 1,085
Accounts payable	590	390
Accrued interest	686	706
Accrued expenses and other liabilities	2,693	2,728
Deferred revenue and deposits	1,425	1,276
Current portion of postretirement benefit obligation	50	40
Total current liabilities	6,819	6,225
Noncurrent Liabilities		
Annuities payable	1,375	1,426
Long-term debt	30,302	26,697
Postretirement benefit obligation	464	458
Refundable federal grants and loan funds	1,142	1,153
Other liabilities	718	754
Total liabilities	40,820	36,713
Net Assets		
Unrestricted:		
College	63,724	61,119
Theological Seminary	12,391	11,415
Total unrestricted	76,115	72,534
Temporarily restricted:		
College	23,723	17,720
Theological Seminary	4,122	2,702
Total temporarily restricted	27,845	20,422
Permanently restricted:		
College	47,065	37,977
Theological Seminary	9,134	9,260
Total permanently restricted	56,199	47,237
Total net assets	160,159	140,193
Total liabilities and net assets	$ 200,979	$ 176,906

See notes to financial statements

Moravian College

Statement of Activities
(In Thousands)
Year Ended June 30, 2011 (with Comparative Totals for the Year Ended June 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $20,305 in 2011; and $19,426 in 2010)	$ 31,766	$ -	$ -	$ 31,766	$ 31,752
Private gifts and grants	2,009	1,559	8,064	11,632	7,582
Investment income	1,678	-	208	1,886	1,236
Sponsored federal government programs and grants	402	-	-	402	532
State grants	396	-	-	396	433
Auxiliary enterprises	12,061	-	-	12,061	11,678
Other sources	343	-	-	343	346
Net assets released from restrictions, satisfaction of program restrictions	3,012	(3,012)	-	-	-
Total operating revenues and other additions	51,667	(1,453)	8,272	58,486	53,559
Operating Expenses					
Resident instruction	20,469	-	-	20,469	20,813
Academics support	3,126	-	-	3,126	3,209
Student services	4,256	-	-	4,256	4,428
Athletics	4,038	-	-	4,038	3,922
Institutional support	7,209	-	-	7,209	7,401
Fund-raising	1,315	-	-	1,315	1,310
Auxiliary enterprises	9,765	-	-	9,765	9,649
Other	80	-	-	80	66
Total operating expenses	50,258	-	-	50,258	50,798
Increase (decrease) from operating activities	1,409	(1,453)	8,272	8,228	2,761
Nonoperating Expenses					
Realized net gain (loss) on investments	(113)	(186)	90	(209)	(7,977)
Unrealized net gain on investments	2,373	8,946	282	11,601	12,262
Loss on the sale of assets	(88)	-	-	(88)	(50)
Change in value of split-interest agreements	-	116	318	434	(860)
Increase from nonoperating activities	2,172	8,876	690	11,738	3,375
Increase in net assets	3,581	7,423	8,962	19,966	6,136
Net Assets, Beginning	72,534	20,422	47,237	140,193	134,057
Net Assets, Ending	$ 76,115	$ 27,845	$ 56,199	$ 160,159	$ 140,193

See notes to financial statements

Moravian College

Statement of Activities (College Only)
(In Thousands)
Year Ended June 30, 2011 (with Comparative Totals for the Year Ended June 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total (Summarized)
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $20,016 in 2011; and $19,144 in 2010)	$ 31,221	$ -	$ -	$ 31,221	$ 31,245
Private gifts and grants	1,566	1,526	7,992	11,084	6,537
Investment income	1,294	-	208	1,502	1,013
Sponsored federal government programs and grants	402	-	-	402	532
State grants	396	-	-	396	433
Auxiliary enterprises	11,846	-	-	11,846	11,480
Other sources	340	-	-	340	344
Net assets released from restrictions, satisfaction of program restrictions	2,656	(2,656)	-	-	-
Total operating revenues and other additions	49,721	(1,130)	8,200	56,791	51,584
Operating Expenses					
Resident instruction	19,412	-	-	19,412	19,887
Academic support	2,961	-	-	2,961	3,037
Student services	4,065	-	-	4,065	4,223
Athletics	4,038	-	-	4,038	3,922
Institutional support	6,591	-	-	6,591	6,707
Fund-raising	1,160	-	-	1,160	1,148
Auxiliary enterprises	9,612	-	-	9,612	9,507
Other	80	-	-	80	66
Total operating expenses	47,919	-	-	47,919	48,497
Increase (decrease) from operating activities	1,802	(1,130)	8,200	8,872	3,087
Nonoperating Expenses					
Realized net gain (loss) on investments	(88)	(153)	90	(151)	(5,655)
Unrealized net gain on investments	979	7,170	493	8,642	8,691
Loss on the sale of assets	(88)	-	-	(88)	(50)
Change in value of split-interest agreements	-	116	305	421	(867)
Increase from nonoperating activities	803	7,133	888	8,824	2,119
Increase in net assets	2,605	6,003	9,088	17,696	5,206
Net Assets, Beginning	61,119	17,720	37,977	116,816	111,610
Net Assets, Ending	$ 63,724	$ 23,723	$ 47,065	$ 134,512	$ 116,816

See notes to financial statements

Moravian College

Statement of Activities (Theological Seminary Only)
(In Thousands)
Year Ended June 30, 2011 (with Comparative Totals for the Year Ended June 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total (Summarized)
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $289 in 2011; and $282 in 2010)	$ 545	$ -	$ -	$ 545	$ 507
Private gifts and grants	443	33	72	548	1,045
Investment income	384	-	-	384	223
Auxiliary enterprises	215	-	-	215	198
Other sources	3	-	-	3	2
Net assets released from restrictions, satisfaction of program restrictions	356	(356)	-	-	-
Total operating revenues and other additions	1,946	(323)	72	1,695	1,975
Operating Expenses					
Resident instruction	1,057	-	-	1,057	926
Academis support	165	-	-	165	172
Student services	191	-	-	191	205
Institutional support	618	-	-	618	694
Fund-raising	155	-	-	155	162
Auxiliary enterprises	153	-	-	153	142
Total operating expenses	2,339	-	-	2,339	2,301
Increase (decrease) from operating activities	(393)	(323)	72	(644)	(326)
Nonoperating Expenses					
Realized net loss on investments	(25)	(33)	-	(58)	(2,322)
Unrealized net gain (loss) on investments	1,394	1,776	(211)	2,959	3,571
Change in value of split-interest agreements	-	-	13	13	7
Increase from nonoperating activities	1,369	1,743	(198)	2,914	1,256
Increase (decrease) in net assets	976	1,420	(126)	2,270	930
Net Assets, Beginning	11,415	2,702	9,260	23,377	22,447
Net Assets, Ending	$ 12,391	$ 4,122	$ 9,134	$ 25,647	$ 23,377

See notes to financial statements

Moravian College

Statement of Cash Flows
(In Thousands)
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Increase in net assets	$ 19,966	$ 6,136
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,653	3,594
Change in value of split-interest agreement and annuities payable	(483)	890
Gifts and grants restricted for long-term investments	(9,574)	(3,513)
Loss on disposal of assets	88	50
Other restricted earnings for long-term investments	(208)	(167)
Net realized and unrealized gains on investments	(11,392)	(4,285)
(Increase) decrease in assets:		
Accounts receivable, net	77	(90)
Investment income receivable	7	(86)
Contributions receivable, net	(13)	341
Prepaids and other	52	(356)
Inventory	20	43
Other non-current assets	(836)	(582)
Increase (decrease) in liabilities:		
Accounts payable and accrued interest payable	(45)	(138)
Accrued expenses and other liabilities	(35)	(14)
Deferred revenue and deposits	149	1
Accumulated postretirement benefit obligation	16	(15)
Other liabilities	(36)	242
Net cash provided by operating activities	1,406	2,051
Cash Flows from Investing Activities		
Purchase of land, building and equipment	(3,821)	(3,984)
Purchase of investments	(8,803)	(24,817)
Proceeds from sale of investments	2,098	25,145
Change in deposits with trustee under debt agreements	(29)	479
Disbursement of student loans	(334)	(332)
Repayments of student loans	294	227
Net cash used in investing activities	(10,595)	(3,282)
Cash Flows from Financing Activities		
Gifts and grants restricted for long-term investments	9,327	1,532
Other restricted earnings for long-term investments	208	167
Repayment of debt	(1,105)	(1,587)
Proceeds from issuance of long-term debt	5,000	319
Payment of financing costs	(69)	-
Net repayment of refundable federal grants and loan funds	(11)	(23)
Net cash provided by financing activities	13,350	408
Net increase (decrease) in cash and cash equivalents	4,161	(823)
Cash and Cash Equivalents, Beginning	13,128	13,951
Cash and Cash Equivalents, Ending	$ 17,289	$ 13,128
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,417	$ 1,471
Supplementary Disclosure of Noncash Investing Activities		
Land, building and equipment purchases in accounts payable	$ 225	$ -

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 1,508 full-time day students, 647 men and 861 women. The College enrolls students that come from a variety of socioeconomic, religious, racial, and ethnic backgrounds.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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, and changes in value of split interest agreements (primarily life income, annuity and trust agreements).

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

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.

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 $59,166 and $57,425 in 2011 and 2010, respectively.

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.

Impairment of Long-Lived Assets

Management of the College reviews long-lived assets (including property and equipment and other assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management considers the undiscounted cash flow expected to be generated by the use of the asset and its eventual disposition to determine when, and if, an impairment has occurred. An impairment loss is recognized to the extent that the carrying value of assets exceeds their fair value. Any write-downs due to impairment are charged to operations at the time impairment is identified. No such write-downs were required during the years ended June 30, 2011 and 2010.

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

The College participates in 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 each year end, the estimated self insurance liability, which includes an estimate of incurred but not reported claims, based on data compiled from historical experience is calculated. At June 30, 2011 and 2010, 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.

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 2010, 2009, and 2008 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.

Advertising

The College expensed advertising costs of approximately $148,000 and $192,000 during the fiscal years ended June 30, 2011 and 2010, 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, 2011 and 2010 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.

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, 2010, from which the summarized information was derived.

Subsequent Events

Subsequent events were evaluated through October 10, 2011, the date the financial statements were issued.

New Accounting Pronouncements

During 2011, the College adopted FASB guidance related to disclosure of the credit quality of financing receivables. This guidance had no effect on the financial statements, but enhanced disclosure with respect to these receivables. Also during 2011, the College adopted FASB guidance related to improving the disclosures of fair value measurements. This guidance had no effect on the financial statements, but enhanced disclosure with respect to these investments.

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):

	2011	2010
Accounts receivable	$ 764	$ 836
Allowance for doubtful accounts	(80)	(75)
	$ 684	$ 761

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, 2011 and 2010 was approximately $1,142,000 and $1,153,000, respectively. The College contributes one-third of the amount contributed by the U.S. Government to the Program.

The prescribed practices for the Programs do not provide for accrual of interest on student loans receivable. Accordingly, interest on loans is recorded as received and is reinvested to support additional loans; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with the Programs' requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

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):

	2011	2010
Due in one year or less	$ 1,938	$ 1,599
Due between one year and five years	2,775	2,869
Contributions receivable, gross	4,713	4,468
Unamortized discount	303	318
Contributions receivable, net	$ 4,410	$ 4,150

The net present value of these cash flows was determined by using discount rates between 1.8% and 7.2% to account for the time value of money.

Management has not established an allowance for doubtful collections at June 30, 2011 and 2010 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, 2011 and 2010 (amounts in thousands):

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Cash and money market accounts	$ 7,222	$ 7,222	$ 3,804	$ 3,804
Domestic equity:				
Common stock	853	1,007	924	920
Large cap mutual funds	13,432	15,457	19,826	12,109
Natural resources mutual fund	3,150	4,392	3,150	2,967
International equity mutual funds	18,389	17,637	11,972	13,763
Domestic fixed income:				
Taxable fixed income mutual funds	8,242	8,375	8,281	8,365
Government bonds	2,122	2,231	2,005	2,130
Corporate bonds and preferred stock	2,807	2,964	1,745	1,891
International fixed income mutual funds	2,680	3,431	2,696	3,162
Alternative investments	28,128	26,996	26,287	22,504
	$ 87,025	$ 89,712	$ 80,690	$ 71,615

	2011	2010
Deposits with trustee under debt agreements:		
Cash and cash equivalents	$ 5,135	$ 4,645
U.S. Government securities	336	797
	$ 5,471	$ 5,442

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):

	2011	2010
Endowment funds	$ 84,285	$ 67,401
Annuity and life income funds	1,848	1,768
Capital campaign funds	2,553	2,446
Other funds	1,026	-
	$ 89,712	$ 71,615

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.

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):

	2011	2010
Land and land improvements	$ 14,708	$ 14,616
Buildings	82,611	81,269
Equipment	22,295	22,090
Library books	8,882	8,708
Collection items	2,899	1,997
Construction in progress	1,273	377
	132,668	129,057
Accumulated depreciation	(60,860)	(57,613)
	$ 71,808	$ 71,444

Depreciation expense was approximately $3,593,000 and $3,537,000 in 2011 and 2010, 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, 2011 and 2010.

10. Long-term Debt

Long-term debt of the College consisted of the following at June 30, 2011 and 2010 (amounts in thousands):

	2011	2010
Dormitory Bonds of 1964:		
Series A - 3-3/8%, due serially in annual amounts through 2013.	$ 40	$ 59
Series B - 3-5/8%, due serially in annual amounts through 2014.	54	71
Dormitory Bonds of 1970 - 3.000%, final payment made in November 2010	-	15

	2011	2010
College Revenue Bonds of 1995 - due serially in annual amounts through 2012, with interest, payable semiannually at 6.250%.	$ 590	$ 1,140
College Revenue Bonds of 1999 - due serially in annual amounts through 2031, with interest, payable semiannually, ranging from 4.600% to 5.125%.	4,220	4,350
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%.	3,205	3,500
Bank Qualified Debt issued by Northampton County Industrial Development Authority due serially in monthly amounts based on a 20 year amortization through 2016 with a balloon payment in 2016. Interest at a fixed rate of 3.25%.	4,979	-
University Lease - 5.5%, due in equal installments through 2014 for equipment and furniture.	168	217
TCF Equipment Finance - 5.0%, due in equal installments through 2014 with a balloon payment in 2014 for a campus vehicle.	36	45
	31,677	27,782
Less current portion	1,375	1,085
Long-term debt	$ 30,302	$ 26,697

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 and the Bank Qualified Debt 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, 2011 are as follows (in thousands):

2012	$ 1,375
2013	1,059
2014	1,094
2015	1,055
2016	4,819
Later years	22,275
	$ 31,677

Interest expense related to long-term debt was approximately $1,456,000 and $1,488,000 in 2011 and 2010, 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 $3,974,000 and $3,792,000 in 2011 and 2010, 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 $1,729,000 and $1,738,000 in 2011 and 2010, respectively.

13. Postretirement Benefits Other Than Pensions

The College provides postretirement benefits other than pensions to its employees. The benefits are limited to retirees between ages 60 and 65. 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 $25,000 in 2011 and $29,000 in 2010. 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):

	2011	2010
Projected benefit obligation, beginning	$ 498	$ 513
Service cost	39	40
Interest cost	29	29
Actuarial gain/loss	(27)	(55)
Benefits paid	(25)	(29)
Projected benefit obligation, ending	$ 514	$ 498

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

	2011	2010
Current portion of postretirement benefit obligation	$ 50	$ 40
Noncurrent portion of postretirement benefit obligation	464	458
Accrued pension liability, net	$ 514	$ 498

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

	2011	2010
Discount rate	6.0 %	6.0 %
Rate of increase in compensation levels	2.5	4.0

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

	2011	2010
Service cost	$ 39	$ 40
Interest cost	29	29
	$ 68	$ 69

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 $50,000.

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

2012	$ 50
2013	61
2014	71
2015	84
2016	83
2017 - 2020	365

14. Net Assets

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

	2011	2010
Net assets related to certain split-interest agreements	$ 3,022	$ 2,705
Assets held in perpetuity	53,177	44,532
	$ 56,199	$ 47,237

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

	2011	2010
Net assets related to certain split-interest agreements	$ 1,630	$ 1,514
Specified purposes	26,215	18,908
	$ 27,845	$ 20,422

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

	2011	2010
Long-term investments	$ 16,120	$ 14,239
Plant facilities	45,602	49,104
Other	14,393	9,191
	$ 76,115	$ 72,534

15. Endowment

The College’s endowment consists of 470 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.

The following schedule represents the endowment net asset composition by type of endowment fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Donor restricted endowment funds	$ -	$ 16,732	$ 51,219	$ 67,951
Board-designated endowment funds	16,120	-	-	16,120
	$ 16,120	$ 16,732	$ 51,219	$ 84,071

The following schedule represents the changes in endowment net assets for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Endowment assets, beginning of year	$ 14,239	$ 9,713	$ 43,253	$ 67,205
Investment income	286	1,082	-	1,368
Realized losses	(44)	(180)	-	(224)
Change in unrealized gains	2,412	8,936	-	11,348
Contributions	23	190	7,966	8,179
Appropriation for spending	(796)	(3,009)	-	(3,805)
Assets, end of year	$ 16,120	$ 16,732	$ 51,219	$ 84,071

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

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

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, 2011 or 2010.

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 2011 and 2010. 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 College 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 College 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, 2011 and 2010 are as follows:

Description	2011	Level 1	Level 2	Level 3
Domestic equity funds	$ 20,856	$ 20,856	$ -	$ -
International equity funds	17,637	17,637	-	-
Domestic fixed income funds	13,570	13,570	-	-
International fixed income funds	3,431	-	3,431	-
Alternative investments	26,996	-	-	26,996
Total investments	82,490	52,063	3,431	26,996
Beneficial interest in perpetual trusts	2,007	-	-	2,007
Split interest agreements	2,831	-	-	2,831
	$ 87,328	$ 52,063	$ 3,431	$ 31,834

Description	2010	Level 1	Level 2	Level 3
Domestic equity funds	$ 15,996	$ 15,996	$ -	$ -
International equity funds	13,763	13,763	-	-
Domestic fixed income funds	12,386	12,386	-	-
International fixed income funds	3,162	-	3,162	-
Alternative investments	22,504	-	-	22,504
Total investments	67,811	42,145	3,162	22,504
Beneficial interest in perpetual trusts	1,754	-	-	1,754
Split interest agreements	2,652	-	-	2,652
	$ 72,217	$ 42,145	$ 3,162	$ 26,910

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2011 and 2010 are as follows:

	Alternative Investments	Beneficial Interest in Perpetual Trusts	Split-Interest Agreements	Level 3 Total
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
Unrealized gains (losses)	3,652	240	179	4,071
Purchases	2,090	-	-	2,090
Proceeds from sales	(1,021)	-	-	(1,021)
Realized gains (losses)	(229)	-	-	(229)
Balance at June 30, 2011	$ 26,996	$ 1,994	$ 2,831	$ 31,821

The following methods and assumptions were used to estimate fair values of the College's financial instruments as of June 30, 2011 and 2010:

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 1.8% 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, 2011 and 2010 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):

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 17,289	$ 17,289	$ 13,128	$ 13,128
Accounts receivable, net	684	684	761	761
Investment income receivable	231	231	238	238
Deposits with trustee under debt agreements	5,471	5,471	5,442	5,442
Contributions receivable, net	4,410	4,410	4,150	4,150
Notes receivable	1,000	1,000	1,000	1,000
Investments	89,712	89,712	71,615	71,615
Split-interest agreements	4,838	4,838	4,406	4,406
Student loans receivable	2,130	-	2,090	-
Liabilities				
Accounts payable	590	590	390	390
Long-term debt	31,677	31,566	27,782	28,620
Annuities payable	1,375	1,375	1,426	1,426
Refundable federal grants and loan funds	1,142	-	1,153	-

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	$ 15,196	$ -	Various	35 - 65 days
Private Equity Funds	9,133	5,357	Illiquid	
Real Asset Funds	2,667	1,268	Illiquid	
	$ 26,996	$ 6,625		

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 several ongoing projects on campus, the College has commitments to several vendors totaling approximately $3,925,000 as of June 30, 2011. The College is using debt financing and operating cash flow to fund these projects.

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. 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, 2011, consolidation of MCHI with the College is not required.