Accountants' Report and Financial Statements

June 30, 2009 and 2008



June 30, 2009 and 2008

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees Mercyhurst College Erie, Pennsylvania

We have audited the accompanying statements of financial position of Mercyhurst College (the College) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide 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 Mercyhurst College as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7, in 2009 the College changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2009, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP





Statements of Financial Position June 30, 2009 and 2008

		2009		2008
Assets				
Cash and cash equivalents	\$	12,197,319	\$	9,618,682
Accounts receivable, net of allowance;				
2009 - \$823,389, 2008 - \$930,023		2,441,259		2,467,982
Contributions receivable, net		2,532,646		3,183,002
Beneficial interest in charitable remainder trust Loans receivable, net of allowance;		400,843		526,490
2009 and 2008- \$118,677		3,720,472		2,797,782
Inventories		474,941		413,866
Prepaid expenses and other assets		276,750		360,274
Bond discount and issuance costs, net		686,256		752,241
Deposits with trustees		5,729,151		19,326,227
Long-term investments		18,521,606		22,347,296
Land, buildings and equipment, net	_	88,364,912	_	74,350,114
Total assets	\$	135,346,155	\$	<u>136,143,956</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$	1,680,276	\$	1,435,734
Accrued expenses and other liabilities		2,956,260		2,645,807
Accrued interest		919,371		517,572
Student deposits		1,697,213		1,905,270
Deferred revenue		1,893,124		1,239,762
Notes payable and capital leases		1,911,156		1,699,116
Bonds payable		47,100,000		48,755,000
Federal government advances for student loans		2,275,156		2,243,610
Trusts payable	_	219,138	_	<u> 291,695</u>
Total liabilities		60,651,694		60,733,566
Net Assets				
Unrestricted		59,147,305		58,641,306
Temporarily restricted		2,456,321		4,648,938
Permanently restricted	_	13,090,835	_	12,120,146
Total net assets	_	74,694,461	_	75,410,390
Total liabilities and net assets	\$	135,346,155	\$	136,143,956

Statement of Activities Year Ended June 30, 2009

		20	009			
			Permanently	-		
	Unrestricted	Restricted	Restricted	Total		
Revenues, Gains and Other Support						
Tuition and fees Less college funded financial aid and	\$78,422,551	\$ —	\$ —	\$78,422,551		
scholarships	<u>31,269,123</u>			31,269,123		
Net tuition and fees	47,153,428		_	47,153,428		
Government grants and other contracts	5,603,949		_	5,603,949		
Private gifts	285,166	538,508	881,942	1,705,616		
Investment income	446,180	374,216	_	820,396		
Net realized and unrealized losses	(3,317,245)	(1,991,638)		(5,308,883)		
Other revenues	1,666,207			1,666,207		
Auxiliary enterprises	17,832,968		_	17,832,968		
Change in value of split interest						
agreements	_	(53,090)		(53,090)		
Net assets released from restrictions	1,301,776	(1,301,776)	_			
Reclassification of net assets	(329,910)	<u>241,163</u>	<u>88,747</u>			
Total revenues, gains and other						
support	70,642,519	<u>(2,192,617</u>)	970,689	69,420,591		
Eymonoo and Other Deductions						
Expenses and Other Deductions Instruction	28,131,818			28,131,818		
Public service	242,800			242,800		
Academic support	2,537,240			2,537,240		
Student services	13,121,657			13,121,657		
Institutional support	11,211,653			11,211,653		
Auxiliary enterprises	12,964,285			12,964,285		
Interest	1,927,067			1,927,067		
merest	<u> 1,927,007</u>			1,927,007		
Total expenses and other						
deductions	70,136,520			70,136,520		
Change in Net Assets	505,999	(2,192,617)	970,689	(715,929)		
Net Assets, Beginning of Year	58,641,306	4,648,938	12,120,146	75,410,390		
Net Assets, End of Year	<u>\$59,147,305</u>	\$ 2,456,321	<u>\$13,090,835</u>	<u>\$74,694,461</u>		

Statement of Activities Year Ended June 30, 2008

		20	800	
	Harris at a tark at a st		Permanently	
	Unrestricted	Restricted	Restricted	Total
Revenues, Gains and Other Support				
Tuition and fees Less college funded financial aid	\$75,435,712	\$ —	\$ —	\$75,435,712
and scholarships	<u>29,751,357</u>			29,751,357
Net tuition and fees	45,684,355		_	45,684,355
Government grants and other contracts	6,011,387			6,011,387
Private gifts	3,606,221	540,680	1,213,715	5,360,616
Investment income	808,916	691,948		1,500,864
Net realized and unrealized losses	(998,263)	(1,773,245)		(2,771,508)
Other revenues	1,296,321			1,296,321
Auxiliary enterprises	17,396,458		_	17,396,458
Change in value of split interest		(407 400)		(407 400)
agreements		(127,499)		(127,499)
Net assets released from restrictions	1,027,101	(1,027,101)		
Reclassification of net assets	<u>93,386</u>	<u>(94,386</u>)	1,000	
Total revenues, gains and other				
support	74,925,882	(1,789,603)	1,214,715	74,350,994
Expenses and Other Deductions				
Instruction	26,860,212			26,860,212
Public service	279,655		_	279,655
Academic support	2,536,379			2,536,379
Student services	13,240,805			13,240,805
Institutional support	12,546,020			12,546,020
Auxiliary enterprises	13,635,236		_	13,635,236
Interest	1,442,339			1,442,339
Total expenses and other				
deductions	<u>70,540,646</u>			<u>70,540,646</u>
Change in Net Assets	4,385,236	(1,789,603)	1,214,715	3,810,348
Net Assets, Beginning of Year	54,256,070	6,438,541	10,905,431	71,600,042
Net Assets, End of Year	<u>\$58,641,306</u>	\$ 4,648,938	\$12,120,146	<u>\$75,410,390</u>

Statements of Cash Flows Years Ended June 30, 2009 and 2008

	2009	2008
Operating Activities		
Change in net assets	\$ (715,929)	\$ 3,810,348
Items not requiring (providing) operating cash flows		
Depreciation and amortization	4,000,153	3,838,134
Net realized and unrealized losses on investments	5,308,883	2,771,508
Change in value of split interest agreements	53,090	127,499
Contributions received restricted for long-term	,	,
investment	(881,942)	(1,213,715)
Changes in	(33:,3:=)	(:,=:=,::=)
Receivables	(245,611)	(3,854,275)
Inventories	(61,076)	(34,696)
Prepaid expenses and other assets	83,524	32,341
Accounts payable	244,542	(158,799)
Accrued expenses and other liabilities	712,282	493,077
Student deposits	(208,057)	448,365
Deferred revenue	653,632	207,023
Federal government advances for student loans	<u>31,546</u>	(1,154)
Net cash provided by operating activities	8,975,037	6,465,656
Investing Activities		
Purchase of land, buildings and equipment	(17,948,965)	(7,604,857)
Purchase of long-term investments	(2,871,070)	(4,462,725)
Proceeds from disposition of long-term investments	1,387,577	3,529,000
Change in deposits with trustees	13,597,076	(17,296,267)
Net cash used in investing activities	(5,835,382)	(25,834,849)
Financing Activities		
Principal borrowings on bonds		21,970,000
Principal payments on bonds	(1,655,000)	(3,710,000)
Principal borrowings on notes payable	220,940	903,017
Principal payments on notes payable	(8,900)	(911,192)
Payments for bond issuance costs	(· , · · · ·)	(517,008)
Proceeds from contributions restricted for long-term		(011,000)
investment	881,942	1,213,715
Net cash (used in) provided by financing activities	(561,018)	18,948,532
Increase (Decrease) in Cash and Cash Equivalents	2,578,637	(420,661)
Cash and Cash Equivalents, Beginning of Year	9,618,682	10,039,343
Cash and Cash Equivalents, End of Year	<u>\$ 12,197,319</u>	\$ 9,618,682
Supplemental Cash Flows Information		
••	¢ 1 505 060	¢ 1 202 250
Interest paid	\$ 1,525,268	\$ 1,283,258

Notes to Financial Statements June 30, 2009 and 2008

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Mercyhurst College (the College) operates as a private, not-for-profit institution in northwestern Pennsylvania. A majority of its students are from Pennsylvania and surrounding states. The majority of the College's revenues are derived from tuition and fees charged to students.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

With the exception of certain investments held in the endowment fund, the College considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009 and 2008, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

The financial institutions holding the College's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2013. At June 30, 2009, the College's interest-bearing cash accounts exceeded federally insured limits by approximately \$2,416,000.

Fair Value of Financial Instruments

The College's financial instruments which include cash, cash equivalents, receivables, investments, accounts payable, accrued expenses, other liabilities and debt are carried at amounts which approximate fair value.

Notes to Financial Statements June 30, 2009 and 2008

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment return includes investment income, which includes interest and dividends; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

The College maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Accounts Receivable

Accounts receivable are stated at the amount of tuition, room and board and fees billed to students adjusted for the allowance for uncollectible accounts. Student receivables are normally due four weeks prior to the first day of the fall term, and one to two weeks prior to the first day of the winter and spring terms. The College also offers payment plans which allow students to make three payments throughout the term, or nine payments throughout the year. Accounts that are unpaid after the due date may be subject to a late fee. A financial hold is placed on delinquent accounts, which bars a student from registering for any new classes until they make payment arrangements and bars a student from receiving transcripts or a diploma. The College provides an allowance for doubtful accounts, which is based upon a review of the outstanding student receivables along with current and historical collection information.

Loans Receivable

Student loans receivable under the Federal Perkins Loan Program are reported at the outstanding principal balances, net of allowance for collectibility. The repayment period begins after an initial grace period of nine months after the student ceases to be at least a half-time student. Interest income is recorded as monthly payments are received.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Repairs, maintenance and minor replacements of existing facilities are charged to expense as incurred.

Notes to Financial Statements June 30, 2009 and 2008

The College capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized in 2009 was:

Total interest expense incurred on borrowings for project	\$ 499,358
Interest income from investment of proceeds of borrowings for project	 (63,598)
Net interest cost capitalized	\$ 435,760

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity. 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.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction. Contributions other than cash are recorded at their estimated fair value.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and reported as contribution revenue using the level-yield method.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

An allowance for uncollectible contributions, which is based on management's judgment of the risks, is provided as a reduction of the amount of contributions received.

Notes to Financial Statements June 30, 2009 and 2008

Collections

Collections of works of art, historical treasures and similar assets are not capitalized in as much as the items are preserved and cared for continuously. Contributions of collection items are not reported in the financial statements. The College's collections consist primarily of paintings, sculptures, and other works of art, books, and antique furniture.

Inventory Pricing

Inventories consist primarily of books, clothing, and other merchandise at the College's bookstores, and certain maintenance supplies, and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Federal Government Advances for Student Loans

The College administers federally funded loan programs for the benefit of its students. This liability represents the amount that must be returned to the federal government upon termination of the program.

Government Grants

Support funded by grants is recognized as the College performs the contracted services or expends funds eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Auxiliary Enterprises

Revenues and expenditures from auxiliary enterprises include the student dormitories, food service, bookstore, special events, and outside sales. Certain indirect expenditures, such as depreciation and interest on indebtedness, are not charged to the auxiliary enterprises.

Income Taxes

The College is exempt from income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described under Section 501(c) of the Code, as well as a similar provision of state law. However, the College is subject to federal income tax on any unrelated business income.

Notes to Financial Statements June 30, 2009 and 2008

Reclassifications

The College identified certain net asset fund balances that had been misclassified between unrestricted, temporarily restricted and permanently restricted during 2009 and 2008. The following net assets were reclassified in the 2009 and 2008 financial statements to appropriately recognize the restricted nature of certain net asset fund balances:

	 2009	2008
Unrestricted Temporarily restricted Permanently restricted	\$ (329,910) \$ 241,163 88.747	93,386 (94,386) 1,000
i cimanenti y restricted	00,7 77	1,000

The reclassifications had no effect on changes in net assets for 2009 and 2008.

Note 2: Contributions Receivable and Conditional Gifts

Contributions receivable consisted of the following:

	U	nrestricted		June 3 emporarily Restricted	Pe	009 rmanently estricted		Total
Due within one year Due in one to five years Due in more than five	\$	281,153 1,649,357	\$	61,329 149,770	\$	379,542 360,833	\$	722,024 2,159,960
years	_	1,930,510	_	40,000 251,099		1,000 741,375	_	41,000 2,922,984
Less Allowance for uncollectible contributions Unamortized discount	_	(36,327) (227,083)	_	(4,724) (44,902)		(13,949) (63,353)	_	(55,000) (335,338)
	\$	1,667,100	\$	201,473	\$	664,073	\$	2,532,646

Notes to Financial Statements June 30, 2009 and 2008

		June 3	0, 2008	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due within one year Due in one to five years	\$ 878,641 1,604,048 2,482,689	\$ 41,177 4,667 45,844	\$ 367,108 744,667 1,111,775	\$ 1,286,926 2,353,382 3,640,308
Less Allowance for uncollectible contributions Unamortized discount	(37,510) (277,499)	(693) (2,934)	(16,797) (121,873)	(55,000) (402,306)
	<u>\$ 2,167,680</u>	<u>\$ 42,217</u>	<u>\$ 973,105</u>	\$ 3,183,002

The discount rate used was 6% for 2009 and 2008.

The College has been named in will commitments totaling \$1,730,000 at June 30, 2009 which are not reflected in the financial statements, as they are considered conditional promises to give.

Note 3: Beneficial interest in Charitable Remainder Trust

The College is the beneficiary under a charitable remainder trust for which it is not the trustee. The College's beneficial interest in this trust is recorded at fair value, measured by the present value of the estimated expected future benefits to be received when the trust assets are distributed. At June 30, 2009 and 2008, the College's beneficial interest in the remainder trust administered by an outside party is \$400,843 and \$526,490, respectively.

Notes to Financial Statements June 30, 2009 and 2008

Note 4: Long-Term Investments

Investments, including deposits with trustees, at June 30 consisted of the following:

	2009	2008
Money market mutual funds U.S. Treasury bill Fixed income mutual funds Equity mutual funds Equity securities Hedge fund-of-funds Other	\$ 4,384,702 1,480,452 4,498,680 8,898,931 2,196,935 2,368,889 422,168	\$ 17,995,544 1,466,138 3,711,988 12,071,803 3,142,759 2,863,123 422,168
	\$ 24,250,757	<u>\$ 41,673,523</u>

Note 5: Endowment

The College's endowment consists of 163 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Notes to Financial Statements June 30, 2009 and 2008

The composition of net assets by type of endowment fund at June 30, 2009 and 2008 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds Board-designated	\$ (1,526,081)	\$ 1,064,737	\$ 13,090,835	\$ 12,629,491
endowment funds	7,886,929			7,886,929
Total endowment funds	<u>\$ 6,360,848</u>	<u>\$ 1,064,737</u>	<u>\$ 13,090,835</u>	<u>\$ 20,516,420</u>
		20	008	
		Tompororily	Darmananthi	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	Unrestricted \$ —	•	•	2 222
		Restricted	Restricted	2 222

Notes to Financial Statements June 30, 2009 and 2008

Changes in endowment net assets for the years ended June 30, 2009 and 2008 were as follows:

		20		
		Temporarily	Permanently	
	Unrestricted	Restricted	Restricted	Total
Endowment net assets, beginning of year	\$ 9,405,428	\$ <u>3,356,968</u>	\$ <u>12,120,146</u>	\$ <u>24,882,542</u>
Investment return: Investment income Net depreciation	165,686 (3,123,361)	321,527 (1,668,269)		487,213 (4,791,630)
Total investment return	(2,957,675)	(1,346,742)		(4,304,417)
Contributions Appropriation of endowment assets for	_	26,214	881,942	908,156
expenditure Other changes –	(86,905)	(833,306)		(920,211)
Reclassifications Change in value of		(85,307)	88,747	3,440
split interest agreement		(53,090)		(53,090)
Endowment net assets, end of year	\$ 6,360,848	<u>\$ 1,064,737</u>	<u>\$ 13,090,835</u>	\$ 20,516,420

Notes to Financial Statements June 30, 2009 and 2008

		20		
	l linus atui ata d	Temporarily	Permanently	Total
	Unrestricted	Restricted	Restricted	Total
Endowment net assets, beginning of year	\$ <u>9,992,518</u>	\$ <u>5,080,734</u>	\$ <u>10,905,431</u>	\$ <u>25,978,683</u>
Investment return: Investment income Net depreciation	332,672 (877,378)	556,894 (1,544,724)		889,566 (2,422,102)
Total investment return	<u>(544,706</u>)	(987,830)		(1,532,536)
Contributions Appropriation of endowment assets for		23,948	1,213,715	1,237,663
expenditure Other changes –	(42,384)	(631,385)	_	(673,769)
Reclassifications Change in value of	_	(1,000)	1,000	_
split interest agreement		(127,499)		(127,499)
Endowment net assets, end of year	<u>\$ 9,405,428</u>	<u>\$ 3,356,968</u>	<u>\$ 12,120,146</u>	<u>\$ 24,882,542</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2009 and 2008 consisted of:

	2009	2008
Permanently restricted net assets – portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation	<u>\$ 13,090,835</u>	<u>\$ 12,120,146</u>
Temporarily restricted net assets Portion of perpetual endowment funds subject to a time restriction	¢ 1.064.727	¢ 2.050.700
With purpose restrictions Without purpose restrictions	\$ 1,064,737 ————	\$ 3,059,709 297,259
	\$ 1,064,737	\$ 3,356,968

Notes to Financial Statements June 30, 2009 and 2008

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the College is required to retain as a fund of perpetual duration pursuant to donor stipulation. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$1,526,081 at June 30, 2009. These deficiencies resulted from unfavorable market fluctuations, and continued appropriation for certain purposes that was deemed prudent by the Board of Trustees.

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to student scholarships and other programs supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the College must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the College's policies, endowment assets are invested in a manner that is intended to produce results that exceed inflation while assuming a moderate level of investment risk. The College expects its endowment funds to provide an average rate of return of approximately CPI plus 2% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the College relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). 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.

The College has a policy (the spending policy) of appropriating for expenditure each year 4.5% of invested endowment assets using a rolling quarter average market value calculation through March 31st of the year preceding the year in which expenditure is planned. For the year ending June 30, 2009, the calculation was based on a rolling 14 quarter average market value. Each year the two oldest quarter market values are excluded and the four most recent quarter market values are added until such year as the calculation is based on a rolling 20 quarter average market value. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of CPI plus 2% annually. This is consistent with the College's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Notes to Financial Statements June 30, 2009 and 2008

Note 6: Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, consist of:

	2009	2008
Land Land improvements Buildings Furnishings and equipment Library books Construction-in-progress	\$ 3,826,217 8,588,082 81,210,100 21,352,465 4,468,077 14,593,771	\$ 3,826,217 8,327,257 76,132,987 20,814,666 4,349,359 2,719,674
Less: accumulated depreciation	134,038,712 45,673,800 \$ 88,364,912	116,170,160 41,820,046 \$ 74,350,114

Note 7: Disclosures About Fair Value of Assets and Liabilities

Effective July 1, 2008, the College adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- **Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Notes to Financial Statements June 30, 2009 and 2008

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market mutual funds, mutual funds, U.S. Treasury securities and equity securities. If quoted market prices are not available, then fair values are estimated by a third party pricing service using pricing models, quoted market prices of securities with similar characteristics or discounted cash flows. For investments, other than alternative investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include fixed income securities and certain trusts. For alternative investments that have sufficient activity or liquidity within the fund, fair value is determined using the net asset value (or its equivalent) provided by the fund and are classified within Level 2 of the valuation hierarchy. For alternative investments that do not have sufficient activity or liquidity within the fund, the net asset value (or its equivalent) provided by the fund is utilized, as a practical expedient, to determine fair value and are classified within Level 3 of the valuation hierarchy. Level 3 securities include hedge funds and private investment trusts.

Interest Rate Swap Agreement

The fair value is estimated using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Beneficial Interest in Charitable Remainder Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Notes to Financial Statements June 30, 2009 and 2008

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position balance sheets measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009:

		Fair Value Measurements Using					
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
Money market mutual funds Beneficial interest in charitable	\$ 16,435,908	\$ 16,435,908	\$ —	\$ —			
remainder trust	400,843		400,843				
U.S. Treasury bill Fixed income	1,480,452	1,480,452					
mutual funds	4,498,680	3,418,688	1,079,992				
Equity mutual fund	8,898,931	8,898,931					
Equity securities Hedge fund-of-	2,196,935	2,196,935					
funds	2,368,889			2,368,889			
Other investments Interest rate swap	422,168		422,168				
agreement	(327,013)		(327,013)				

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	PA Stable Value Fund	Common Sense Fund	
Balance, July 1, 2008	\$ 1,408,692	\$ 1,454,430	
Total realized and unrealized gains and losses, included in change in net assets	(130,413)	(117,820)	
Purchases, issuances and sales		(246,000)	
Balance, June 30, 2009	<u>\$ 1,278,279</u>	\$ 1,090,610	

Notes to Financial Statements June 30, 2009 and 2008

Total losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets still held at the statement of financial position date

\$ (228,305)

Realized and unrealized gains and losses are included in change in net assets for the period from July 1, 2008 through June 30, 2009.

Note 8: Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at June 30, consist of:

	2009		2008		
Accrued payroll and deferred compensation Accrued payroll taxes and withholdings Accrued vacation Other accrued expenses	\$	1,764,748 422,254 577,478 191,780	\$	1,652,722 259,198 541,460 192,427	
	\$	2,956,260	\$	2,645,807	

Notes to Financial Statements June 30, 2009 and 2008

Note 9: Long-term Debt

Long-term debt at June 30 consists of the following:

	2009	2008
Notes payable Lines of Credit	\$_1,748,990	\$ <u>1,528,050</u>
Capital Lease obligation Capital lease obligation includes a ten year lease covering washer and dryer equipment used in the College's dormitories and housing facilities. The lease expires in the year 2017.	162,16 <u>6</u>	<u>171,066</u>
Pennsylvania Higher Education Facilities Authority Revenue Bonds Series 1999 E1, with interest at 0.30% at June 30, 2009 and at variable rates thereafter that		
are based upon the Bond Market Association (BMA) index Pennsylvania Higher Education Facilities Authority Revenue Bonds Series 2001 I2, with interest at 0.30%	2,400,000	2,600,000
at June 30, 2009 and at variable rates thereafter that are based upon the BMA index College Revenue Bonds of 2003, with interest at a swap rate of 3.82% at June 30, 2009 until November 1, 2012,	4,700,000	4,900,000
and at variable rates thereafter that are based upon the BMA index	4,600,000	4,800,000
College Revenue Refunding Bonds Series A and B of 2004, with interest rates ranging from 3.70% to 5.00% College Revenue Bonds of 2008, with interest rates	13,430,000	14,485,000
ranging from 4.00% to 5.50%	<u>21,970,000</u>	<u>21,970,000</u>
Total bonds payable	47,100,000	48,755,000
Total long-term debt	<u>\$ 49,011,156</u>	<u>\$ 50,454,116</u>

The College currently has two line of credit arrangements with two local banks that provide the College up to a total of \$2,700,000 for physical plant improvement projects and working capital. The first agreement is for capital expenditures and expires on December 31, 2010. The original amount of the note was \$1,000,000, and was amended to \$1,700,000 on March 10, 2005. The note accrues interest on outstanding borrowings at a rate equal to the (i) bank's prime lending rate minus .5%, or (ii) a LIBOR–Rate plus 1.50% for the applicable LIBOR-Rate Interest Period. Borrowings are secured by the gross revenues of the College, on parity with the Borrower's bondholders. On March 23, 2006, the College entered into a one year \$1,000,000 revolving line of credit for short term working capital with a bank to replace a line of credit with another bank which expired March 1, 2006. Borrowings on the line are unsecured and are a general obligation of the College. The line of credit expires March 22, 2010. The note accrues interest on

Notes to Financial Statements June 30, 2009 and 2008

outstanding borrowings at a rate equal to the LIBOR-flex rate plus 1.25%. A commitment fee of 0.125% is assessed on any unused portion of the line of credit. At June 30, 2009 and 2008 the balances outstanding under the lines of credit were \$1,748,990 and \$1,528,050 respectively.

On November 1, 1999, the College issued a \$3,500,000 bond issue through the Pennsylvania Higher Education Facilities Authority for the purpose of (a) purchase of four apartment buildings for student housing; (b) renovations to the Hammermill Library; (c) construction of eight townhouses for student housing located at 16 West Division Street at the campus located in the town of North East, Pennsylvania; (d) certain additional miscellaneous capital expenditures and (e) the payment of certain costs of issuing the bonds.

On November 1, 2001, the College issued a \$5,500,000 bond issue through the Pennsylvania Higher Education Facilities Authority for the purpose of (a) construction of the Audrey Hirt Academic Center and (b) the renovation of the College's hockey rink.

On July 31, 2003, the College issued a \$5,475,000 bond issue through the Authority for the purpose of (a) the acquisition of four apartment buildings on Lewis Avenue for student housing; (b) the acquisition of four apartment buildings known as "Highland Square" for student housing; (c) construction of two two-story residence halls on the College's Erie campus; (d) construction of a two-story Health and Safety Building on the College's North East campus; and (e) the payment of certain costs of issuing the bonds. On September 2, 2004, the College obtained approval from the Authority to amend the list of projects covered by the 2003 Bond Issue to include certain costs associated with the construction of a bookstore and the renovation of Old Main, both of which are located on the College's Erie campus.

On October 1, 2004, the College issued \$13,225,000 College Revenue Refunding Bonds, Series A of 2004 and \$5,140,000 College Revenue Refunding Bonds, Series B of 2004 (collectively, the 2004 Bonds) through the Authority. The 2004 Bond proceeds were used to finance a project consisting of (a) current refunding of all 1993 Bonds; and (b) the financing of the costs relating to the issuance of the 2004 Bonds. The 1993 Bond proceeds were used to finance a project consisting of (a) advance refunding of all outstanding debt under previously issued Bonds; (b) the construction of on-campus apartment buildings, townhouses and a parking deck; (c) the purchase of certain land and buildings on which the College is situated; (d) a portion of the costs associated with the construction of a concert hall; (e) the funding of a debt service reserve fund; and (f) the financing of the costs relating to the issuance of the 1993 Bonds.

On June 1, 2008, the College issued \$21,970,000 College Revenue Bonds through the Authority. The 2008 Bond proceeds were used to finance a project consisting of (a) current refunding of all 1997 Bonds, (b) the financing of the construction of a four-story, approximately 100,000 square foot 320-bed residence hall on the College's Erie campus, (c) the financing of the construction of a two-story, approximately 22,000 square foot 75-bed residence hall on the College's North East campus, (d) the funding of a debt service reserve fund; and (e) the financing of the costs relating to the issuance of the 2008 Bonds. The 1997 Bond proceeds were used to finance a project consisting of (a) the acquisition

Notes to Financial Statements June 30, 2009 and 2008

of apartment buildings for student housing; (b) the completion and automation of the College's library; (c) the renovation of McAuley Hall; (d) the construction of additional College facilities; (e) the funding of a debt service reserve fund; and (f) the financing of all or a portion of the costs relating to the issuance of the 1997 Bonds.

The College is subject to certain financial and reporting covenants under the 1999, 2001, 2003, 2004, and 2008 Bond issues. The College is in compliance with these covenants.

As part of the 1993, 1997, 2004, and 2008 Bond issues, the Authority entered into a Sublease and Security Agreement, a Supplemental Sublease and Security Agreement, a Second Supplemental Sublease and Security Agreement, and a Third Supplemental Sublease and Security Agreement (the Agreements) with the College. Pursuant to the Agreements, the College is charged with operating and maintaining the related construction projects and making installment payments from its gross revenues in amounts sufficient to meet debt service requirements of the 2004 and 2008 Bonds.

The 2004 and 2008 Bonds are secured by all gross revenues of the College, subject to certain permitted encumbrances, and all existing and future equipment and fixtures of the College.

The 1999 Bonds are secured by a letter of credit with a bank in the amount of \$2,444,000. The letter of credit expires July 1, 2012 and is renewable thereafter.

The 2001 Bonds are secured by a letter of credit with a bank in the amount of \$4,786,167. The letter of credit expires July 1, 2012 and is renewable thereafter.

The 2003 Bonds are secured by a letter of credit with a bank in the amount of \$4,685,867. The letter of credit expires July 1, 2012 and is renewable thereafter.

The mandatory redemption and sinking fund requirements to redeem or otherwise retire principal amounts of the 1999 and 2001, 2003, 2004, and 2008 Bonds are as follows:

- 1999 Bonds Ranging from \$200,000 in 2010 to \$300,000 in 2020 at maturity.
- 2001 Bonds Ranging from \$300,000 in 2010 to \$500,000 in 2022 at maturity.
- 2003 Bonds Ranging from \$200,000 in 2010 to \$400,000 in 2024 at maturity.
- 2004 Series A Bonds Ranging from \$865,000 in 2010 to \$1,150,000 in 2017, \$660,000 in 2018, \$695,000 in 2019, and \$80,000 in 2020 at maturity.
- 2004 Series B Bonds Ranging from \$220,000 in 2010 to \$345,000 in 2020, \$315,000 in 2021, \$330,000 in 2022, and \$340,000 in 2023 at maturity.
- 2008 Bonds Ranging from \$405,000 in 2012 to \$1,480,000 in 2038 at maturity.

Notes to Financial Statements June 30, 2009 and 2008

Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at June 30, 2009:

	Long-term de (excluding leases)	ebt Capital Lease Obligations
2010 2011 2012 2013 2014 Thereafter	\$ 2,704,680 2,649,310 2,280,000 2,440,000 2,500,000 36,275,000 \$ 48,848,990	35,820 35,820 35,820 35,820 35,820 113,430
Less amount representing interest payments		<u>130,364</u> <u>\$ 162,166</u>

Note 10: Derivative Financial Instruments

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the College entered into an interest rate swap agreement for a portion of its floating rate debt. The agreement provides for the College to receive interest from the counterparty at 67% of LIBOR and to pay interest to the counterparty at a fixed rate of 3.82% on a notional amount of \$4,600,000 at June 30, 2009. Under the agreement, the College pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreement is recorded at its fair value with subsequent changes in fair value included in expenses and other deductions.

Note 11: Operating Leases

The College has various operating lease agreements primarily involving facilities, office equipment and vehicles. These leases are noncancelable and expire on various dates through the year 2017.

Total rental expense for 2009 and 2008 was \$2,064,792 and \$2,034,429, respectively.

Notes to Financial Statements June 30, 2009 and 2008

Future minimum lease payments at June 30 were:

2010	\$ 1,653, ²	173
2011	1,084,7	786
2012	768,	115
2013	509,0)61
2014	386,0	003
Thereafter	827,	<u> 570</u>
	\$ 5,228,7	708

Note 12: Trusts Payable

The College administers two charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the College's use. The portion of the trust attributable to the future interest of the College is recorded in the statements of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair market value in the College's statements of financial position. On an annual basis, the College revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using discount rates available at the date of the trusts' inception which were 7.0% and 7.6% and applicable mortality tables.

Note 13: Pension Plan

Retirement benefits are provided for College employees through the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF) a national organization, and the Variable Annuity Life Insurance Company (VALIC), used to fund pension benefits for educational institutions. Under the arrangement, the College and plan participants make monthly contributions to TIAA-CREF and VALIC to fund retirement benefits through a defined contribution plan. The plan covers a majority of all eligible employees. The College's share of the cost of these benefits for the years ended June 30, 2009 and 2008 was \$1,173,218 and \$1,119,462, respectively.

Note 14: Contingencies and Commitments

The College is subject to claims and lawsuits that can arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits, if they were to occur, will not have a material adverse effect on the financial position, change in net assets and cash flows of the College.

Notes to Financial Statements June 30, 2009 and 2008

Note 15: Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or future periods:

		2009		2008
Student services	\$	_	\$	79,219
Institutional support		366,854		949,623
Loan funds		41,021		43,696
Instruction		1,189,209		1,553,452
Academic support		4,329		3,324
Scholarships				1,265,849
Plant operations and additions		841,248		721,716
Public service	_	13,660	_	32,059
	\$	2,456,321	\$	4,648,938

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to investments in perpetuity, the income from which is expendable to support:

	2009		2008	
Institutional support Scholarships Instructional Public service	\$	2,402,880 9,240,676 1,385,070 62,209	\$	2,344,360 8,340,952 1,372,625 62,209
	\$	13,090,835	\$	12,120,146

Notes to Financial Statements June 30, 2009 and 2008

Net Assets Released from Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

		2009		2008
Purpose of restrictions accomplished:				
Instructional activities	\$	42,800	\$	28,395
Academic support		1,221		777
Institutional support		392,476		271,611
Operation and maintenance of plant		20,584		40,629
Scholarships	_	824,908	_	685,689
		1,281,989		1,027,101
Plant fund expenditures		19,787	_	
	\$	1,301,776	\$	1,027,101

Note 16: Expense Summary

Expenses classified by natural classification are summarized as follows:

	2009	2008
Salaries and wages Fringe benefits Contract services Supplies Travel	\$ 27,792,804 9,403,644 3,130,792 1,257,406 2,130,858	\$ 26,892,008 9,164,634 3,225,117 1,462,736 2,233,968
Repairs and maintenance Utilities Cost of sales for auxiliary enterprises	1,392,050 2,279,192 5,271,447	1,958,531 2,272,927 5,098,357
Bad debts Rents and leases Non-capital equipment Interest on indebtedness	545,415 2,064,792 1,158,989 1,927,067	968,750 2,034,429 1,671,556 1,448,109
Insurance Depreciation and amortization Other	769,859 4,000,153 <u>7,012,052</u>	810,656 3,838,134 7,460,734
	<u>\$ 70,136,520</u>	<u>\$ 70,540,646</u>

Notes to Financial Statements June 30, 2009 and 2008

Note 17: Functional Expenses

The College's expenses on a functional basis are as follows:

	2009	2008
Instruction Public service	\$ 29,987,896 242,800	\$ 28,310,376 279,655
Academic support Student services	2,537,240 13,084,724	2,540,194 13,231,503
Institutional support Auxiliary enterprises	10,083,009 12,964,285	11,523,973 13,635,236
Fundraising	1,236,566 \$ 70,136,520	1,019,709 \$ 70,540,646

Note 18: Significant Estimates and Concentrations

Current Economic Conditions

The current economic environment presents colleges and universities with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in contributions, student financial aid, enrollment revenue, governmental support, grant revenue, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the College.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values, allowances for contributions receivable and the valuation of intangibles that could have an adverse impact on the College.

Note 19: Subsequent Events

Subsequent events have been evaluated through October 16, 2009, which is the date the financial statements were issued.



Schedule of Expenditures of Federal Awards Year Ended June 30, 2009

Federal Agency/Pass-Through Entity/Cluster/Program	CFDA Number	Grant or Identifying Number	Amount
Department of Education	Number	Nullibei	Amount
Student Financial Aid Cluster			
Federal Work Study Program	84.033		\$ 421,733
Federal Pell Grant Program	84.063		4,389,032
Federal Supplemental Education Opportunity Grant	84.007		456,886
Federal Perkins Loan Program	84.038		350,790
Federal Direct Lending Program	84.268		28,406,535
Academic Competitiveness Grant	84.375		153,379
National Science and Mathematics Access to Retain Talent Grant	84.376		29,333
Pass-through from Pennsylvania Department of Education			
Vocational Education Program	84.048	23-600-3115	201,004
ACH Program	84.215X	25-600-1265	2,191
Art-Based Teacher ED	84.116Z		15,194
Total Department of Education			34,426,077
Department of Labor			
Pass-through from Pennsylvania Department of Labor			
Trade Adjustment Act Program	17.245	23-600-3107	47,354
Department of Justice			
Pass-through from Pennsylvania Commission on Crime and Delinquency	40	2225 12 22 12222	7.040
PCCD Truancy Grant	16.	2005-JG-06 18922	7,218
Burned Human Remains		2008-DN-BX-K131	51,435
Mass Fatality Scenes Parameters in Modern Subadults		2008-DN-BX-K133 2008-DN-BX-D152	41,893 100,496
Knife and Saw Tool Mark Analysis	16.	2005-IJ-CX-K016	12,023
Total Department of Justice	10.	2000-10-07-11010	213,065
Department of Health and Human Services Pass-through from Pennsylvania Department of Public Welfare			
	02.550	270 0204 04	7 570
Temporary Assistance for Needy Families – TANF Challenge	93.558	378-0281-01	7,572
Department of Defense			
National Security Administration	12.	H98230-05-D0101	7,581
HHS ID Dev	12.	SDSASD07CA002	224,093
Biometrics in the Developing World	12.	H98230-05-D-0101	61,830
Telecommunications Technology Wikis Use	12.	H98230-05-D-0101	28,001
Total Department of Defense			<u>321,505</u>
Department of Commerce			
NOAA Eastern Gulf of Mexico	11.460		89,388
Office of National Drug Control Policy			
Washington DC/Baltimore HIDTA Project	7.999	17PWBP800Z	93,676
Environmental Protection Agency	00.400		44.000
Great Lakes Program – LERC Conneaut Creek Watershed	66.469		11,060
Corporation for National & Community Service			
Service Learning Symposium	94.005		2,792
National Aeronautics and Space Administration			
NASA Volcanic Processes	43.AAA		1,440
Total			\$ 35,213,929

Schedule of Expenditures of Federal Awards Year Ended June 30, 2009

Notes to Schedule

- This schedule includes the federal awards activity of Mercyhurst College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
- 2. Mercyhurst College provided no federal awards to subrecipients.
- 3. The Federal Direct Lending Program consists of subsidized and unsubsidized Federal Loans (for students) and Federal PLUS Loans (for parents and graduate students). Federal statute requires that proceeds from Federal Direct Lending Loans (subsidized, unsubsidized, and PLUS) be disbursed to the College to be directly applied to students' accounts. New loans processed for students during the year ended June 30, 2009 were as follows:

Federal Direct Lending Program	
Subsidized	\$ 11,337,498
Unsubsidized	12,656,090
PLUS	4,412,947
FFEL Perkins	<u>350,790</u>

\$ 28,757,325

Schedule of Findings and Questioned Costs Year Ended June 30, 2009

Summary of Auditor's Results

1.	. The opinion expressed in the independent accountants' report was:		
	☐ Unqualified ☐ Qualified ☐ Adverse ☐ D	isclaimed	
2.	The independent accountants' report on internal control over	financial repo	rting described:
	Significant deficiency(ies) noted considered material weakness(es)?	☐Yes	⊠ No
	Significant deficiency(ies) noted that are not considered to be a material weakness?	⊠ Yes	□No
3.	Noncompliance considered material to the financial statements was disclosed by the audit?	☐Yes	⊠ No
4.	 The independent accountants' report on internal control over compliance with requirement applicable to major federal awards programs described: 		
	Significant deficiency (ies) noted considered material weakness(es)?	☐Yes	⊠ No
	Significant deficiency (ies) noted that are not considered to be a material weakness?	⊠ Yes	□No
5.	The opinion expressed in the independent accountants' reporequirements applicable to major federal awards was:	rt on compliar	nce with
	□ Unqualified □ Qualified □ Adverse □ D	isclaimed	
6.	The audit disclosed findings required to be reported by OMB Circular A-133?	⊠ Yes	□No

Schedule of Findings and Questioned Costs Year Ended June 30, 2009

<i>/</i> .	The Organization's major programs were:	
	Cluster/Program	CFDA Number
	Student Financial Aid Cluster	84.033, 84.063, 84.007, 84.038, 84.268, 84.375, 84.376
8.	The threshold used to distinguish between Type A and Type E defined in OMB Circular A-133 was \$1,056,418.	3 programs as those terms are
9.	The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?	⊠ Yes □ No

Schedule of Findings and Questioned Costs Year Ended June 30, 2009

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
09-01	Criteria or specific requirement – The Organization's internal control is designed to ensure accurate financial reporting through timely reconciliations between Student Financial Aid records, School Account Statements (SAS) monthly reports from the Common Origination and Disbursement system back into the general ledger and cash receipts.	None
	Condition—We noted that this reconciliation was not completed in a timely fashion.	
	Context—Several individuals in the student financial aid office receive the SAS reports and process variances, however reconciliation to the general ledger for identification of reconciling items was not completed.	
	Effect—Excess funds could be requested and/or disbursed to students for which the institution is not approved.	
	Cause—It appears that control procedures were not operating as designed.	
	Recommendation—We recommend that the Director of Student Financial Aid and the Finance office review the reconciliation process in detail and establish a formal monthly reconciliation control procedure to help ensure the financial integrity of the monthly accounting records and year-end financial statements.	
	Views of responsible officials and planned corrective actions— Management has modified the reconciliation control procedures in order to make sure to timely capture all differences between funds distributed, requested, and outstanding.	

Schedule of Findings and Questioned Costs Year Ended June 30, 2009

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
09-01	Federal Program–Federal Direct Student Loans, CFDA No. 84.268, U.S. Department of Education, Program Year 2009	None
	Criteria or specific requirement – The Organization's internal control is designed to ensure accurate financial reporting and compliance with Department of Education requirements through timely reconciliations between Student Financial Aid records, School Account Statements (SAS) monthly reports from the Common Origination and Disbursement system back into the general ledger and cash receipts.	
	Condition—We noted that this reconciliation was not completed in a timely fashion.	
	Context—Several individuals in the student financial aid office receive the SAS reports and process variances, however reconciliation to the general ledger for identification of reconciling items was not completed.	
	Effect—Excess funds could be requested and/or disbursed to students for which the institution is not approved.	
	Cause—It appears that control procedures were not operating as designed.	
	Recommendation—We recommend that the Director of Student Financial Aid and the Finance office review the reconciliation process in detail and establish a formal monthly reconciliation control procedure to help ensure compliance with Department of Education requirements monthly accounting records and yearend financial statements.	
	Views of responsible officials and planned corrective actions— Management has modified the reconciliation control procedures in order to make sure to timely capture all differences between funds distributed, requested, and outstanding.	

Summary Schedule of Prior Audit Findings Year Ended June 30, 2009

Reference		
Number	Summary of Finding	Status

No matters are reportable.