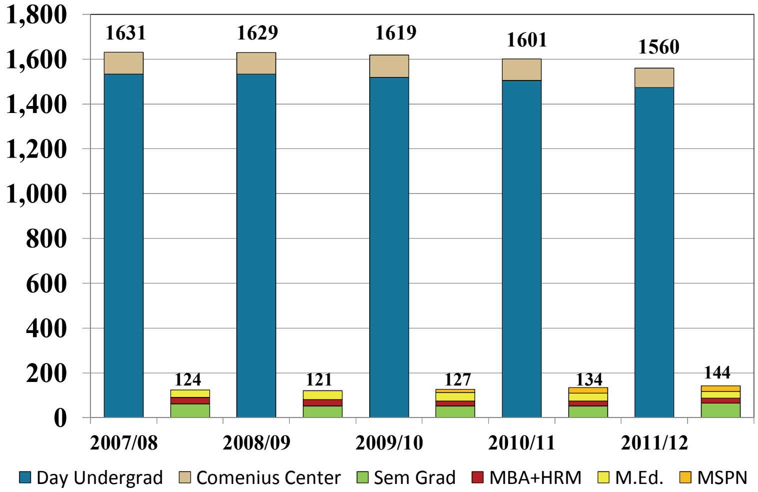
MORAVIAN COLLEGE

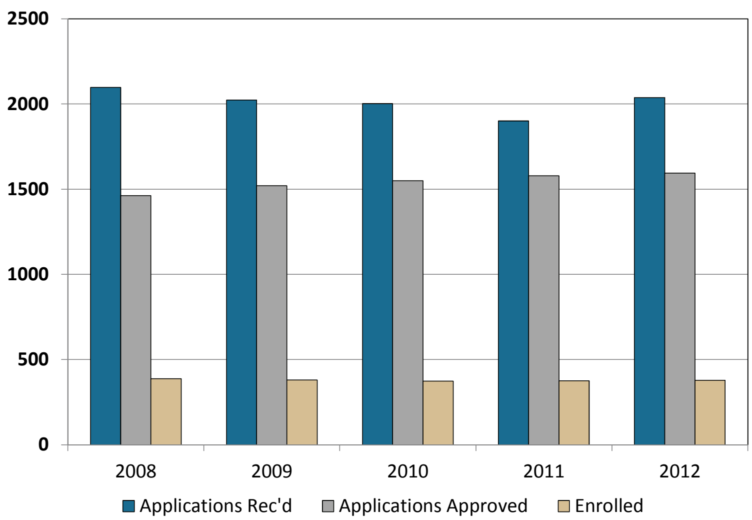
Financial Report
2011-12

Full Time Equivalent Students



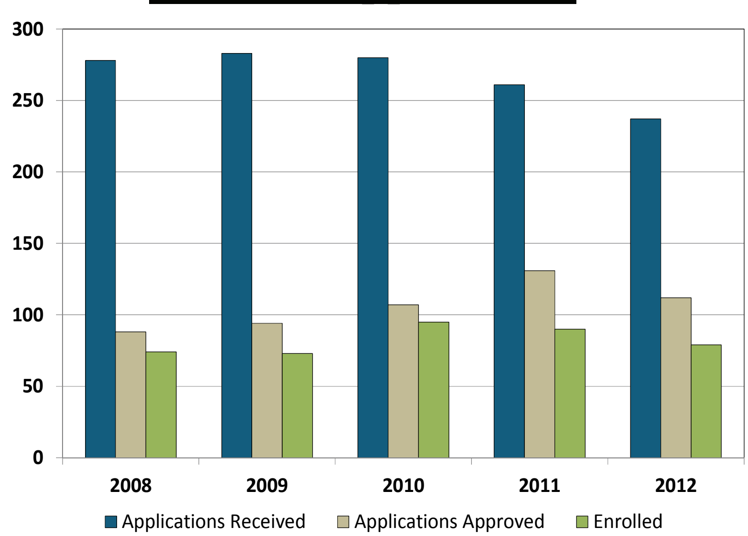
The College full-time day student enrollment decreased from 2011 to 2012 reflecting the challenging student recruitment and retention environment. The college has revamped its campus visit program and invested in an improved marketing program.

Freshmen Applications



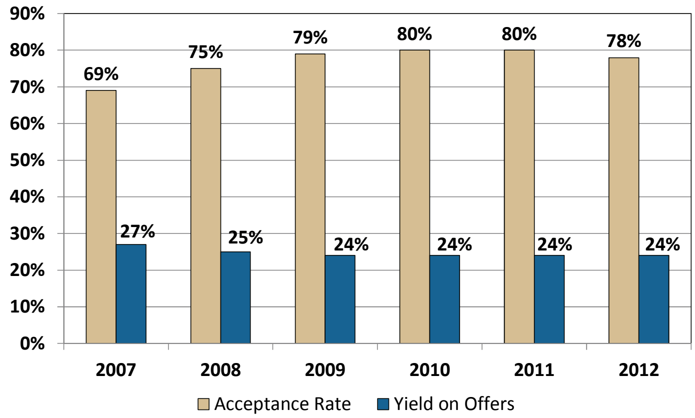
The College reversed the downward trend on applications received and enrolled a slightly larger class than in 2011. The improved campus visit program and new marketing campaign have had some initial impact; more should be realized for the Fall 2013 incoming class.

Transfer Applications



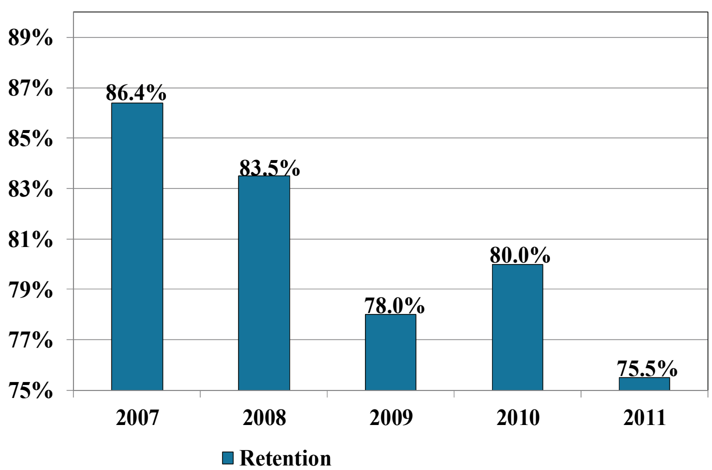
Local competitors launched aggressive recruitment campaigns to attract community college transfer students which negatively impacted the College's transfer enrollment. Appropriate staff is in place and we have a transfer recruitment plan designed to return us to 90 enrolling transfer students in Fall 2013.

Acceptance Rate & Yield on Offers



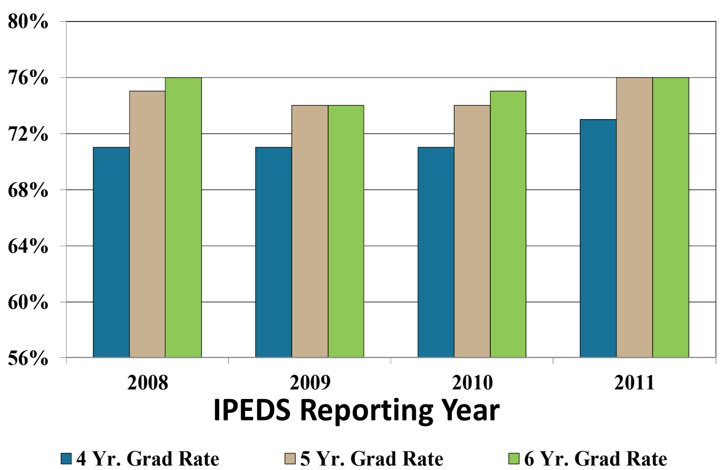
The College has maintained its academic selectivity and the basic yield on offers of admission in a very competitive environment. New initiatives begun in 2011/12 (marketing campaign and improved campus visit program), and changes in the recruitment process in summer 2012 (simplified application process and more responsive admission decisions) should have an impact for the Fall 2013 recruitment cycle.

Freshmen to Sophomore Retention Rates



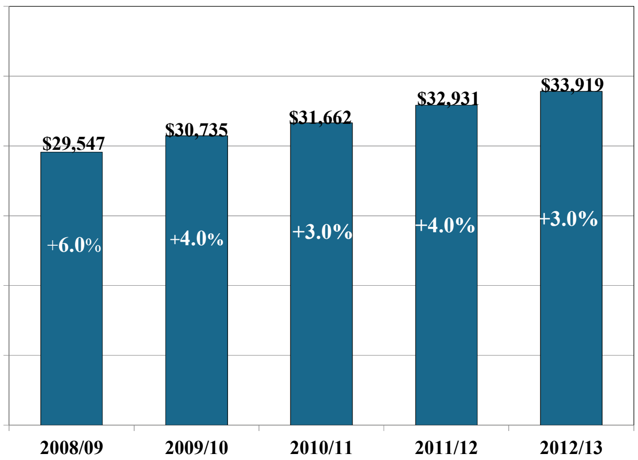
Retention of students has increasingly become an area of focus for trustees, faculty and staff. Members of the Retention Committee report attrition profile data to the trustees and the faculty on a regular basis. In the coming year, the Retention Committee will be studying best practices in retention and will develop a comprehensive retention plan that incorporates those practices which best suit Moravian College's students.

Graduation Rates



The College's graduation rate has improved and continues to compare favorably to other private liberal arts institutions.

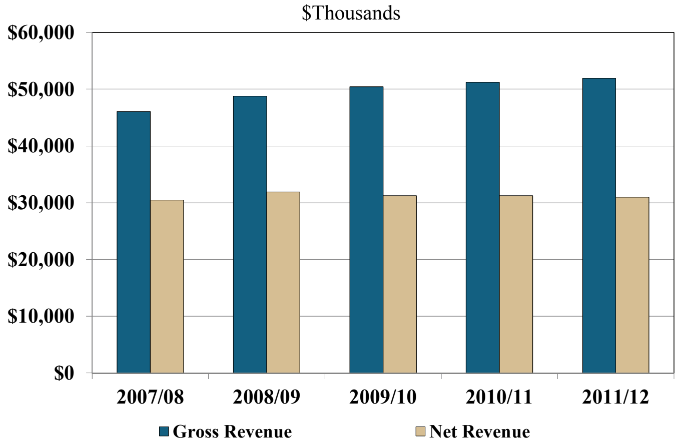
Full-Time Tuition Rate-College



In recognition of difficult economic times the College has worked to minimize tuition increases. The current year increase of 3% is one of the lowest among our competitor institutions.

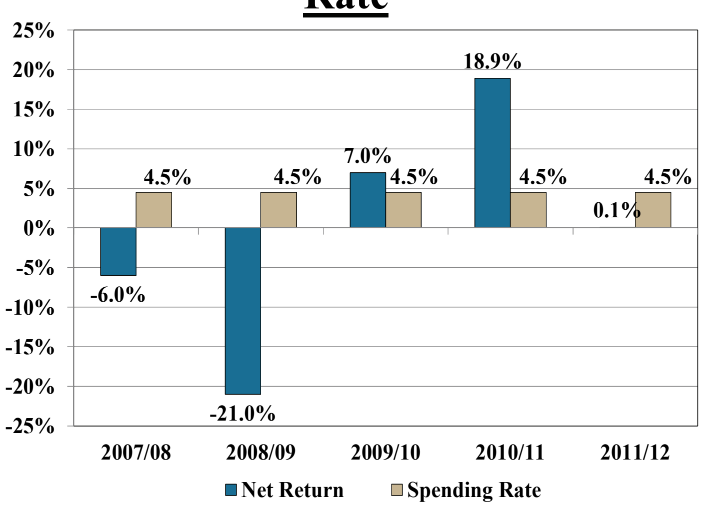
College Tuition Revenue

$Thousands



College tuition revenue has remained flat due to slightly lower enrollments coupled with a modest tuition rate increase and a rising need for financial aid by our students.

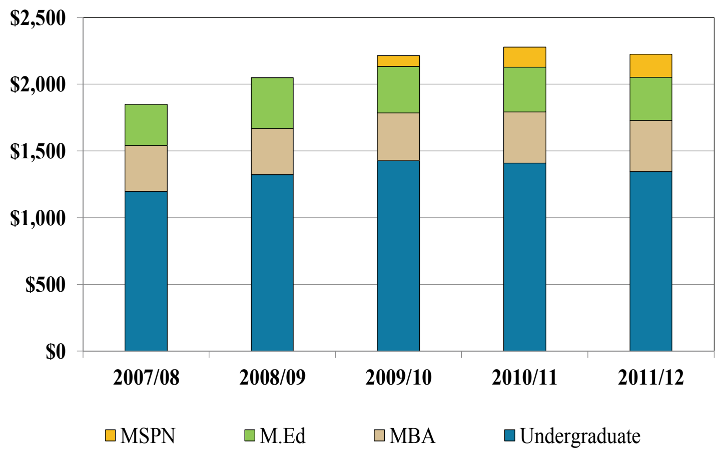
Net Investment Returns vs. Spending Rate



Net investment returns for the endowment were flat for the year, but above the custom benchmark which returned –.4%. In order to preserve the long term value of the endowment, the spending rate has been kept at 4.5% for the past 8 years.

Comenius Center Gross Revenue

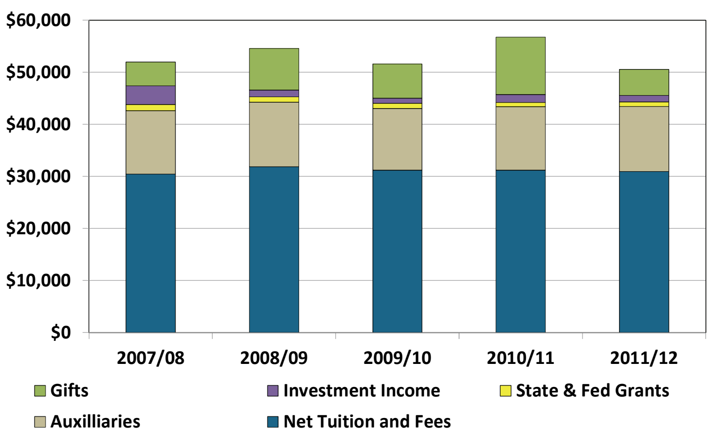
$ Thousands



The Comenius Center revenue for the undergraduate program dipped slightly. New majors and certificate programs are being developed. The graduate program enrollments have remained steady.

Sources of Revenue (College)

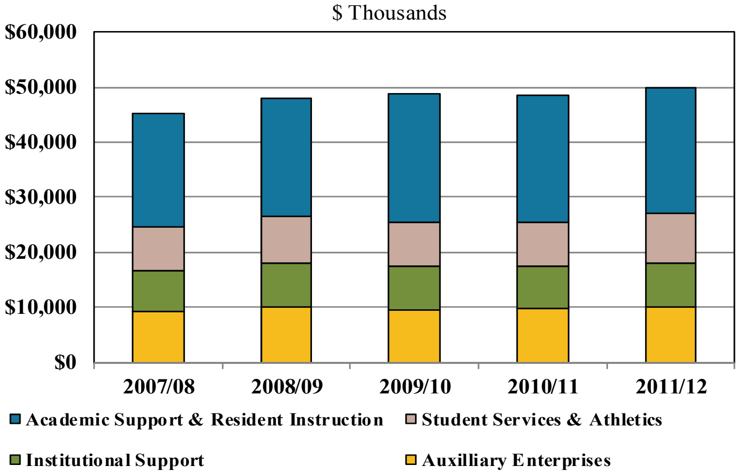
$ Thousands



The College remains a tuition dependent school with 85% of its revenue coming from student related sources in 2011/2012. The large jump in gift revenue in 2010/2011 was the result of a large estate gift to the endowment.

Operating Expenses (College)

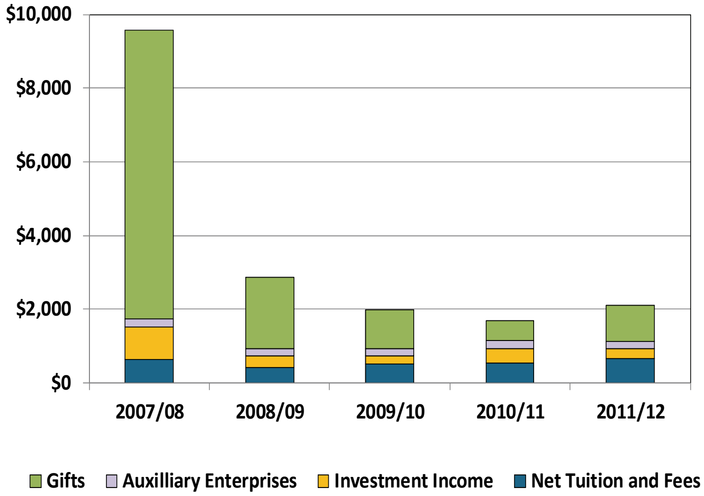
$ Thousands



College operating expenses increased by 3.9%. A modest salary increase was given for the first time since 2008/2009. The administration continues to work to maintain a balanced budget.

Sources of Revenue (Seminary)

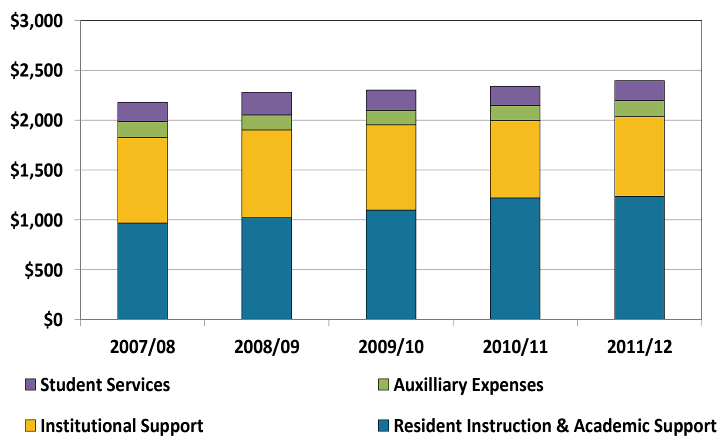
$ Thousands



Seminary revenues were up 24% from the prior year, 2010/2011. This was driven by an increase in gifts and grants and net tuition due to growth in seminary enrollment for 2011/2012.

Operating Expenses (Seminary)

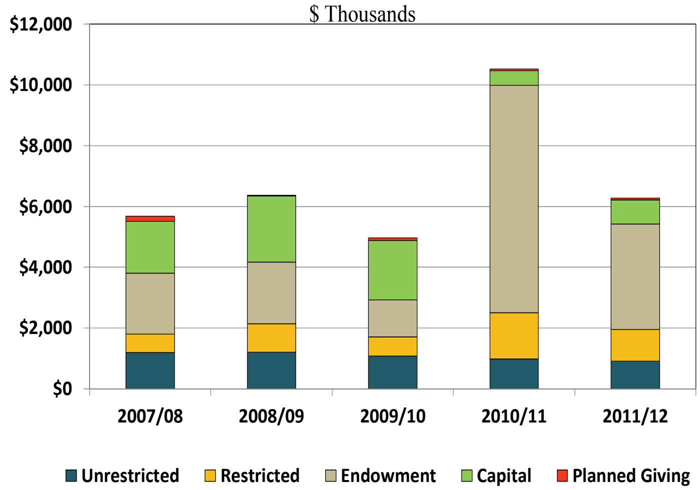
$ Thousands



Operating expenses for the seminary increased close to 2.7% year over year. This was due to increased employee benefits costs during the year, as well as increased College cost allocations for support due to the higher seminary enrollment.

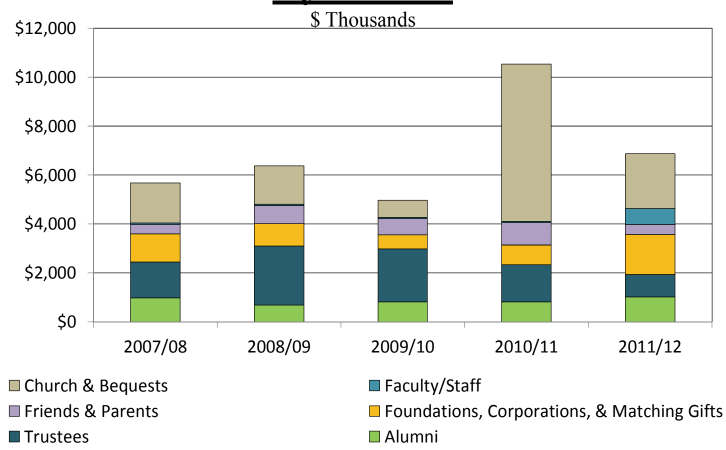
Giving History – College By Purpose

$ Thousands



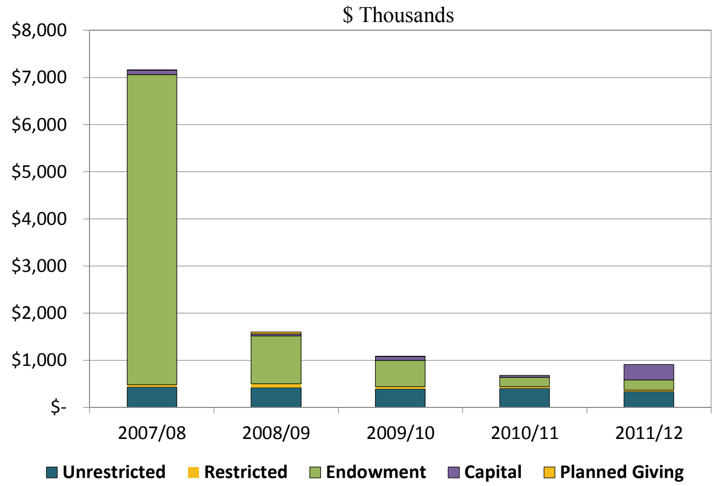
The College is currently engaged in the *Campaign for Moravian* with a goal of $45 million. The goals of the campaign fall into three categories: (1) capital projects, which are needed to ensure that the College's facilities are well maintained, as well as meeting the needs of education in the 21st Century; (2) endowments, which help to ensure the long term viability of the College; and (3) annual giving, which helps to meet the operating costs of the college in a given year.

Giving History – College By Source



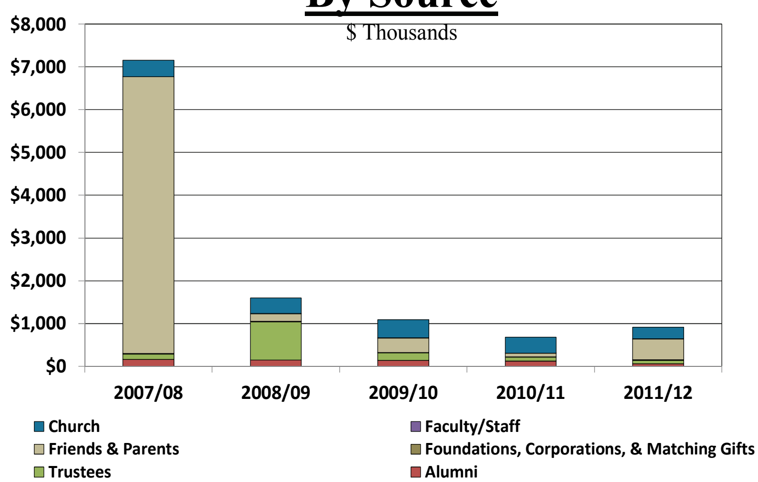
In the past two years, the College has been the beneficiary of several substantial bequests, the majority of which have helped to build the endowment. In 2010/2011 the College received a bequest of $5.3 million, the largest in its history.

Giving History – Seminary By Purpose



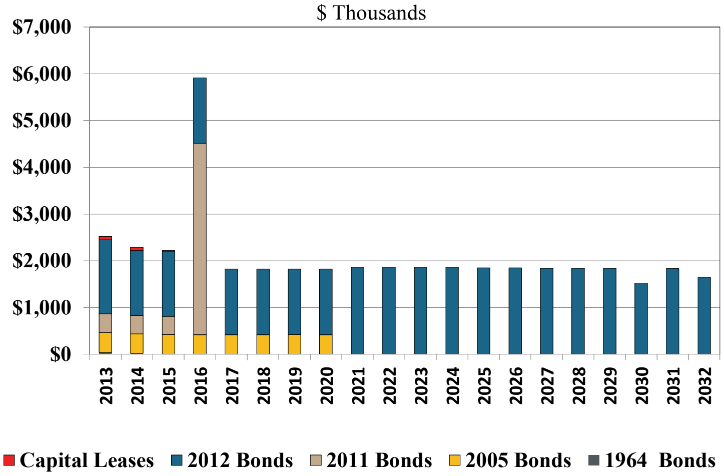
Nearly a quarter of the giving to the Seminary was directed to the Seminary's general endowment while the remainder of the gifts were used to support student scholarships, the operating budget, and strategic initiatives as specified in the Seminary's strategic plan.

Giving History – Seminary By Source



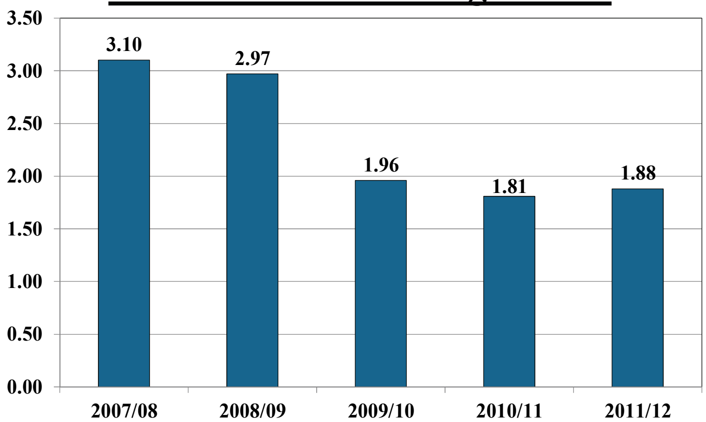
Total giving to the Seminary was higher in 2011/12 than the previous year as a result of a substantial bequest. This once again illustrates the importance of planned giving in all components of the Seminary's fundraising effort.

Debt Service Summary



During the year, the College took advantage of historic low rates to refinance the 1999 & 2001 bonds. The debt service spike in 2016 reflects a $4 million balloon payment in the 2011 issue.

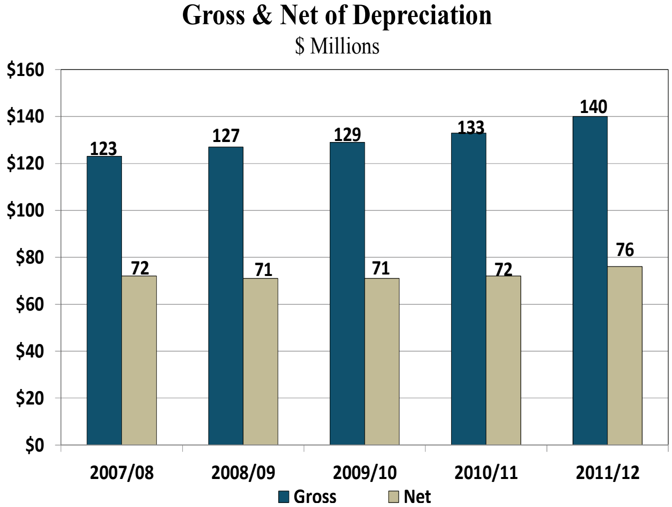
Debt Service Coverage Ratio



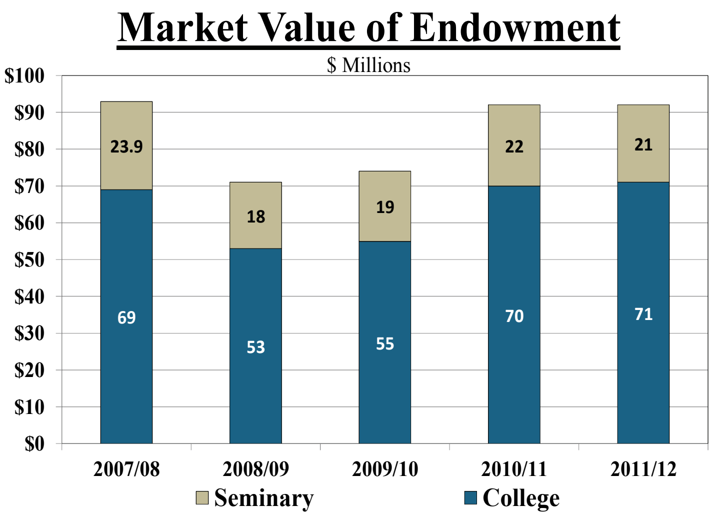
The debt service coverage ratio is a measure of the College net assets available to cover maximum annual debt service. The ratio is calculated in accordance with our bond covenants and is required to be at least 1.0.

Investment in Property, Plant & Equipment

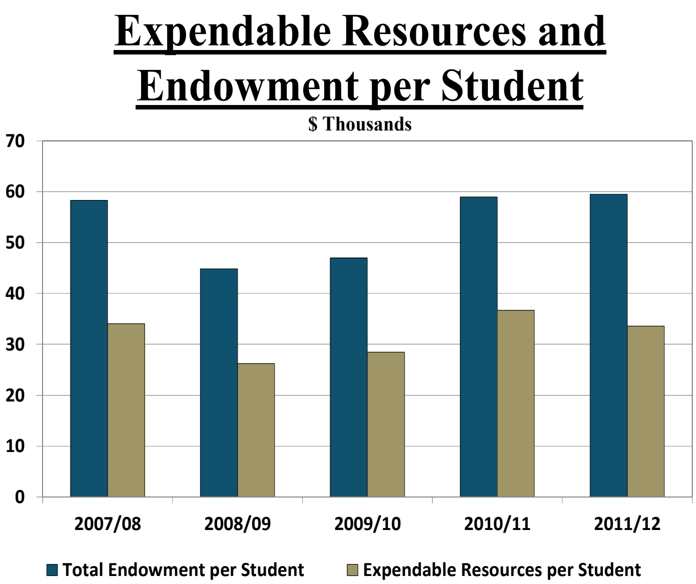
Gross & Net of Depreciation



The College and Seminary continue to make major investments in facilities. In 2011/2012 the new fitness center was completed along with renovations of the student center and updates to the older residence halls.

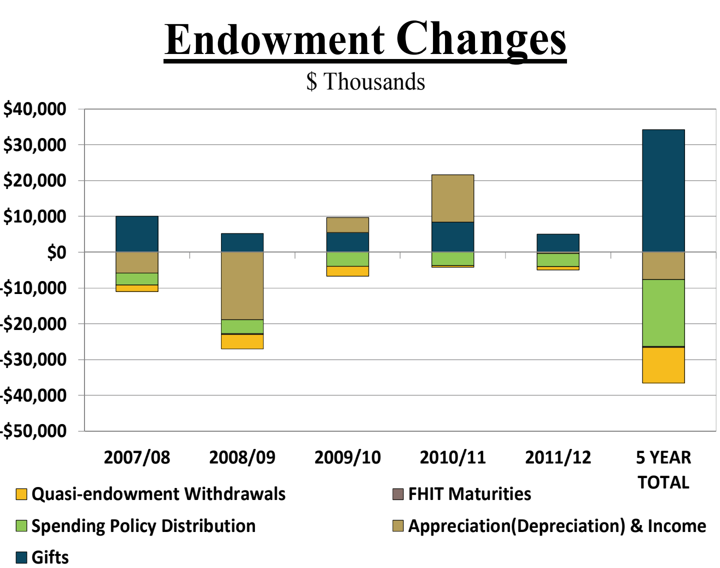


The endowment market value remains flat at $92 million. New gifts of $3.9 million were offset by the spending policy withdrawal and flat investment returns.



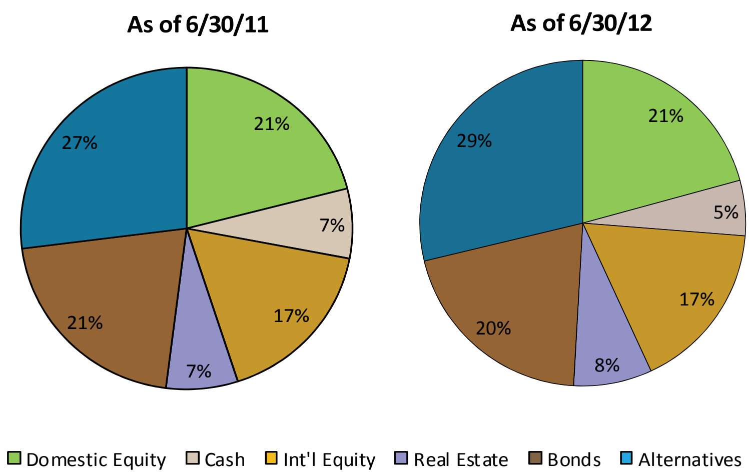
Endowment per student rose slightly as a function of the lower number of students.

Expendable resources per student (unrestricted and temporarily restricted net assets less net property and equipment less debt) decreased from $37,000 to $33,540.



Over the past 5 years the endowment has provided $18.7 million in support to the operations of the College and Seminary as well as $10 million for capital and other special projects. New gifts since 2007/2008 total $34 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).

During the year, one manager was terminated and several new funds were added to the portfolio.

Management's Discussion

"We are able to deliver on our promise to provide students with strong academic majors, hands-on learning experiences, and a deeper enjoyment of life because of the effective work of many people who are addressing financial and demographic challenges head on."

– Dr. Christopher Thomforde

As Moravian College and Theological Seminary closes the 2011/2012 academic and fiscal year, the current environment requires reflection of context, as well as a plan for the future. Average enrollment for the College was 1560 full time equivalent undergraduate students. This level of enrollment represents a 2.5% decrease from the 2010/2011 academic year figure and makes for continued challenges in the current economic environment. Seminary enrollment was a record 65 full time equivalents.

The financial markets have fluctuated significantly during the year. Our total return on investment for the fiscal year, net of fees, was +.1%. While minimal, this return exceeded our custom benchmark of -.4%. The market value of the endowment at June 30, 2012, was $92 million. The College and Seminary endowment received gifts of $3.9 million in fiscal year 2011/2012 and the fund provided $2.8 million in support for the College operations and $1.0 million in support for the Seminary operations.

Despite these financial and demographic headwinds, Moravian College continues to address these issues with a strategic vision of its mission in efforts to improve the financial standing of the College and Seminary. Specifically:

- In 2010, a marketing firm began a review of the admissions process and campus tour. Improvements have been made throughout the year to support the "Moravian Experience" for prospective students. These efforts are designed to increase student enrollment.

- In addition to the revised campus visit experience, Moravian College launched a new marketing campaign to align its message and the value the College offers to prospective students, current students and alumni: *Live. Learn. Enjoy.*

- Facilities improvements on campus for current and future students include the new fitness center, which opened in December 2011, the makeover of the student union building and continued renovations of the two oldest residence halls on campus. Fundraising continues for the Collier Hall of Science renovations as major improvements on the building will begin in the summer of 2013.

- In June 2012, Moravian College entered into contract with Barnes & Noble College to outsource bookstore operations. Students, faculty and alumni now have the full purchasing power and textbook options that Barnes & Noble is able offer. In addition, the bookstore received a beautiful renovation over the summer.

- Through conservative and sound fiscal management, the College and Seminary endowment spending rate is set at 4.5% for the 2012/2013 fiscal year, where it has been held at for the past eight years.

As Moravian College and Theological Seminary embarks on its 270th year of academic programming, it continues under some new leadership. Senior organizational changes that have occurred during the year include a new Vice President for Admissions, Mr. Ken Huus, and a new Vice President for Finance & Administration, Mr. Mark Reed. Additionally, Dr. Christopher Thomforde has announced his intention to retire in the summer of 2013 and a search for a new president is currently underway. While it is with greatest respect, appreciation and affection that we celebrate the accomplishments of Dr. Thomforde, Moravian will continue its promise to every student of every circumstance, the power of the liberal arts, a whole world of experience, and a deeper enjoyment of life. A pursuit with passion.

MORAVIAN

Live. Learn. Enjoy.

Financial Review

Statement of Financial Position

In consolidation, net assets decreased in 2012 by $1.9 million. Results across net asset classes were mixed. Unrestricted net assets decreased by $1 million; temporarily restricted assets were down by $3.5 million, while permanently restricted assets increased by $2.6 million. The decrease in current assets was primarily due to reduced cash balances. Cash balances for 2010/2011 included $5 million in bond proceeds which was used for capital improvements and $2 million that was used to purchase longer term investments during the year. Pledges and other receivables were the other main driver for the decrease in total assets, dropping over $0.5 million from the prior year. Liabilities also decreased compared to the prior year. In 2012, the Moravian College 1995 bonds matured and the 1999 and 2001 series were called for redemption. A new issue, with staggered maturities through 2032, was issued in February 2012 to refinance these redemptions. As a result of a more favorable coupon rate, long-term debt decreased by nearly $1.5 million.

College Statement of Activities

During the 2011/2012 year, College operating revenues were $6 million lower than the prior year. Although reduced net tuition continues to be the focus at many schools, it was only down $250 thousand, or 0.01%, from the prior year at Moravian. A bequest of $5 million (the largest in the College's history), was received in the prior year, distorting the year over year comparison of private gift revenue. Operating expenses were up a modest 4% and represent continued investment in student services and underlying cost increases inherent in auxiliary enterprises. Finally, non-operating activity reflects realized and unrealized losses of $1.3 million related, primarily, to the institution's endowment fund. In addition, over $700 thousand of unamortized issuance costs from the 1999 and 2001 bonds were written off as a result of the 2012 refinancing.

Seminary Statement of Activities

The net assets of the Seminary decreased during the year by just over $600 thousand. Operating revenues from tuition, gifts and auxiliary sources were up +24%, or over $400 thousand, driven by increased enrollment during the 2011/2012 year. Operating expenses increased by 3%, or $63 thousand. Changes in the market value of the endowment resulted in unrealized losses of $319 thousand and realized losses of $22 thousand.

Statement of Cash Flows

The primary purpose of the statement of cash flows is to provide relevant information about the cash receipts and cash payments of the consolidated enterprise. The information provided in the statement of cash flows, used with the related disclosures and information in the other financial statements, should aid investors, creditors and others to (1) assess the College's ability to generate positive future net cash flows; (2) assess the ability to meet current obligations and needs for external financial; (3) assess the reason for differences between the change in net assets and associated cash receipts and payments; and, finally, (4) assess the effects on the College's financial position of both its cash and non-cash investing and financing transactions during the year.

> **Operating activities**: During the 2011/2012 year, the College and Seminary used over $1.2 million for operations. This figure is calculated based on the adjustments to the change in total net assets for non-cash operating items and the changes in certain asset and liability accounts.
>
> **Investing activities**: The College invested over $7.6 million in capital projects, including the Fitness center, the student union center and some older dormitories. Additionally, available operating cash was used to purchase longer term, higher return investments.
>
> **Financing activities:** As mentioned earlier, the College refinanced the 1999 and 2001 bonds during the year. This resulted in the net cash decrease to financing activities of $1.4 million.

In summary, these three categories resulted in a net cash outflow of $7 million, however, at June 30, 2012 the consolidated institution's cash balance is solidly liquid at $10 million.

Moravian College

Financial Statements

June 30, 2012

ParenteBeard
CONFIDENCE THROUGH CLARITY

Moravian College

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June 30, 2012

ParenteBeard

Independent Auditors' Report

Board of Trustees
Moravian College

We have audited the accompanying statement of financial position of Moravian College ("College") as of June 30, 2012, 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 2011 financial statements and, in our report dated October 10, 2011, 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Allentown, Pennsylvania
October 4, 2012

Moravian College

Statement of Financial Position
(In Thousands)
June 30, 2012

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 10,270	$ 17,289
Accounts receivable, net	1,006	684
Investment income receivable	283	231
Contributions receivable	1,381	1,938
Prepaids and other	1,063	1,066
Deposits with trustee under debt agreement	1,324	1,755
Total current assets	15,327	22,963
Noncurrent Assets		
Contributions receivables, net	1,932	2,472
Note receivable	1,000	1,000
Deposits with trustee under debt agreement	2,382	3,716
Investments	91,789	89,712
Split-interest agreements	4,754	4,838
Student loans receivable (net of allowance of $244 in 2012; $222 in 2011)	2,130	2,130
Other non-current assets	1,802	1,418
Deferred financing costs, net	287	922
Land, buildings and equipment, net	75,844	71,808
Total noncurrent assets	181,920	178,016
Total assets	$ 197,247	$ 200,979

See notes to financial statements

Moravian College

Statement of Financial Position
(In Thousands)
June 30, 2012

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	$ 1,389	$ 1,375
Accounts payable	627	590
Accrued interest	276	686
Accrued expenses and other liabilities	2,814	2,693
Deferred revenue and deposits	1,356	1,425
Current portion of postretirement benefit obligation	37	50
Total current liabilities	6,499	6,819
Noncurrent Liabilities		
Annuities payable	1,372	1,375
Long-term debt	28,856	30,302
Postretirement benefit obligation	496	464
Refundable federal grants and loan funds	1,123	1,142
Other liabilities	661	718
Total liabilities	39,007	40,820
Net Assets		
Unrestricted:		
College	62,648	63,724
Theological Seminary	12,485	12,391
Total unrestricted	75,133	76,115
Temporarily restricted:		
College	21,051	23,723
Theological Seminary	3,213	4,122
Total temporarily restricted	24,264	27,845
Permanently restricted:		
College	49,532	47,065
Theological Seminary	9,311	9,134
Total permanently restricted	58,843	56,199
Total net assets	158,240	160,159
Total liabilities and net assets	$ 197,247	$ 200,979

See notes to financial statements

Moravian College

Statement of Activities
(In Thousands)
Year Ended June 30, 2012 (with Comparative Totals for the Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $21,297 in 2012; and $20,305 in 2011)	$ 31,639	$ -	$ -	$ 31,639	$ 31,766
Private gifts and grants	2,262	1,079	2,605	5,946	11,632
Investment income	1,310	-	200	1,510	1,886
Sponsored federal government programs and grants	558	-	-	558	402
State grants	328	-	-	328	396
Auxiliary enterprises	12,319	-	-	12,319	12,061
Other sources	357	-	-	357	343
Net assets released from restrictions, satisfaction of program restrictions	3,620	(3,620)	-	-	-
Total operating revenues and other additions	52,393	(2,541)	2,805	52,657	58,486
Operating Expenses					
Resident instruction	20,951	-	-	20,951	20,469
Academics support	3,109	-	-	3,109	3,126
Student services	4,781	-	-	4,781	4,256
Athletics	4,249	-	-	4,249	4,038
Institutional support	7,459	-	-	7,459	7,209
Fund-raising	1,324	-	-	1,324	1,315
Auxiliary enterprises	10,261	-	-	10,261	9,765
Other	81	-	-	81	80
Total operating expenses	52,215	-	-	52,215	50,258
Change in net assets from operating activities	178	(2,541)	2,805	442	8,228
Nonoperating Expenses					
Realized net loss on investments	(141)	(67)	(37)	(245)	(209)
Unrealized net loss on investments	(234)	(934)	(91)	(1,259)	11,601
Loss on the sale of assets	(47)	-	-	(47)	(88)
Change in value of split-interest agreements	-	(39)	(33)	(72)	434
Loss on debt refinancing	(738)	-	-	(738)	-
Decrease in net assets from nonoperating activities	(1,160)	(1,040)	(161)	(2,361)	11,738
Change in net assets	(982)	(3,581)	2,644	(1,919)	19,966
Net Assets, Beginning	76,115	27,845	56,199	160,159	140,193
Net Assets, Ending	$ 75,133	$ 24,264	$ 58,843	$ 158,240	$ 160,159

See notes to financial statements

Moravian College

Statement of Activities (College Only)
(In Thousands)
Year Ended June 30, 2012 (with Comparative Totals for the Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $20,936 in 2012; and $20,016 in 2011)	$ 30,970	$ -	$ -	$ 30,970	$ 31,221
Private gifts and grants	1,497	1,056	2,418	4,971	11,084
Investment income	1,049	-	200	1,249	1,502
Sponsored federal government programs and grants	558	-	-	558	402
State grants	328	-	-	328	396
Auxiliary enterprises	12,116	-	-	12,116	11,846
Other sources	356	-	-	356	340
Net assets released from restrictions, satisfaction of program restrictions	2,876	(2,876)	-	-	-
Total operating revenues and other additions	49,750	(1,820)	2,618	50,548	56,791
Operating Expenses					
Resident instruction	19,884	-	-	19,884	19,412
Academic support	2,936	-	-	2,936	2,961
Student services	4,581	-	-	4,581	4,065
Athletics	4,249	-	-	4,249	4,038
Institutional support	6,793	-	-	6,793	6,591
Fund-raising	1,189	-	-	1,189	1,160
Auxiliary enterprises	10,100	-	-	10,100	9,612
Other	81	-	-	81	80
Total operating expenses	49,813	-	-	49,813	47,919
Change in net assets from operating activities	(63)	(1,820)	2,618	735	8,872
Nonoperating Expenses					
Realized net loss on investments	(131)	(55)	(37)	(223)	(151)
Unrealized net loss on investments	(97)	(758)	(85)	(940)	8,642
Loss on the sale of assets	(47)	-	-	(47)	(88)
Change in value of split-interest agreements	-	(39)	(29)	(68)	421
Loss on debt refinancing	(738)	-	-	(738)	-
Decrease in net assets from nonoperating activities	(1,013)	(852)	(151)	(2,016)	8,824
Change in net assets	(1,076)	(2,672)	2,467	(1,281)	17,696
Net Assets, Beginning	63,724	23,723	47,065	134,512	116,816
Net Assets, Ending	$ 62,648	$ 21,051	$ 49,532	$ 133,231	$ 134,512

See notes to financial statements

Moravian College

Statement of Activities (Theological Seminary Only)
(In Thousands)
Year Ended June 30, 2012 (with Comparative Totals for the Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total (Summarized)
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $361 in 2012; and $289 in 2011)	$ 669	$ -	$ -	$ 669	$ 545
Private gifts and grants	765	23	187	975	548
Investment income	261	-	-	261	384
Auxiliary enterprises	203	-	-	203	215
Other sources	1	-	-	1	3
Net assets released from restrictions, satisfaction of program restrictions	744	(744)	-	-	-
Total operating revenues and other additions	2,643	(721)	187	2,109	1,695
Operating Expenses					
Resident instruction	1,067	-	-	1,067	1,057
Academics support	173	-	-	173	165
Student services	200	-	-	200	191
Institutional support	666	-	-	666	618
Fund-raising	135	-	-	135	155
Auxiliary enterprises	161	-	-	161	153
Total operating expenses	2,402	-	-	2,402	2,339
Change in net assets from operating activities	241	(721)	187	(293)	(644)
Nonoperating Expenses					
Realized net loss on investments	(10)	(12)	-	(22)	(58)
Unrealized net loss on investments	(137)	(176)	(6)	(319)	2,959
Change in value of split-interest agreements	-	-	(4)	(4)	13
Loss on debt refinancing	-	-	-	-	-
Decrease in net assets from nonoperating activities	(147)	(188)	(10)	(345)	2,914
Change in net assets	94	(909)	177	(638)	2,270
Net Assets, Beginning	12,391	4,122	9,134	25,647	23,377
Net Assets, Ending	$ 12,485	$ 3,213	$ 9,311	$ 25,009	$ 25,647

See notes to financial statements

Moravian College

Statement of Cash Flows
(In Thousands)
Year Ended June 30, 2012

	2012	2011
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (1,919)	$ 19,966
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,672	3,653
Change in value of split-interest agreement and annuities payable	81	(483)
Gifts and grants restricted for long-term investments	(3,633)	(9,574)
Loss on debt refinancing	738	-
Loss on disposal of assets	47	88
Other restricted earnings for long-term investments	(200)	(208)
Net realized and unrealized gains on investments	1,504	(11,392)
(Increase) decrease in assets:		
Accounts receivable, net	(322)	77
Investment income receivable	(52)	7
Contributions receivable, net	(398)	(13)
Prepaids and other	3	72
Other non-current assets	(384)	(836)
Increase (decrease) in liabilities:		
Accounts payable and accrued interest payable	(400)	(45)
Accrued expenses and other liabilities	121	(35)
Deferred revenue and deposits	(69)	149
Accumulated postretirement benefit obligation	19	16
Other liabilities	(57)	(36)
Net cash provided by (used in) operating activities	(1,249)	1,406
Cash Flows from Investing Activities		
Purchase of land, building and equipment	(7,675)	(3,821)
Purchase of investments	(11,162)	(8,803)
Proceeds from sale of investments	7,581	2,098
Change in deposits with trustee under debt agreements	1,765	(29)
Disbursement of student loans	(323)	(334)
Repayments of student loans	323	294
Net cash used in investing activities	(9,491)	(10,595)
Cash Flows from Financing Activities		
Gifts and grants restricted for long-term investments	5,128	9,327
Other restricted earnings for long-term investments	200	208
Repayment of debt	(23,845)	(1,105)
Proceeds from issuance of long-term debt	22,426	5,000
Payment of financing costs	(169)	(69)
Net repayment of refundable federal grants and loan funds	(19)	(11)
Net cash provided by financing activities	3,721	13,350
Net increase (decrease) in cash and cash equivalents	(7,019)	4,161
Cash and Cash Equivalents, Beginning	17,289	13,128
Cash and Cash Equivalents, Ending	$ 10,270	$ 17,289
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,840	$ 1,417
Supplementary Disclosure of Noncash Investing Activities		
Land, building and equipment purchases in accounts payable	$ 252	$ 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 1,474 full-time day students, 618 men and 856 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, changes in value of split interest agreements (primarily life income, annuity and trust agreements), and loss on debt refinancing.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the College considers all highly liquid investments, with a remaining life of three months or less, to be cash equivalents.

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.

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 $65,662 and $59,166 in 2012 and 2011, respectively.

Fixed Assets and Depreciation

Land, buildings and equipment are stated at an estimate 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, 2012 and 2011.

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, 2012 and 2011, 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 2011, 2010, and 2009 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 $180,000 and $148,000 during the fiscal years ended June 30, 2012 and 2011, 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, 2012 and 2011 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, 2011, from which the summarized information was derived.

Subsequent Events

Subsequent events were evaluated through October 4, 2012, the date the financial statements were issued.

Reclassification

Certain reclassifications were made to the 2011 financial statements in order to conform with the 2012 financial statements presentation. Such reclassifications had no impact on the change in net assets as previously reported for 2011.

New Accounting Standard

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," ("ASU 2011-04") which amends FASB ASC Topic 820, "Fair Value Measurements," to bring accounting principles generally accepted in the United States of America for fair value measurements in line with International Accounting Standards by clarifying existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholder's equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of Level 3 assets. ASU 2011-04 is effective for fiscal years and interim reporting periods beginning after December 15, 2011. Management is evaluating the impact of adopting ASU 2011-04 and believes it will not be material to the financial statements but will provide additional disclosures.

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):

	2012	2011
Accounts receivable	$ 1,082	$ 764
Allowance for doubtful accounts	(76)	(80)
	$ 1,006	$ 684

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, 2012 and 2011 was approximately $1,115,000 and $1,142,000, 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):

	2012	2011
Due in one year or less	$ 1,381	$ 1,938
Due between one year and five years	2,167	2,775
Contributions receivable, gross	3,548	4,713
Unamortized discount	(235)	(303)
Contributions receivable, net	$ 3,313	$ 4,410

The net present value of these cash flows was determined by using discount rates between 1.2% and 6.2% to account for the time value of money.

Management has not established an allowance for doubtful collections at June 30, 2012 and 2011 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, 2012 and 2011 (amounts in thousands):

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Cash and money market accounts	$ 5,077	$ 5,077	$ 7,222	$ 7,222
Domestic equity:				
Common stock	1,098	1,292	853	1,007
Large cap mutual funds	13,631	15,972	13,211	15,227
Natural resources mutual fund	3,650	3,804	3,150	4,392
International equity mutual funds	18,353	15,446	18,389	17,637
Domestic fixed income:				
Taxable fixed income mutual funds	9,084	9,532	8,463	8,605
Government bonds	2,214	2,350	2,122	2,231
Corporate bonds and preferred stock	4,837	4,983	2,807	2,964
International fixed income mutual funds	2,664	3,696	2,680	3,431
Alternative investments	29,673	29,637	28,128	26,996
	$ 90,281	$ 91,789	$ 87,025	$ 89,712

	2012	2011
Deposits with trustee under debt agreements:		
Cash and cash equivalents	$ 2,396	$ 5,135
U.S. Government securities	1,310	336
	$ 3,706	$ 5,471

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):

	2012	2011
Endowment funds	$ 84,361	$ 84,285
Annuity and life income funds	1,855	1,848
Capital campaign funds	2,645	2,553
Other funds	2,928	1,026
	$ 91,789	$ 89,712

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):

	2012	2011
Land and land improvements	$ 15,000	$ 14,708
Buildings	88,054	82,611
Equipment	23,084	22,295
Library books	9,063	8,882
Collection items	3,018	2,899
Construction in progress	2,091	1,273
	140,310	132,668
Accumulated depreciation	(64,466)	(60,860)
	$ 75,844	$ 71,808

Depreciation expense was approximately $3,619,000 and $3,593,000 in 2012 and 2011, 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, 2012 and 2011.

10. Long-term Debt

Long-term debt of the College consisted of the following at June 30, 2012 and 2011 (amounts in thousands):

	2012	2011
Dormitory Bonds of 1964:		
Series A - 3-3/8%, due serially in annual amounts through 2013.	$ 20	$ 40
Series B - 3-5/8%, due serially in annual amounts through 2014.	37	54
College Revenue Bonds of 1995, final payment made in July 2011.	-	590
College Revenue Bonds of 1999, refunded in connection with the College Revenue Bonds of 2012.	-	4,220
College Revenue Bonds of 2001, refunded in connection with the College Revenue Bonds of 2012.	-	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%.	2,905	3,205
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%.	4,729	4,979
College Revenue Bonds of 2012, due serially in annual amounts through 2032 with interest payable semi-annually ranging from 0.50% to 5.0%.	21,670	-
University Lease, 5.5%, due in equal installments through 2014 for equipment and furniture.	115	168
TCF Equipment Finance, 5.0%, due in equal installments through 2014 with a balloon payment in 2014 for a campus vehicle.	26	36
	29,502	31,677
Less current portion	(1,389)	(1,375)
Original issue premium	743	-
Long-term debt	$ 28,856	$ 30,302

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 2005 and 2012 and the Bank Qualified Debt require the College to pledge as collateral its unrestricted gross revenues not previously pledged.

The Dormitory Bonds and the College Revenue Bonds of 1995, 1999, 2001, 2005 and 2012 required that the College maintain a debt service reserve fund in accordance with the revenue bond document.

In April 2012, the College used a portion of these debt service reserve funds and the proceeds from the College Revenue Bonds of 2012 to place $22,803,000 in an escrow fund to pay the principal and interest on the 1999 and 2001 Bonds through their call date. A loss on this debt refinancing of $738,000 has been recorded in nonoperating activities in the statement of activities for the year ended June 30, 2011.

Principal repayments of long-term debt for the years ending after June 30, 2012 are as follows (in thousands):

2013	$	1,389
2014		1,194
2015		1,150
2016		4,904
2017		960
Later years		19,905
	$	29,502

Interest expense related to long-term debt was approximately $1,482,000 and $1,456,000 in 2012 and 2011, 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 $3,895,000 and $3,974,000 in 2012 and 2011, 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 $1,740,000 and $1,729,000 in 2012 and 2011, 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 $32,000 in 2012 and $25,000 in 2011. 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):

	2012	2011
Projected benefit obligation, beginning	$ 514	$ 498
Service cost	33	39
Interest cost	29	29
Actuarial gain/loss	(11)	(27)
Benefits paid	(32)	(25)
Projected benefit obligation, ending	$ 533	$ 514

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

	2012	2011
Current portion of postretirement benefit obligation	$ 37	$ 50
Noncurrent portion of postretirement benefit obligation	496	464
Accrued pension liability, net	$ 533	$ 514

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

	2012	2011
Discount rate	3.5 %	6.0 %
Rate of increase in compensation levels	2.5	2.5

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

	2012	2011
Service cost	$ 33	$ 39
Interest cost	29	29
	$ 62	$ 68

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 $37,000.

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

2013	$ 37
2014	50
2015	74
2016	75
2017	79
2018 - 2021	359

14. Net Assets

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

	2012	2011
Net assets related to certain split-interest agreements	$ 2,989	$ 3,022
Assets held in perpetuity	55,854	53,177
	$ 58,843	$ 56,199

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

	2012	2011
Net assets related to certain split-interest agreements	$ 1,592	$ 1,630
Specified purposes	22,672	26,215
	$ 24,264	$ 27,845

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

	2012	2011
Long-term investments	$ 15,348	$ 16,120
Plant facilities	49,305	45,602
Other	10,480	14,393
	$ 75,133	$ 76,115

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, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Donor restricted endowment funds	$ -	$ 14,006	$ 54,792	$ 68,798
Board-designated endowment funds	15,348	-	-	15,348
	$ 15,348	$ 14,006	$ 54,792	$ 84,146

The following schedule represents the changes in endowment net assets for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Endowment assets, beginning of year	$ 16,120	$ 16,732	$ 51,219	$ 84,071
Investment income	188	814	-	1,002
Realized losses	(16)	(67)	-	(83)
Change in unrealized gains	(235)	(935)	-	(1,170)
Contributions	-	499	3,573	4,072
Appropriation for spending	(709)	(3,037)	-	(3,746)
Assets, end of year	$ 15,348	$ 14,006	$ 54,792	$ 84,146

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

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, 2012 or 2011.

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 2012 and 2011. 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, 2012 and 2011 are as follows:

Description	2012	Level 1	Level 2	Level 3
Domestic equity funds	$ 21,068	$ 21,068	$ -	$ -
International equity funds	15,446	15,446	-	-
Domestic fixed income funds	16,865	16,865	-	-
International fixed income funds	3,696	-	3,696	-
Alternative investments	29,637	-	-	29,637
Total investments	86,712	53,379	3,696	29,637
Beneficial interest in perpetual trusts	1,927	-	-	1,927
Split interest agreements	2,827	-	-	2,827
	$ 91,466	$ 53,379	$ 3,696	$ 34,391

Description	2011	Level 1	Level 2	Level 3
Domestic equity funds	$ 20,626	$ 20,626	$ -	$ -
International equity funds	17,637	17,637	-	-
Domestic fixed income funds	13,800	13,800	-	-
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

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2012 and 2011 are as follows:

	Alternative Investments	Beneficial Interest in Perpetual Trusts	Split-Interest Agreements	Level 3 Total
Balance at June 30, 2010	$ 22,504	$ 1,754	$ 2,652	$ 26,910
Unrealized gains	3,652	253	179	4,084
Purchases	2,090	-	-	2,090
Proceeds from sales	(1,021)	-	-	(1,021)
Realized losses	(229)	-	-	(229)
Balance at June 30, 2011	26,996	2,007	2,831	31,834
Unrealized gains (losses)	1,097	(80)	(4)	1,013
Purchases	6,040	-	-	6,040
Proceeds from sales	(4,203)	-	-	(4,203)
Realized losses	(293)	-	-	(293)
Balance at June 30, 2012	$ 29,637	$ 1,927	$ 2,827	$ 34,391

The following methods and assumptions were used to estimate fair values of the College's financial instruments as of June 30, 2012 and 2011:

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 1.2% and 6.2%.

Investments (Carried at Fair Value)

The fair value of equity and domestic fixed income securities was based on quoted market prices for the identical securities. The fair value of international fixed income securities was based on quoted market prices in active markets for similar assets. 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 and Refundable Federal Grants and Loan Funds (Carried at Cost)

The fair value of student loans receivable under government loan programs and refunded federal grants and loan funds are based upon management's best estimate of the indicated future cash flows discounted at interest rates required by market participants.

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, 2012 and 2011 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):

	2012		2011	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets				
Cash and cash equivalents	$ 10,270	$ 10,270	$ 17,289	$ 17,289
Accounts receivable, net	1,006	1,006	684	684
Investment income receivable	283	283	231	231
Deposits with trustee under debt agreements	3,706	3,706	5,471	5,471
Contributions receivable, net	3,313	3,313	4,410	4,410
Notes receivable	1,000	1,000	1,000	1,000
Investments	91,789	91,789	89,712	89,712
Split-interest agreements	4,754	4,754	4,838	4,838
Student loans receivable	2,130	2,130	2,130	2,130

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities				
Accounts payable	$ 627	$ 627	$ 590	$ 590
Long-term debt	30,245	31,052	31,677	31,566
Annuities payable	1,372	1,372	1,375	1,375
Refundable federal grants and loan funds	1,123	1,123	1,142	1,142

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, 2012 are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(In Thousands)			
Hedge Funds	$ 16,105	$ -	Various	35 - 65 days
Private Equity Funds	10,230	8,102	Illiquid	
Real Asset Funds	3,302	1,733	Illiquid	
	$ 29,637	$ 9,835		

In addition to unfunded commitments, approximately $222,000 of returned capital is subject to recall by the respective funds.

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, or semi-annual redemption requirements.

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 $1,688,000 as of June 30, 2012. 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 current plans to renovate the Collier Hall of Science, although it has not recognized the asset retirement obligation for asbestos removal in its financial statements as management has deemed these amounts to be immaterial. For all other 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") included 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 2010.

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, 2012, consolidation of MCHI with the College is not required.