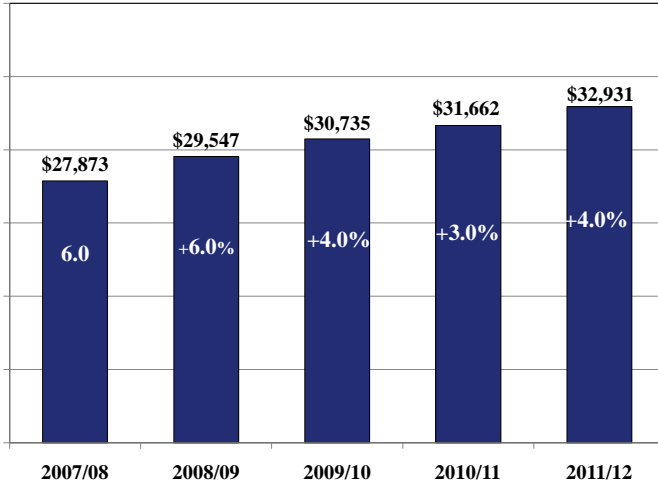


To address the increasingly competitive environment of college admissions recruiting, the College has implemented a new marketing campaign, improved facilities, and a revamped campus visit program are now in place.

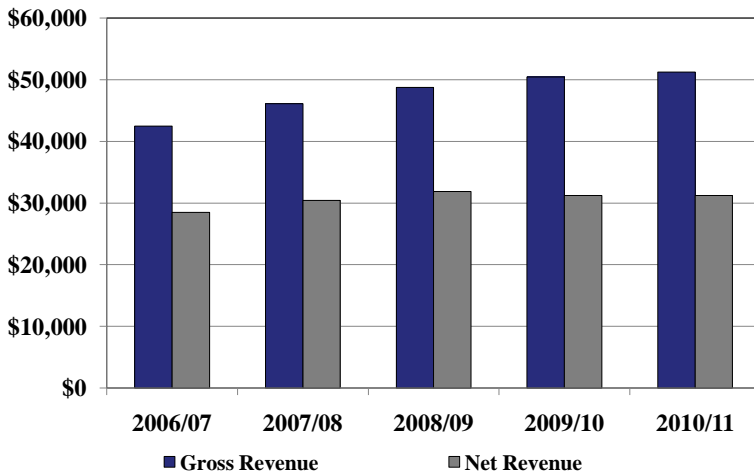
A new Retention Committee has implemented

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

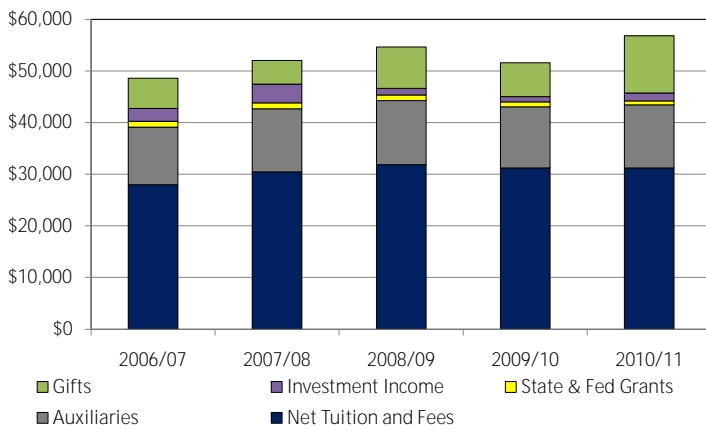


Net tuition revenue remained 8.4% of total revenue in 2010/11.

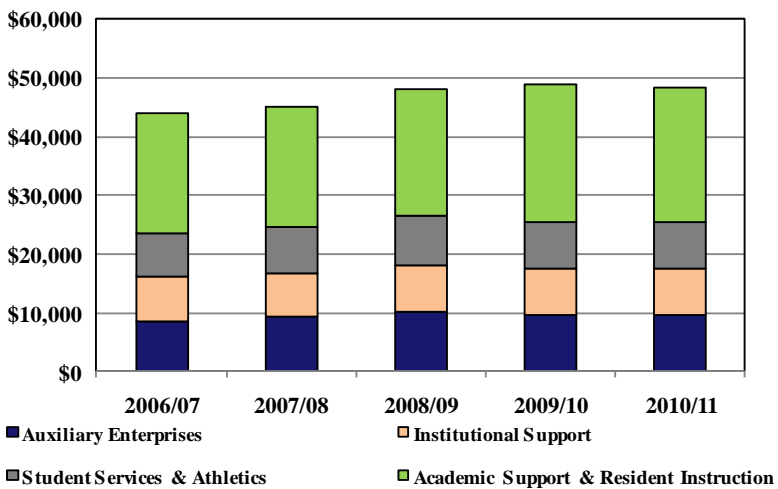
The financial markets rebounded in 2010/2011. The endowment return of 18.9% matched our benchmark as a result of manager changes implemented in the previous year. The College continues to use a conservative spending rate of 4.5% to preserve the endowment for the future.

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 3icongrams

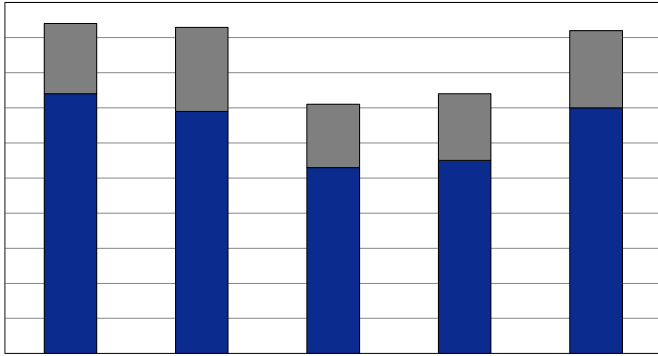
Sources of Revenue (College)



Operating Expenses (College)



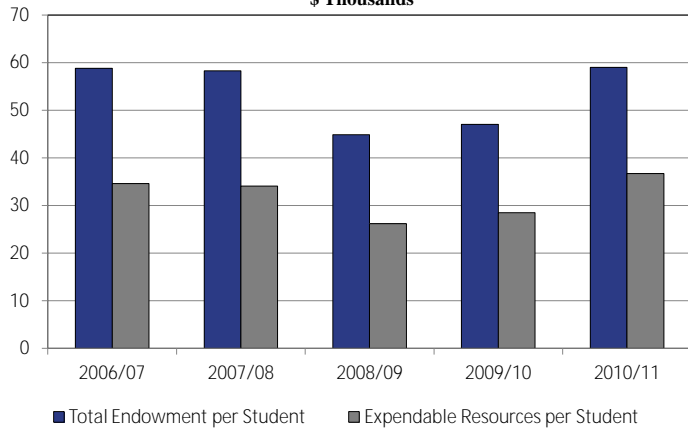
Market Value of Endowment



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

\$ Thousands

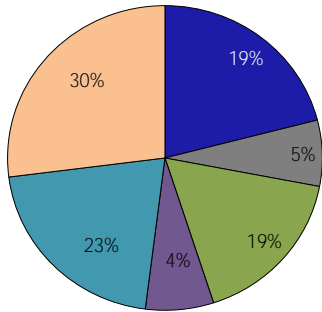


Endowment per student rose as a function of the higher endowment market value and a slightly lower number of students.

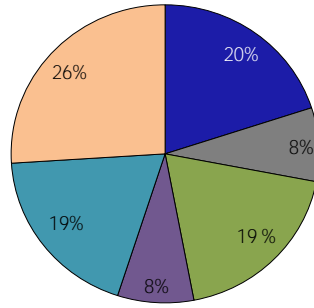
Expendable resources per student

Endowment Asset Allocation

As of 6/30/10



As of 6/30/11



■ Domestic Equity ■ Cash ■ Int'l Equity ■ Real Estate ■ Bonds ■ Alternatives

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.

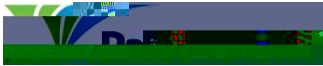
Private gifts and grants increased from \$6.5 million in 2010 to \$11.1 million in 2011 due to a record setting year for endowment gifts and bequests. During the year, the investment portfolio allocation remained stable resulting in minimal realized losses and significant unrealized gains of \$8.6 million. College expenditures decreased modestly in virtually all functional categories as a result of planned cost

Moravian College

Financial Statements

June 30, 2011





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

	<u>2011</u>	<u>2010</u>
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
Prepays and other	789	841
Inventory	277	297
Deposits with trustee under debt agreement	<u>1,755</u>	<u>1,734</u>
Total current assets	<u>22,963</u>	<u>18,598</u>
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		

Moravian College

Statement of Financial Position

(In Thousands)

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
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
	<u>6,819</u>	<u>6,225</u>
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
	<u>40,820</u>	<u>36,713</u>
Net Assets		
Unrestricted:		
College	63,724	61,119
Theological Seminary	12,391	11,415
	<u>76,115</u>	<u>72,534</u>
Temporarily restricted:		
College	23,723	17,720
Theological Seminary	4,122	2,702
	<u>27,845</u>	<u>20,422</u>
Permanently restricted:		
College	47,065	37,977
Theological Seminary	9,134	9,260
	<u>56,199</u>	<u>47,237</u>
Total net assets	<u>160,159</u>	<u>140,193</u>
Total liabilities and net assets	<u>\$ 200,979</u>	<u>\$ 176,906</u>

See notes to financial statements

(In Thousands)

	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 serv2-()-3 0 7604 8052 44,252 Tm(3,126)Tj38516 0 TD[]-444()-104331(-)J83516 0 TD[]-718()-81831(-)J83516					

Moravian College

Statement of Activities (College Only)

(In Thousands)

Year Ended June 30, 2011 (with Comparative Totals for the Year Ended June 30, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total (Summarized)</u>
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)	-	-	-
	<u>49,721</u>	<u>(1,130)</u>	<u>8,200</u>	<u>56,791</u>	<u>51,584</u>
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
	<u>47,919</u>	<u>-</u>	<u>-</u>	<u>47,919</u>	<u>48,497</u>
Total operating expenses					
Increase (decrease) from operating activities	<u>1,802</u>	<u>(1,130)</u>	<u>8,200</u>	<u>8,872</u>	<u>3,087</u>
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)
	<u>803</u>	<u>7,133</u>	<u>888</u>	<u>8,824</u>	<u>2,119</u>
Increase from nonoperating activities					
Increase in net assets	2,605	6,003	9,088	17,696	5,206
Net Assets, Beginning	<u>61,119</u>	<u>17,720</u>	<u>37,977</u>	<u>116,816</u>	<u>111,610</u>
Net Assets, Ending	<u>\$ 63,724</u>	<u>\$ 23,723</u>	<u>\$ 47,065</u>	<u>\$ 134,512</u>	<u>\$ 116,816</u>

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)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total (Summarized)</u>
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	<u>1,946</u>	<u>(323)</u>	<u>72</u>	<u>1,695</u>	<u>1,975</u>
Operating Expenses					
Resident instruction	1,057	-	-	1,057	926
Academics 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	<u>2,339</u>	<u>-</u>	<u>-</u>	<u>2,339</u>	<u>2,301</u>
Increase (decrease) from operating activities	<u>(393)</u>	<u>(323)</u>	<u>72</u>	<u>(644)</u>	<u>(326)</u>
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	<u>1,369</u>	<u>1,743</u>	<u>(198)</u>	<u>2,914</u>	<u>1,256</u>
Increase (decrease) in net assets	976	1,420	(126)	2,270	930
Net Assets, Beginning	<u>11,415</u>	<u>2,702</u>	<u>9,260</u>	<u>23,377</u>	<u>22,447</u>
Net Assets, Ending	<u>\$ 12,391</u>	<u>\$ 4,122</u>	<u>\$ 9,134</u>	<u>\$ 25,647</u>	<u>\$ 23,377</u>

See notes to financial statements

(In Thousands)

	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
Prepays 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	\$ -

Moravian College

Notes to Financial Statements
June 30, 2011 and 2010

1. Nature of Operations

Moravian College

Notes to Financial Statements
June 30, 2011 and 2010

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.

Moravian College

Notes to Financial Statements

June 30, 2011 and 2010

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

Moravian College

Notes to Financial Statements

June 30, 2011 and 2010

Moravian College

Notes to Financial Statements

June 30, 2011 and 2010

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.

Moravian College

Notes to Financial Statements
June 30, 2011 and 2010

New Accounting Pronouncements

During 2011, the College adopted FASB guidance rela

Moravian College

Notes to Financial Statements
June 30, 2011 and 2010

5. Contributions Receivable

Contributions received, including unconditional promises, are recognized as revenue when the

Moravian College

Notes to Financial Statements
June 30, 2011 and 2010

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

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):

	<u>2011</u>	<u>2010</u>
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	-
	<u>\$ 89,712</u>	<u>\$ 71,615</u>

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

Moravian College

Notes to Financial Statements

June 30, 2011 and 2010

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):

	<u>2011</u>	<u>2010</u>
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
	<u>132,668</u>	<u>129,057</u>

Moravian College

Notes to Financial Statements
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
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
	<u>31,677</u>	<u>27,782</u>
Less current portion	<u>1,375</u>	<u>1,085</u>
Long-term debt	<u>\$ 30,302</u>	<u>\$ 26,697</u>

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

Moravian College

Notes to Financial Statements

June 30, 2011 and 2010

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		<u>22,275</u>
	\$	31,677

Moravian College

Notes to Financial Statements

June 30, 2011 and 2010

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

Moravian College

Notes to Financial Statements

June 30, 2011 and 2010

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):

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

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

Moravian College

Notes to Financial Statements
June 30, 2011 and 2010

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:

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

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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

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
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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

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June 30, 2011 and 2010

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

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.