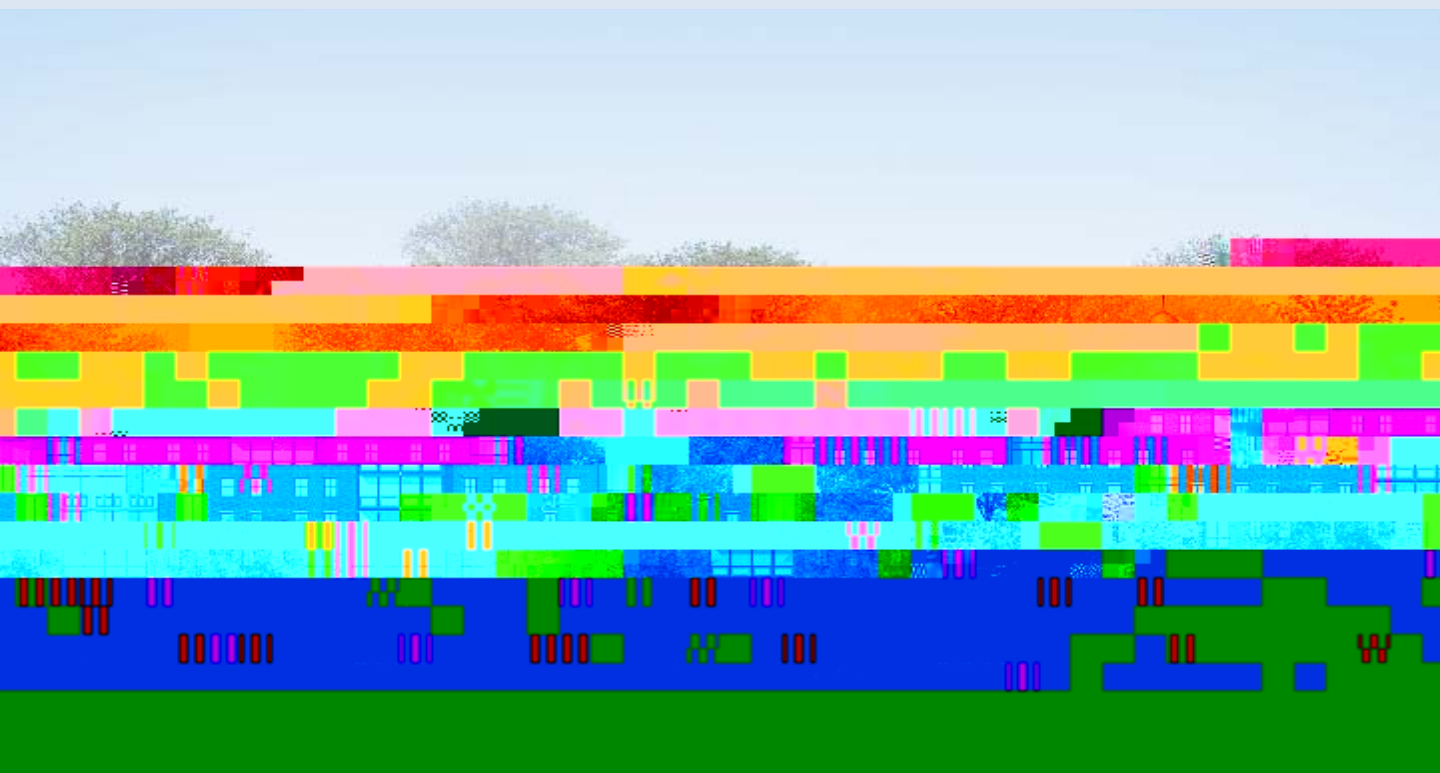


MORAVIAN COLLEGE

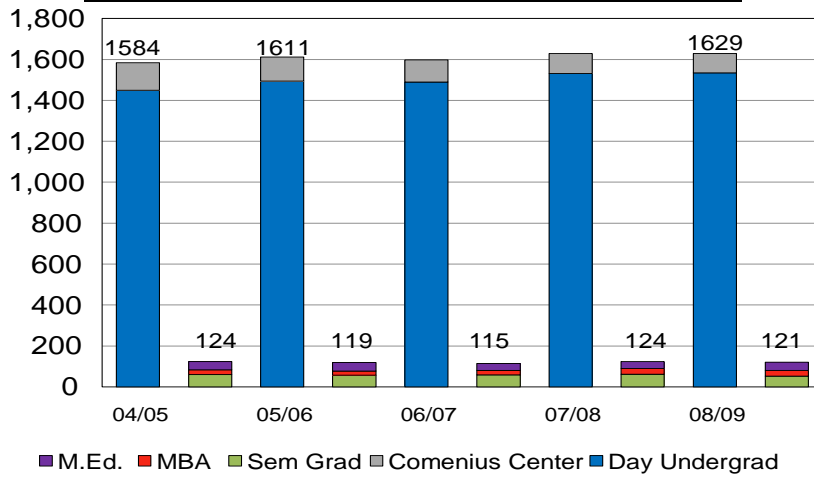


Hurd Campus Housing Project

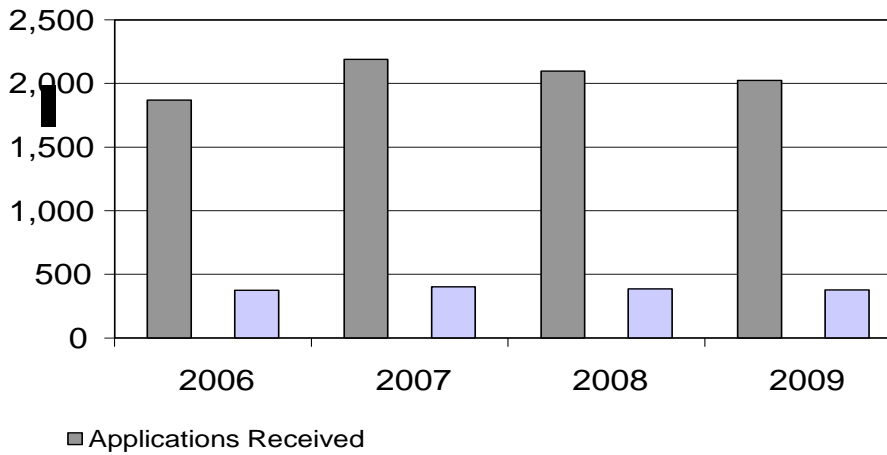
FINANCIAL REPORT

2008 - 2009

Full Time Equivalent Students

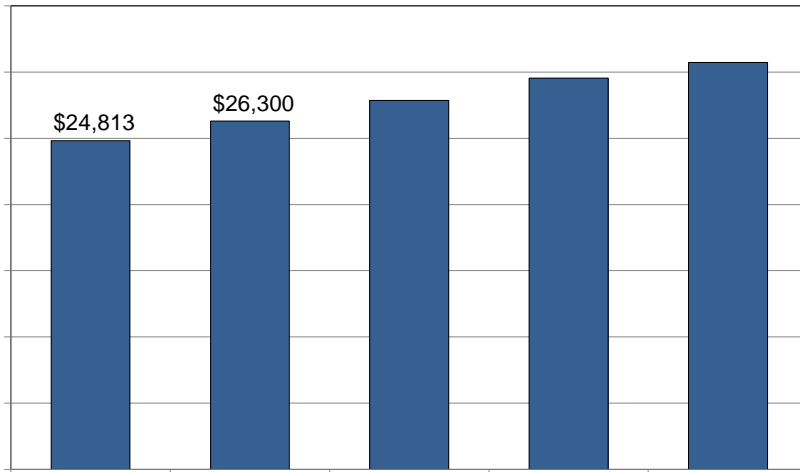


Freshmen Applications



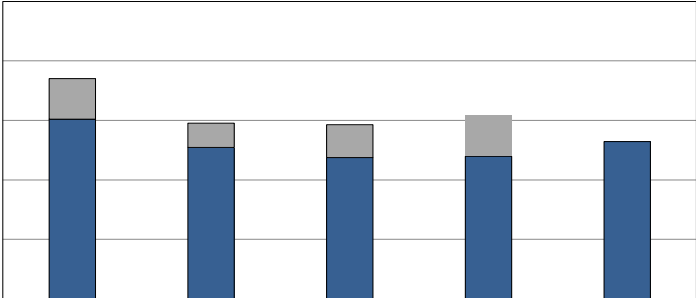
Acceptance Rate & Yield on
Offers

Full-Time Tuition Rate-College



Comenius Center Gross Revenue

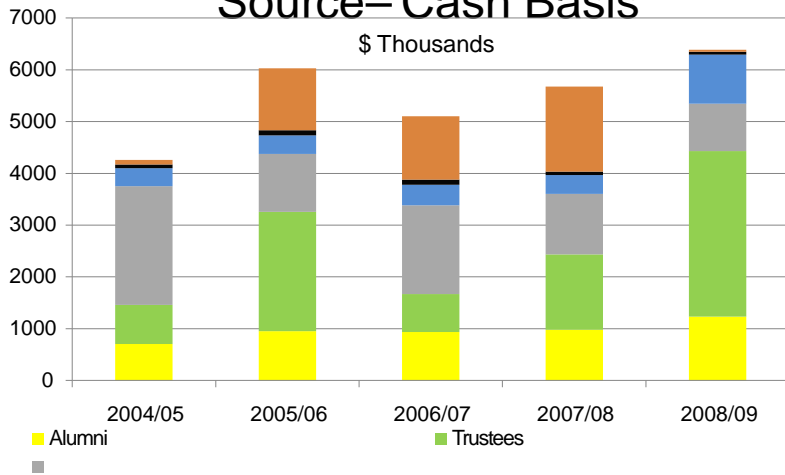
\$ Thousands



Sources of Revenue (Seminary)

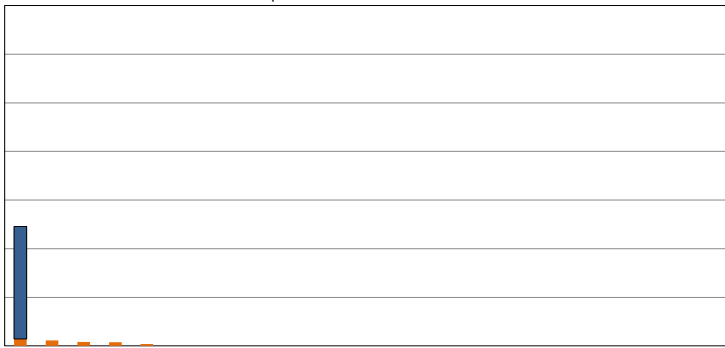
\$ Thousands

Giving History – College Source– Cash Basis

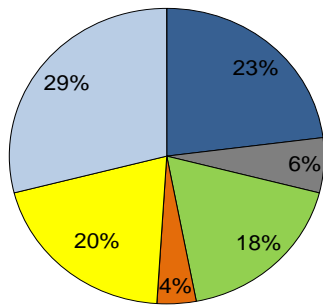


Debt Service Summary

\$ Thousands



Endowment Asset Allocation



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

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

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

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

Statement of Financial Position

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

College Statement of Activities

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

College expenditures increased modestly in all functional categories and are primarily compensation

repaid \$1.5 million of debt and collected restricted gifts totaling \$5 million that are earmarked for construction or long term investments outside of the general operating activities of the College.

Overall, these three categories (operations, investing and financing) provided for a net increase in cash flows for the College and Seminary of \$6 million. At June 30, 2009 the institution's cash remained strong at \$14 million.

ParenteBeard LLC

Moravian College

Financial Report

June 30, 2009

Table of Contents
June 30, 2009 and 2008

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Independent Auditor's Report

To the Board of Trustees
Moravian College

We have audited the accompanying statement of financial position of Moravian College ("College") as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility

Moravian College

Statements of Financial Position

June 30, 2009 and 2008

Assets	2009	2008
	(In Thousands)	
Current Assets		
Cash and cash equivalents	\$ 13,951	\$ 7,540
Accounts receivable	671	745
Investment income receivable	152	97
Contributions receivable	832	275
Prepays and other	485	643
Inventory	340	321
Due from other departments	2,000	2,100

Liabilities and Net Assets	2009	2008
	(In Thousands)	
Current Liabilities		
Current portion of bonds and mortgage note payable	\$ 1,530	\$ 1,519
Accounts payable	755	644
Accrued interest	747	781
Accrued expenses and other liabilities	2,742	2,307
Deferred revenue and deposits	1,275	1,433
Current portion of postretirement benefit obligation	47	175
Total Current Liabilities	7,096	6,859

	1,400	1,571
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Bonds and note payable	27,520	29,050
Postretirement benefit obligation	466	2,591
Refundable federal grants and loan funds	1,176	1,198
Other liabilities	512	635
Total Liabilities	38,170	41,904

Net Assets

Unrestricted:		
College	59,081	54,247
Theological Seminary	10,973	13,881
Total Unrestricted	70,054	68,128

Temporarily restricted:		
College	16,076	27,742
Theological Seminary	2,206	5,421

Moravian College

Statement of Activities

Year Ended June 30, 2009

	Temporarily	Permanently	2009	2008	
	Unrestricted	Restricted	Restricted	Total	
	(In Thousands)				
	Unrestricted	Restricted	Restricted	Total	(Summarized)
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of \$17,167 in 2009; \$15,841 in 2008)	\$32,298	\$ -	\$ -	\$ 32,298	\$ 31,078
Private gifts and grants	2,491	4,458	2,477	9,426	12,423
Investment income	1,406	-	195	1,601	4,515
Sponsored federal government programs and grants	478	-	-	478	564
State grants	565	-	-	565	583
Auxiliary enterprises	12,244	-	-	12,244	12,122
Other sources	362	-	-	362	298
	4,123	(4,123)	-	-	-
Total Operating Revenues and Other Additions	53,967	335	2,672	56,974	61,583
Operating Expenses					
Resident instruction	20,890	-	-	20,890	19,251
Academic support	3,391	-	-	3,391	3,315
Student services	4,542	-	-	4,542	4,248
Athletics	3,989	-	-	3,989	3,727

Moravian College

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

	Temporarily	Permanently	2009	2008
			Total	Total
	Unrestricted	Restricted	Restricted	Total
				(Summarized)
Operating Revenues and Other Additions				
Tuition and fees (net of student scholarships of \$16,878 in 2009; \$15,647 in 2008)	\$31,879	\$ -	\$ -	\$ 31,879
Private gifts and grants	2,033	4,380	1,580	7,993
Investment income	1,103	-	192	1,295
Sponsored federal government programs and grants	478	-	-	478
State grants	565	-	-	565
Auxiliary enterprises	12,036	-	-	12,036
Other revenues	261	-	-	261
Net assets released from restrictions, satisfaction of program restrictions	3,724	(3,724)	-	-
Total Operating Revenues and				

Moravian College

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total (Summarized)
(In Thousands)					
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of \$289 in 2009; \$194 in 2008)	\$ 419	\$ -	\$ -	\$ 419	\$ 630
Private gifts and grants	458	78	897	1,433	7,853
Investment income	303	-	3	306	887
Auxiliary enterprises	208	-	-	208	211
Other sources	1	-	-	1	1
Net assets released from restrictions, satisfaction of program restrictions	399	(399)	-	-	-
Total Operating Revenues and	1,789	(321)	900	2,367	9,582

Moravian College

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
	(In Thousands)	
Cash Flows from Operating Activities		
Increase (decrease) in net assets	(\$11,552)	\$ 3,504
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,481	3,416
Change in value of split-interest agreements	950	689
Gifts and grants restricted for long-term investments	(4,657)	(2,951)
Gain on disposal of assets	(1,600)	-
Other restricted earnings for long-term investment	(195)	(191)

Accounts receivable, net	74	(101)
Investment income receivable	(55)	36
Contributions receivable, net	(373)	809
Prepays and other	158	(72)

Moravian College

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Financing Activities		
Gifts and grants restricted for long-term investments	\$ 3,455	\$2,564
Other restricted earnings for long-term investments	195	191
Repayment of debt	(1,519)	(1,564)
Net repayment of refundable federal grants and loan funds	<u>(22)</u>	<u>(1)</u>
Net Cash Provided by Financing Activities	<u>2,109</u>	<u>1,190</u>
Net Increase in Cash and Cash Equivalents	6,411	1,427
Cash and Cash Equivalents - Beginning	<u>7,540</u>	<u>6,113</u>
Cash and Cash Equivalents - Ending	<u>\$13,951</u>	<u>\$ 7,540</u>

Interest paid

\$ 1,534

\$ 1,604

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Moravian College is a private, coeducational liberal arts college and theological seminary

Moravian College

Notes to Financial Statements June 30, 2009 and 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the College considers all highly liquid

investments with original maturities of three months or less to be cash equivalents

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

Accounts Receivable

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

June 30, 2009 and 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest

Moravian College

Notes to Financial Statements
June 30, 2009 and 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

Advance from Federal Government for Student Loans

The College is a participant in the Federal Perkins Loan program which makes

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

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Notes to Financial Statements (Continued)

Advertising expenses are recorded as incurred and were approximately \$225,000 and

Refundable Grants

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

the financial statements were issued.

Note 3 - Accounts Receivable

Accounts receivable represents amounts due for tuition, fees, room and board and other charges from students and other entities. The College extends unsecured credit to students and other entities in connection with studies and various activities. Some students are no

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 5 - Contributions Receivable

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

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

	<u>2009</u>	<u>2008</u>
Due in one year or less	\$ 832	\$ 275
Contributions Receivable, Gross	2,735	1,108
Unamortized discount	<u>225</u>	<u>173</u>
Contributions Receivable, Net	<u>\$2,510</u>	<u>\$ 935</u>

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

Management has not established an allowance for doubtful collections at June 30, 2009 and 2008 based upon information currently known. However, events impacting donors can occur in

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 6 - Investments (Continued)

The following table summarizes the investment assets of the College as of June 30, 2009 and 2008:

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

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 8 - Land, Buildings, and Equipment, Net

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

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

Note 9 - Note Payable, Demand

Moravian College

June 30, 2009 and 2008

Note 10 - Bonds and Note Payable (Continued)

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

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 10 - Bonds and Note Payable (Continued)

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

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

Notes to Financial Statements

June 30, 2009 and 2008

Note 13 - Postretirement Benefits Other Than Pensions (Continued)

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

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

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

	<u>2009</u>	<u>2008</u>
Current portion of postretirement benefit obligation	\$ 47	\$ 175

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 13 - Postretirement Benefits Other Than Pensions (Continued)

The College limits the increase in its contribution to the lesser of 5% or the annual percentage increase in the cost of the benefits provided.

Moravian College

MORAVIAN COLLEGE

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 15 - Fair Value of Financial Instruments (Continued)

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

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 15 Fair Value of Financial Instruments (Continued)

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

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

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

Contributions Receivable (Carried at Fair Value)

approximates fair value because of the short maturity of these instruments. The fair value

Moravian College

Notes to Financial Statements

16

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 17 - Related Party Transactions

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.

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 18 - Investments in the Commonfund Short Term Fund

At June 30, 2009, approximately \$2,203,000 is invested in the Commonfund Short Term Fund. This amount is not available for immediate withdrawal. The trustee of the Short Term Fund is liquidating this fund. The trustee is periodically distributing cash to the participating

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 19 - Endowment (Continued)

Interpretation of Relevant Law (Continued)

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

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

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 19 - Endowment (Continued)

Interpretation of Relevant Law (Continued)

ended June 30, 2008:

Moravian College

Notes to Financial Statements

June 30, 2009 and 2008

Note 19 - Endowment (Continued)

Strategies Employed for Achieving Objectives

The College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and

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