MORAVIAN COLLEGE

Live. Learn. Enjoy.

(Reeves Library   Oil on canvas by Ed Bolcar, Jr. 2013)

FINANCIAL REPORT 2012-13

About the Artist:

Ed Bolcar, Jr. has been employed by Moravian College as a carpenter in the facilities services department since 1984.

Ed began to realize that he would have to find another hobby, since health issues were preventing his involvement with woodworking and bowling. On December 29, 2010, he completed his first painting using his daughter's painting supplies.

He took his first painting class at Moravian in the summer of 2011. It was a six week course under the guidance of Aron Johnson. Ed says, "The six week course really improved the quality of my paintings." Ed makes custom, handcrafted diploma frames with personalized laser engravings and prints of his paintings of Moravian College buildings.

He completed 60 paintings and has framed, matted prints available for purchase.

Management Discussion

The 2013 financial statements for the College and Theological Seminary reflect Moravian's continued commitment to balance resources with spending in a challenging economic environment. The College undergraduate program and Seminary both experienced lower applications and enrollments over the past year while the graduate program enrollments remained steady. Overall, revenues have remained flat, and the College and the Seminary responded by reducing costs including selected salary freezes, reductions in staff benefits and energy conservation programs. This action resulted in positive operating results for 2012/2013 and a conservative, balanced budget for 2013/2014.

As part of the College's efforts to increase enrollment academic programming was enhanced through the addition of three new tracks to support our masters and undergraduate programs: Data Analytics, Pre-music Therapy and Sports Management. In addition, Moravian College and East Stroudsburg University - Bethlehem, are collaborating on a new Bachelor of Science major in Public Health.

Over the summer, investment in capital improvement focused on the Collier Hall of Science as the facility was upgraded with a new Anatomy and Physiology lab, improved student spaces, and a healthier and safer building infrastructure. The next phase, which is scheduled for summer 2014, is scheduled to include a new "superlab" as well as additional lab and access improvements. Fundraising is ongoing and additional improvements will be made as funds become available.

In order to fund the most recent phase of the Collier Hall of Science project, the College issued $10 million in debt, bringing the total outstanding debt to $38.9 million. The average annual debt service for the next 10 years is $2.5 million with the exception of 2016 when the $3.8 million balloon payment on the 2011 bonds will come due. The College does not anticipate any problems with re-financing or retiring the 2011 debt at that time.

The College and Seminary endowment reached its highest value of $98 million as of June 30, 2013. Over the past 5 years the fund has received gifts totaling $26.2 million and has provided $28 million in support for operations and capital projects. Investment returns for the one and three year periods were 9.7% and 9.3% (annualized), respectively and the spending rate has been maintained at a conservative 4.5%. The portfolio allocation as of year-end was: 16.3% Domestic equity, 19.3% international equity, 16.3% bonds, 12.9% cash, 11.6% real estate and natural resources and 23.6% private equity and hedge funds.

Moravian College and Theological Seminary enter 2013-2014 with new Board leadership and a new President who are equipped with the strong financial resources to implement their vision for current and future students of Moravian.

Financial Review

Statement of Financial Position

At the end of 2013, consolidated net assets were up $6.4 million over the prior year. All categories of net assets: unrestricted, temporarily restricted and permanently restricted saw increases from 2012. There was a slight decrease in current assets as cash balances declined year over the year. Non-current assets saw a large increase as the investment in the Hall of Science continued over the summer of 2013. Additionally, the unexpended portion of the 2013 bond issue for the Hall of Science increased the amount of the deposits with trustees. Investment valuations at June 30, 2013, were higher due to $2 million in new gifts coupled with positive market performance. Finally, total liabilities also rose over $9 million compared to the prior year as a result of addition of the 2013 $10 million bond issue referenced above.

College Statement of Activities

College operating revenues declined by more than $700 thousand due, primarily, to lower enrollment and increased financial aid per student. The increase in private gifts reflects the continuation of the Campaign for Moravian with a focus on fundraising for the Hall of Science renovations. Auxiliary services were also down as a result of outsourcing the bookstore; however a similar reduction in auxiliary expenses was also realized. Total operating expenses were reduced by 2.5% due, in significant part to the refinancing of existing debt at lower interest rates. This reduced interest expense impacted Resident Instruction costs. Finally, non-operating activity reflects a total gain of $4.5 million as a result of the institution's endowment fund market performance.

Seminary Statement of Activities

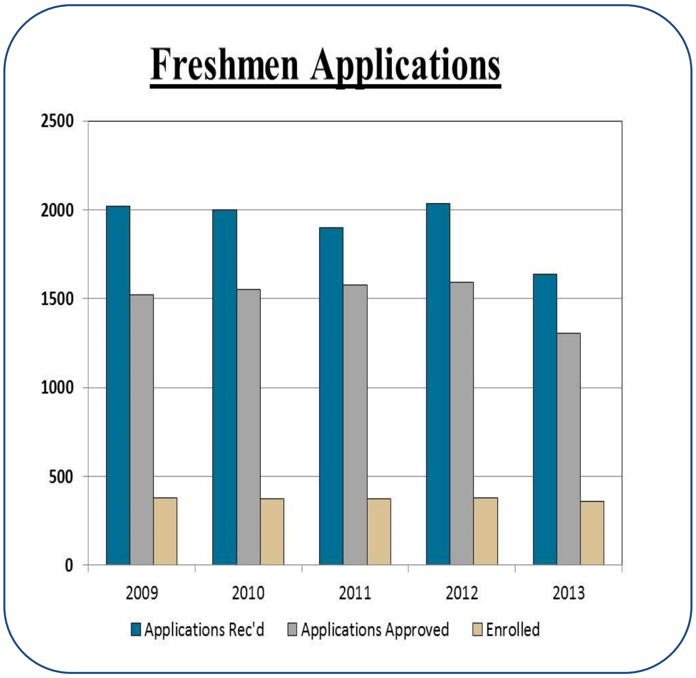
Seminary net assets increased by $775 thousand from 2012 to 2013. Operating revenues from tuition, gifts and auxiliary sources were down 32%, or over $660 thousand, driven by lower enrollment during the year. Operating expenses decreased $132 thousand or -5.5%. The reduced contribution was more than offset by changes in the market value of the endowment which resulted in non-operating gains of $1.6 million.

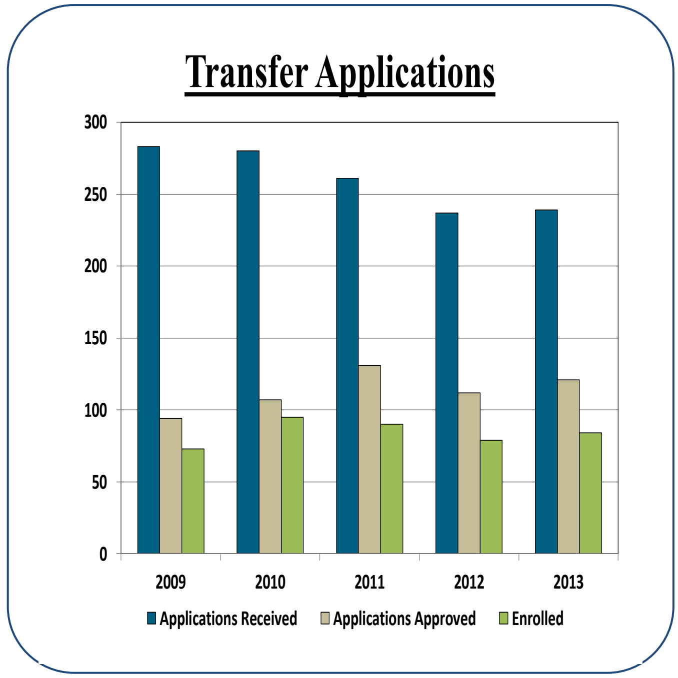
Statement of Cash Flows

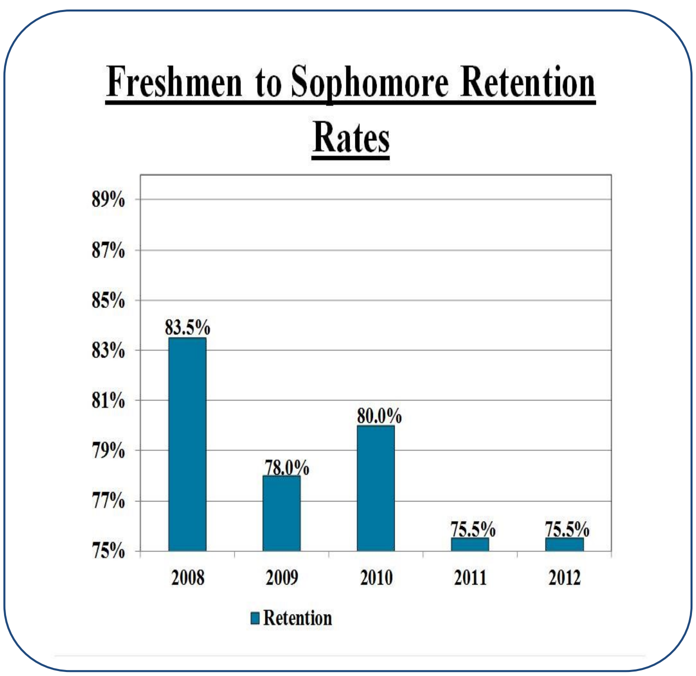
The primary purpose of the statement of cash flows is to provide relevant information about the cash receipts and cash payments of the consolidated enterprise. The information provided in the statement of cash flows, used with the related disclosures and information in the other financial statements, 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.

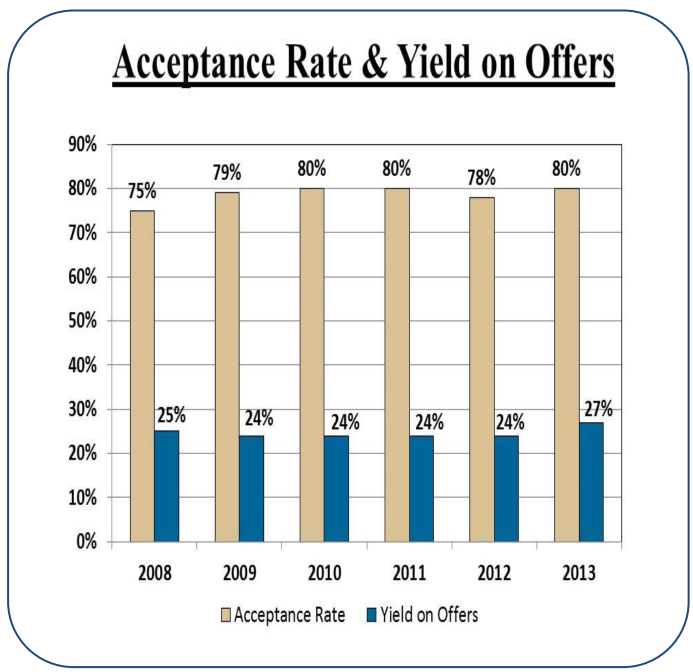
> **Operating activities**: During the 2012/2013 year, the College and Seminary contributed over $3.2 million from operations. This figure is calculated based on the adjustments to the change in total net assets for non-cash operating items and the changes in certain asset and liability accounts.
>
> **Investing activities**: The College invested over $8.4 million in capital projects, primarily the Collier Hall of Science renovations. Additionally, available operating cash was used to purchase longer term, higher return investments.
>
> **Financing activities:** The College financed the Collier Hall of Science renovation during the year. This resulted in the net cash increase to financing activities of over $10 million.

In summary, these three categories resulted in a net cash outflow just under $500,000; however, at June 30, 2013 the consolidated institution's cash balance remains solidly liquid at $9.8 million.

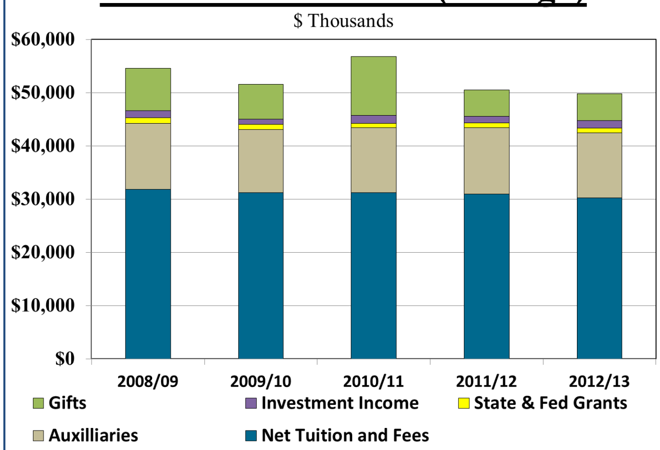

Freshmen Applications
2500
2000
1500
1000
500
0
2009
2010
2011
2012
2013
Applications Rec'd
Applications Approved
Enrolled


Transfer Applications
300
250
200
150
100
50
0
2009
2010
2011
2012
2013
Applications Received
Applications Approved
Enrolled

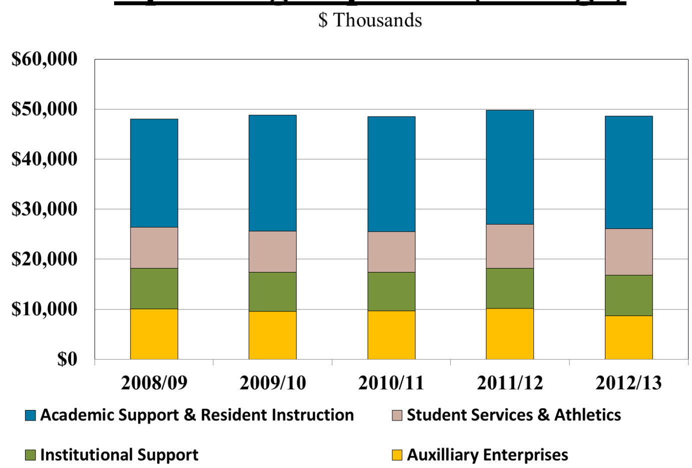

Freshmen to Sophomore Retention Rates
89%
87%
85%
83%
81%
79%
77%
75%
83.5%
78.0%
80.0%
75.5%
75.5%
2008
2009
2010
2011
2012
Retention


Acceptance Rate & Yield on Offers
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
75%
79%
80%
80%
78%
80%
25%
24%
24%
24%
24%
27%
2008
2009
2010
2011
2012
2013
Acceptance Rate
Yield on Offers

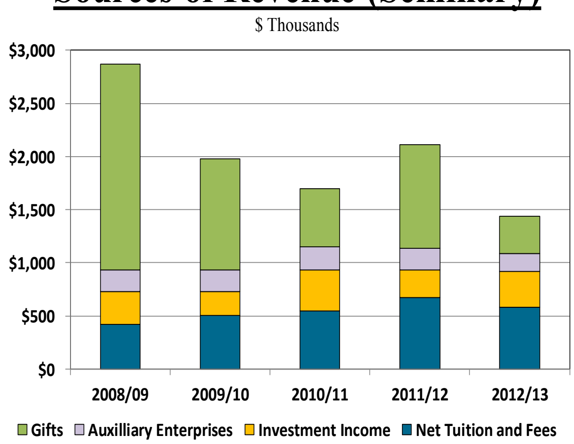
Sources of Revenue (College)



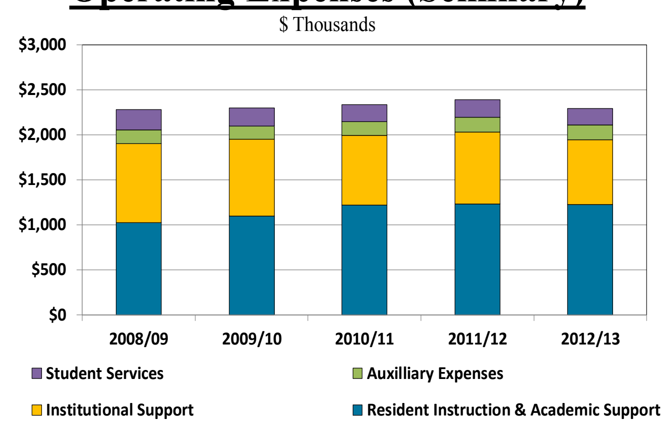
Operating Expenses (College)

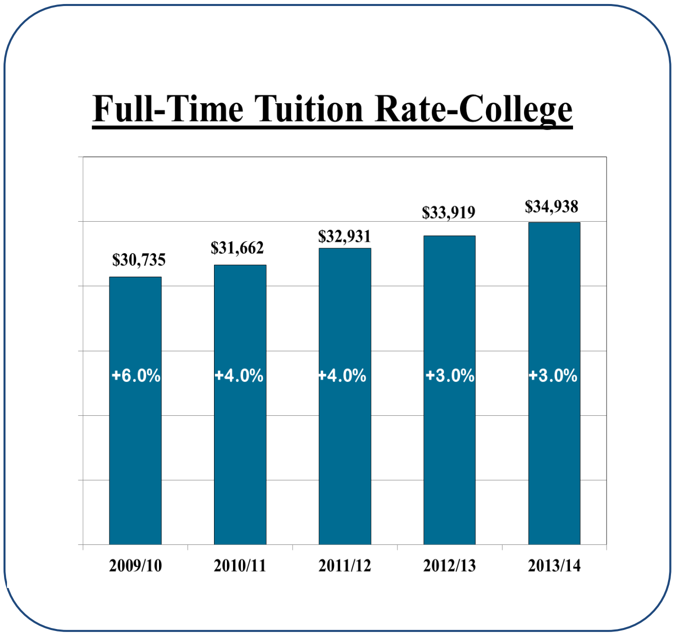


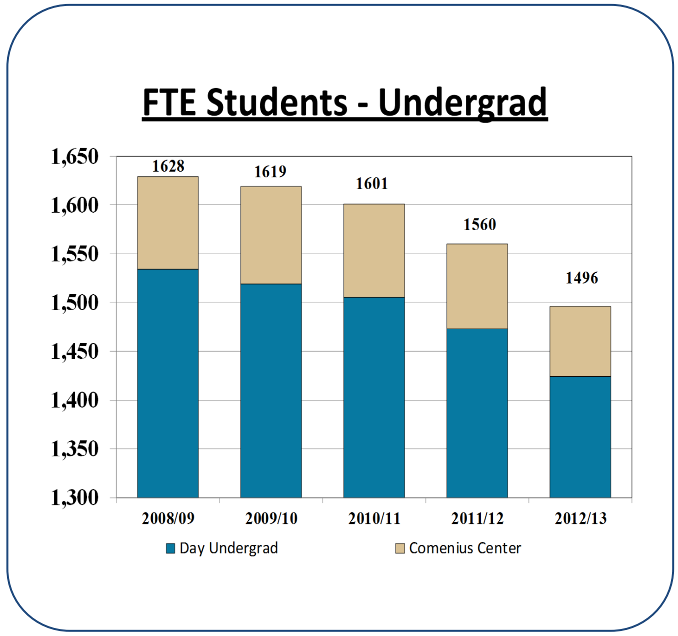
Sources of Revenue (Seminary)

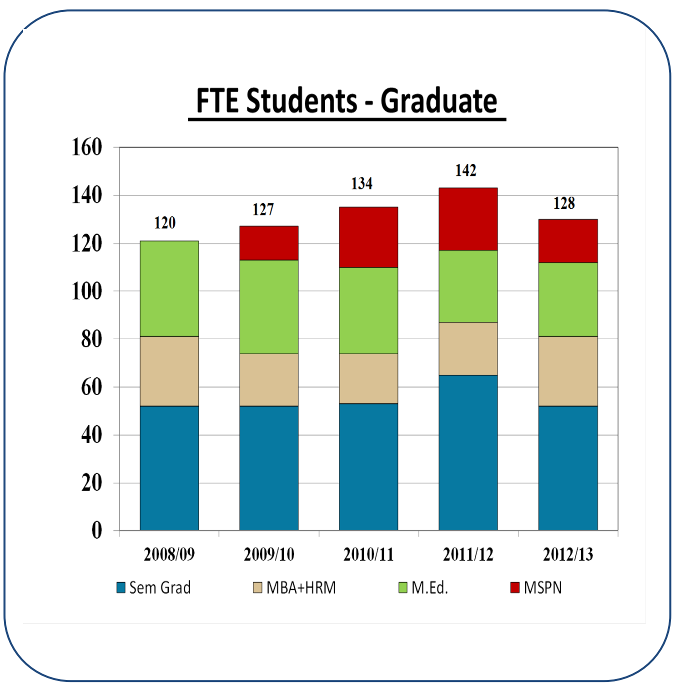


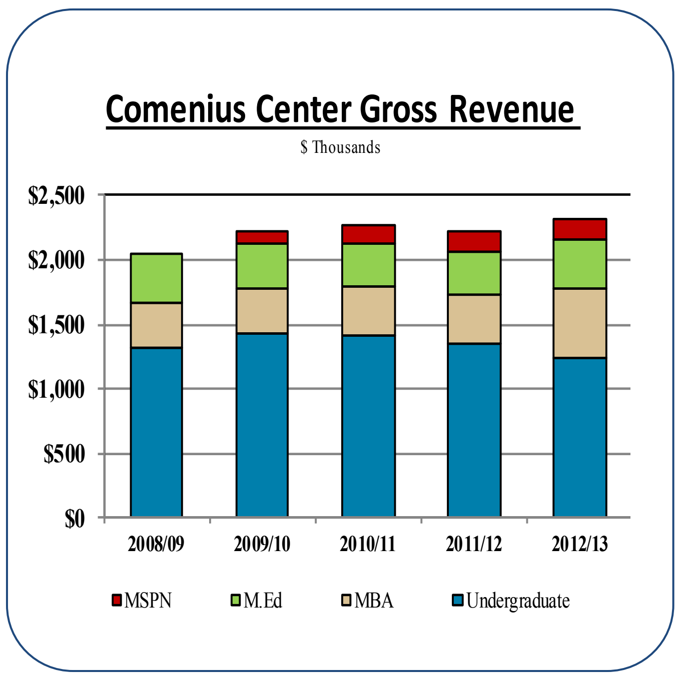
Operating Expenses (Seminary)




Full-Time Tuition Rate-College
$30,735
$31,662
$32,931
$33,919
$34,938
+6.0%
+4.0%
+4.0%
+3.0%
+3.0%
2009/10
2010/11
2011/12
2012/13
2013/14

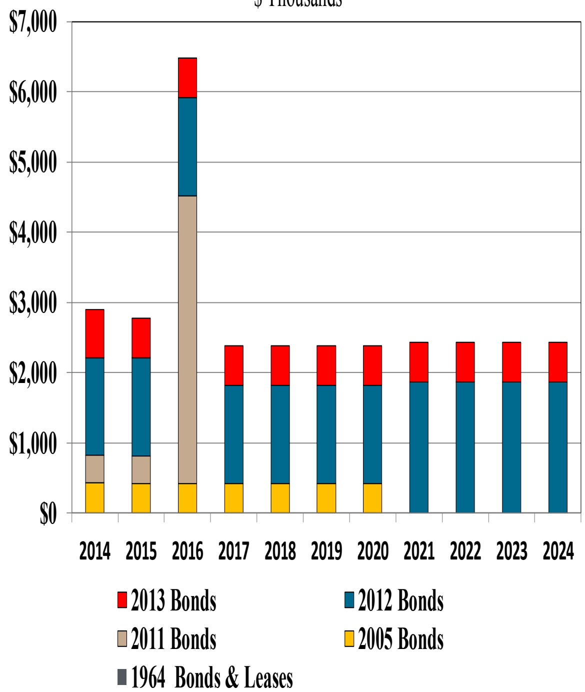

FTE Students - Undergrad
1,650
1,600
1,550
1,500
1,450
1,400
1,350
1,300
1628
1619
1601
1560
1496
2008/09
2009/10
2010/11
2011/12
2012/13
Day Undergrad
Comenius Center


FTE Students - Graduate
160
140
120
100
80
60
40
20
0
120
127
134
142
128
2008/09
2009/10
2010/11
2011/12
2012/13
Sem Grad
MBA+HRM
M.Ed.
MSPN


Comenius Center Gross Revenue
$ Thousands
$2,500
$2,000
$1,500
$1,000
$500
$0
2008/09
2009/10
2010/11
2011/12
2012/13
MSPN
M.Ed
MBA
Undergraduate

10 Year Debt Service Summary

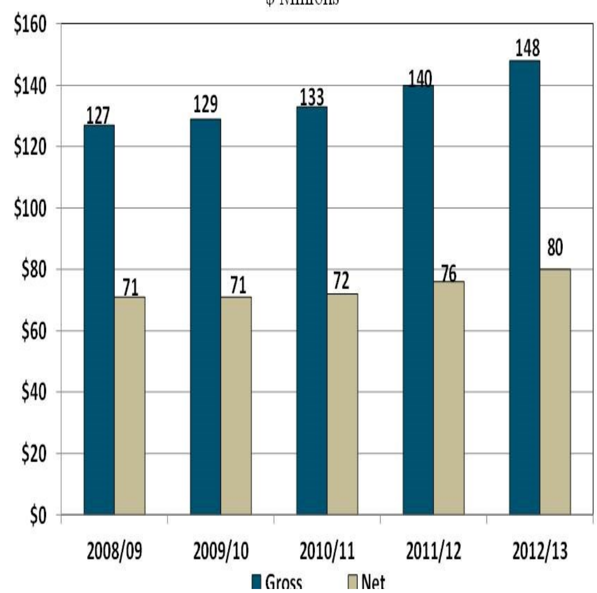
$ Thousands

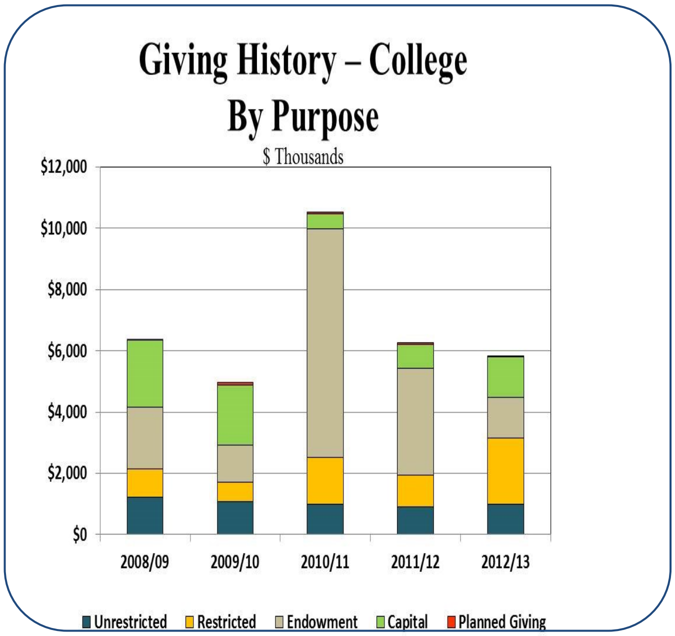


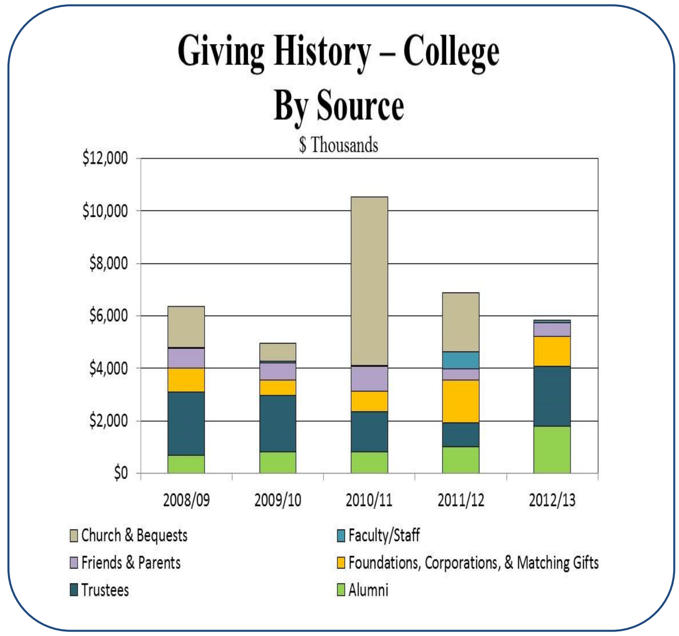
Investment in Property, Plant & Equipment

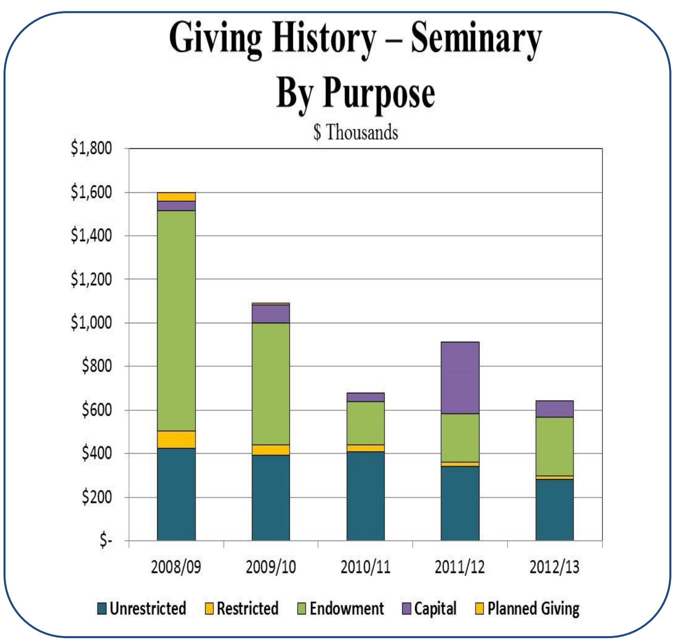
Gross & Net of Depreciation

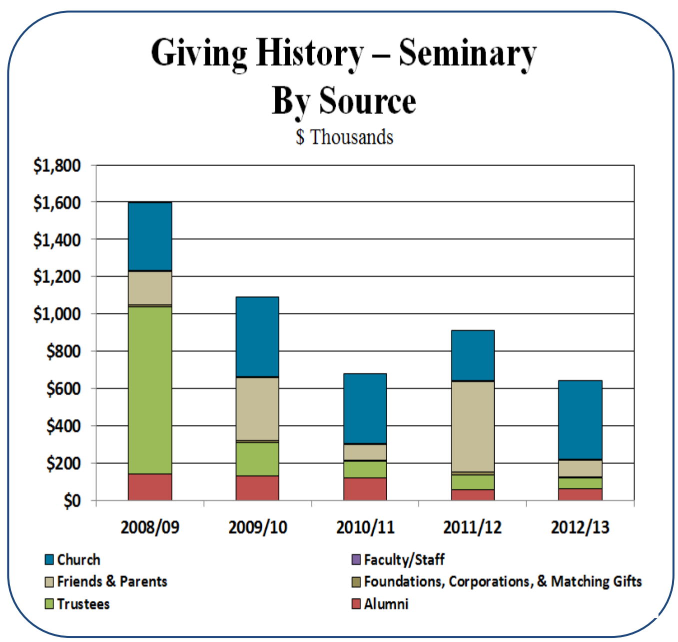
$ Millions

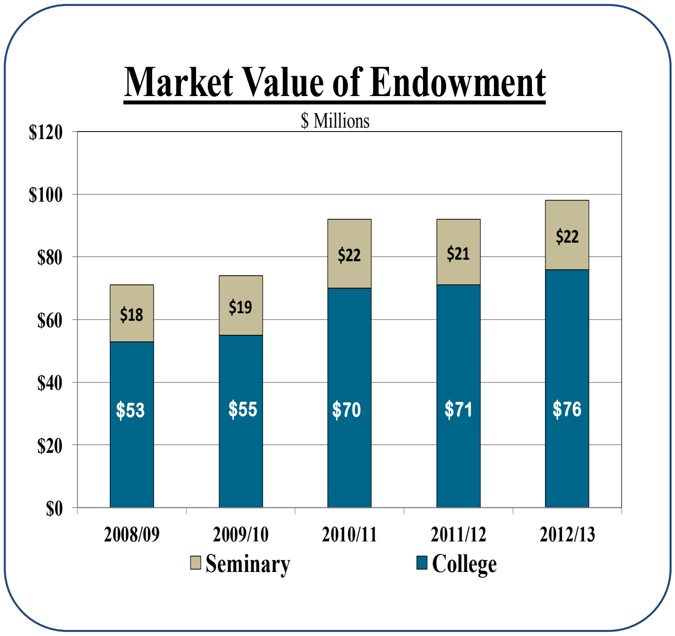


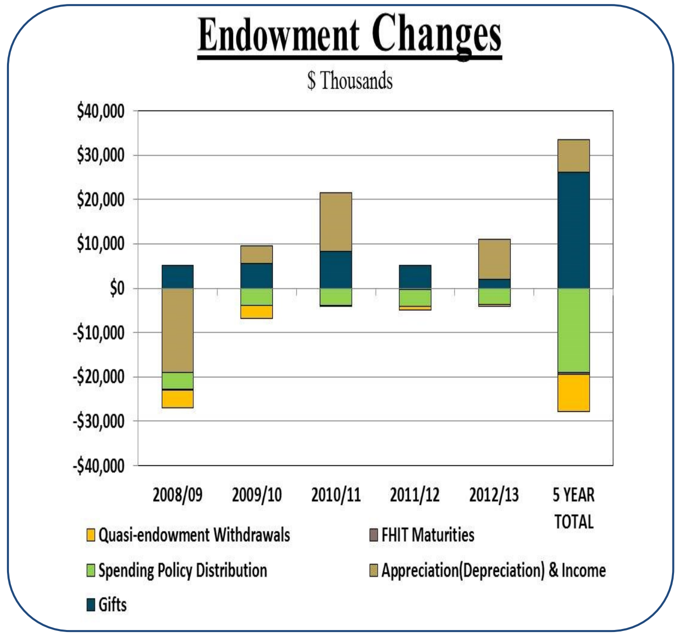

Giving History – College
By Purpose
$ Thousands
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
2008/09
2009/10
2010/11
2011/12
2012/13
Unrestricted
Restricted
Endowment
Capital
Planned Giving

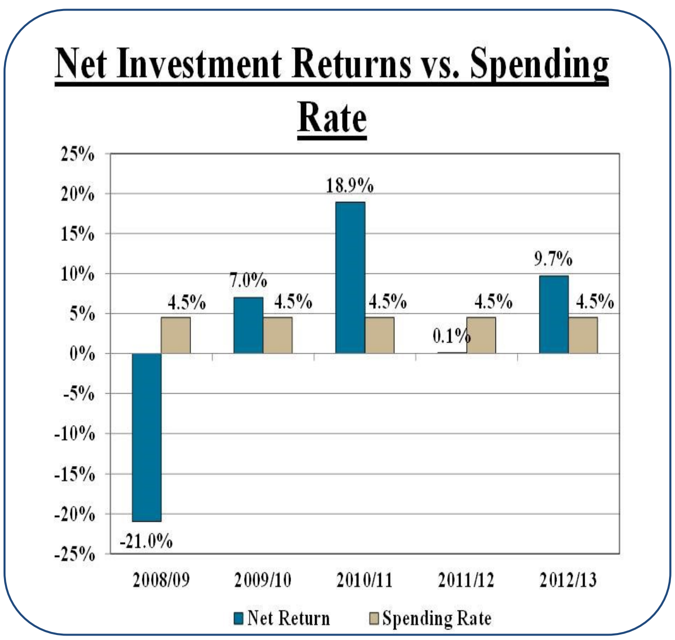

Giving History – College
By Source
$ Thousands
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
2008/09
2009/10
2010/11
2011/12
2012/13
Church & Bequests
Faculty/Staff
Friends & Parents
Foundations, Corporations, & Matching Gifts
Trustees
Alumni

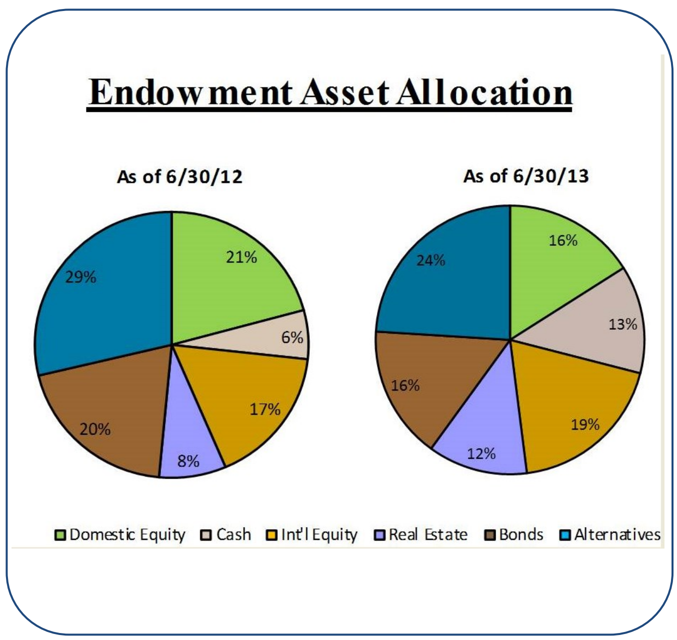

Giving History – Seminary
By Purpose
$ Thousands
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$-
2008/09
2009/10
2010/11
2011/12
2012/13
Unrestricted
Restricted
Endowment
Capital
Planned Giving


Giving History – Seminary
By Source
$ Thousands
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
2008/09
2009/10
2010/11
2011/12
2012/13
Church
Faculty/Staff
Friends & Parents
Foundations, Corporations, & Matching Gifts
Trustees
Alumni


Market Value of Endowment
$ Millions
$120
$100
$80
$60
$40
$20
$0
$18
$19
$22
$21
$22
$53
$55
$70
$71
$76
2008/09
2009/10
2010/11
2011/12
2012/13
Seminary
College


Endowment Changes
$ Thousands
$40,000
$30,000
$20,000
$10,000
$0
-$10,000
-$20,000
-$30,000
-$40,000
2008/09
2009/10
2010/11
2011/12
2012/13
5 YEAR TOTAL
Quasi-endowment Withdrawals
FHIT Maturities
Spending Policy Distribution
Appreciation(Depreciation) & Income
Gifts


Net Investment Returns vs. Spending Rate
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
-25%
-21.0%
4.5%
7.0%
4.5%
18.9%
4.5%
0.1%
4.5%
9.7%
4.5%
2008/09
2009/10
2010/11
2011/12
2012/13
Net Return
Spending Rate


Endowment Asset Allocation
As of 6/30/12
As of 6/30/13
29%
21%
6%
17%
8%
20%
24%
16%
13%
19%
12%
16%
Domestic Equity
Cash
Int'l Equity
Real Estate
Bonds
Alternatives

Moravian College

Financial Statements

June 30, 2013 and 2012

ParenteBeard

CONFIDENCE THROUGH CLARITY

ParenteBeard

Independent Auditors' Report

Board of Trustees
Moravian College

We have audited the accompanying financial statements of Moravian College (the "College"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, activities (College only), activities (Theological Seminary only), and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the College's 2012 financial statements and, in our report dated October 4, 2012 we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Allentown, Pennsylvania
October 16, 2013

Moravian College

Statement of Financial Position
(In Thousands)
June 30, 2013

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 9,815	$ 10,270
Accounts receivable, net	1,291	1,006
Investment income receivable	205	283
Contributions receivable	1,012	1,381
Prepaids and other	988	1,063
Deposits with trustee under debt agreement	1,506	1,324
Total current assets	14,817	15,327
Noncurrent Assets		
Contributions receivables, net	1,249	1,932
Note receivable	1,000	1,000
Deposits with trustee under debt agreement	9,119	2,382
Investments	98,953	91,789
Split-interest agreements	4,379	4,754
Student loans receivable (net of allowance of $213 in 2013; $244 in 2012)	1,972	2,130
Other non-current assets	842	1,802
Deferred financing costs, net	562	287
Land, buildings and equipment, net	80,133	75,844
Total noncurrent assets	198,209	181,920
Total assets	$ 213,026	$ 197,247

See notes to financial statements

Moravian College

Statement of Financial Position
(In Thousands)
June 30, 2013

	2013	2012
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	$ 1,514	$ 1,389
Accounts payable	568	627
Accrued interest	581	276
Accrued expenses and other liabilities	3,437	2,814
Deferred revenue and deposits	1,068	1,356
Current portion of postretirement benefit obligation	52	37
Total current liabilities	7,220	6,499
Noncurrent Liabilities		
Annuities payable	1,287	1,372
Long-term debt	37,396	28,856
Postretirement benefit obligation	455	496
Refundable federal grants and loan funds	1,272	1,123
Other liabilities	657	661
Total liabilities	48,287	39,007
Net Assets		
Unrestricted:		
College	63,645	62,648
Theological Seminary	12,576	12,485
Total unrestricted	76,221	75,133
Temporarily restricted:		
College	24,144	21,051
Theological Seminary	3,845	3,213
Total temporarily restricted	27,989	24,264
Permanently restricted:		
College	51,166	49,532
Theological Seminary	9,363	9,311
Total permanently restricted	60,529	58,843
Total net assets	164,739	158,240
Total liabilities and net assets	$ 213,026	$ 197,247

See notes to financial statements

Moravian College

Statement of Activities
(In Thousands)
Year Ended June 30, 2013 (with Comparative Totals for the Year Ended June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $21,799 in 2013; and $21,297 in 2012)	$ 30,843	$ -	$ -	$ 30,843	$ 31,639
Private gifts and grants	1,432	2,683	1,353	5,468	5,946
Investment income	1,510	14	183	1,707	1,510
Sponsored federal government programs and grants	507	-	-	507	558
State grants	334	-	-	334	328
Auxiliary enterprises	11,071	-	-	11,071	12,319
Other sources	1,350	-	-	1,350	357
Net assets released from restrictions, satisfaction of program restrictions	3,714	(3,714)	-	-	-
Total operating revenues and other additions	50,761	(1,017)	1,536	51,280	52,657
Operating Expenses					
Resident instruction	20,545	-	-	20,545	20,951
Academics support	3,157	-	-	3,157	3,109
Student services	4,857	-	-	4,857	4,781
Athletics	4,605	-	-	4,605	4,249
Institutional support	7,549	-	-	7,549	7,459
Fund-raising	1,297	-	-	1,297	1,324
Auxiliary enterprises	8,835	-	-	8,835	10,261
Other	-	-	-	-	81
Total operating expenses	50,845	-	-	50,845	52,215
Change in net assets from operating activities	(84)	(1,017)	1,536	435	442
Nonoperating Expenses					
Realized net gain (loss) on investments	658	1,731	37	2,426	(245)
Unrealized net gain (loss) on investments	578	3,309	176	4,063	(1,259)
Loss on the sale of assets	(64)	-	-	(64)	(47)
Change in value of split-interest agreements	-	(298)	(63)	(361)	(72)
Loss on debt refinancing	-	-	-	-	(738)
Increase (decrease) in net assets from nonoperating activities	1,172	4,742	150	6,064	(2,361)
Change in net assets	1,088	3,725	1,686	6,499	(1,919)
Net Assets, Beginning	75,133	24,264	58,843	158,240	160,159
Net Assets, Ending	$ 76,221	$ 27,989	$ 60,529	$ 164,739	$ 158,240

See notes to financial statements

Moravian College

Statement of Activities (College Only)
(In Thousands)
Year Ended June 30, 2013 (with Comparative Totals for the Year Ended June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $21,506 in 2013; and $20,936 in 2012)	$ 30,260	$ -	$ -	$ 30,260	$ 30,970
Private gifts and grants	1,144	2,667	1,304	5,115	4,971
Investment income	1,177	14	183	1,374	1,249
Sponsored federal government programs and grants	507	-	-	507	558
State grants	334	-	-	334	328
Auxiliary enterprises	10,900	-	-	10,900	12,116
Other sources	1,350	-	-	1,350	356
Net assets released from restrictions, satisfaction of program restrictions	3,459	(3,459)	-	-	-
Total operating revenues and other additions	49,131	(778)	1,487	49,840	50,548
Operating Expenses					
Resident instruction	19,506	-	-	19,506	19,884
Academic support	2,997	-	-	2,997	2,936
Student services	4,671	-	-	4,671	4,581
Athletics	4,605	-	-	4,605	4,249
Institutional support	6,925	-	-	6,925	6,793
Fund-raising	1,202	-	-	1,202	1,189
Auxiliary enterprises	8,669	-	-	8,669	10,100
Other	-	-	-	-	81
Total operating expenses	48,575	-	-	48,575	49,813
Change in net assets from operating activities	556	(778)	1,487	1,265	735
Nonoperating Expenses					
Realized net gain (loss) on investments	361	1,430	37	1,828	(223)
Unrealized net gain (loss) on investments	144	2,739	181	3,064	(940)
Loss on the sale of assets	(64)	-	-	(64)	(47)
Change in value of split-interest agreements	-	(298)	(71)	(369)	(68)
Loss on debt refinancing	-	-	-	-	(738)
Increase (decrease) in net assets from nonoperating activities	441	3,871	147	4,459	(2,016)
Change in net assets	997	3,093	1,634	5,724	(1,281)
Net Assets, Beginning	62,648	21,051	49,532	133,231	134,512
Net Assets, Ending	$ 63,645	$ 24,144	$ 51,166	$ 138,955	$ 133,231

See notes to financial statements

Moravian College

Statement of Activities (Theological Seminary Only)
(In Thousands)
Year Ended June 30, 2013 (with Comparative Totals for the Year Ended June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total (Summarized)
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships $293 in 2013; and $361 in 2012)	$ 583	$ -	$ -	$ 583	$ 669
Private gifts and grants	288	16	49	353	975
Investment income	333	-	-	333	261
Auxiliary enterprises	171	-	-	171	203
Other sources	-	-	-	-	1
Net assets released from restrictions, satisfaction of program restrictions	255	(255)	-	-	-
Total operating revenues and other additions	1,630	(239)	49	1,440	2,109
Operating Expenses					
Resident instruction	1,039	-	-	1,039	1,067
Academics support	160	-	-	160	173
Student services	186	-	-	186	200
Institutional support	624	-	-	624	666
Fund-raising	95	-	-	95	135
Auxiliary enterprises	166	-	-	166	161
Total operating expenses	2,270	-	-	2,270	2,402
Change in net assets from operating activities	(640)	(239)	49	(830)	(293)
Nonoperating Expenses					
Realized net gain (loss) on investments	297	301	-	598	(22)
Unrealized net gain (loss) on investments	434	570	(5)	999	(319)
Change in value of split-interest agreements	-	-	8	8	(4)
Increase (decrease) in net assets from nonoperating activities	731	871	3	1,605	(345)
Change in net assets	91	632	52	775	(638)
Net Assets, Beginning	12,485	3,213	9,311	25,009	25,647
Net Assets, Ending	$ 12,576	$ 3,845	$ 9,363	$ 25,784	$ 25,009

See notes to financial statements

Moravian College

Statement of Cash Flows
(In Thousands)
Year Ended June 30, 2013

	2013	2012
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 6,499	$ (1,919)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	3,681	3,672
Change in value of split-interest agreement and annuities payable	290	81
Gifts and grants restricted for long-term investments	(2,894)	(3,633)
Loss on debt refinancing	-	738
Loss on disposal of assets	64	47
Other restricted earnings for long-term investments	183	(200)
Net realized and unrealized gains on investments	(6,489)	1,504
(Increase) decrease in assets:		
Accounts receivable, net	(285)	(322)
Investment income receivable	78	(52)
Contributions receivable, net	411	(398)
Prepaids and other	75	3
Other non-current assets	960	(384)
Increase (decrease) in liabilities:		
Accounts payable and accrued interest payable	346	(400)
Accrued expenses and other liabilities	623	121
Deferred revenue and deposits	(288)	(69)
Accumulated postretirement benefit obligation	(26)	19
Other liabilities	(4)	(57)
Net cash provided by (used in) operating activities	3,224	(1,249)
Cash Flows from Investing Activities		
Purchase of land, building and equipment	(8,408)	(7,675)
Proceeds from sale of land, building and equipment	240	-
Purchase of investments	(33,295)	(11,162)
Proceeds from sale of investments	32,620	7,581
Change in deposits with trustee under debt agreements	(6,919)	1,765
Disbursement of student loans	(230)	(323)
Repayments of student loans	388	323
Net cash used in investing activities	(15,604)	(9,491)
Cash Flows from Financing Activities		
Gifts and grants restricted for long-term investments	3,536	5,128
Other restricted earnings for long-term investments	(183)	200
Repayment of debt	(1,399)	(23,845)
Proceeds from issuance of long-term debt	10,130	22,426
Payment of financing costs	(308)	(169)
Net repayment of refundable federal grants and loan funds	149	(19)
Net cash provided by financing activities	11,925	3,721
Net decrease in cash and cash equivalents	(455)	(7,019)
Cash and Cash Equivalents, Beginning	10,270	17,289
Cash and Cash Equivalents, Ending	$ 9,815	$ 10,270
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	$ 825	$ 1,840
Supplementary Disclosure of Noncash Investing Activities		
Land, building and equipment purchases in accounts payable	$ 152	$ 252

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 Presentation

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

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.

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, 2013 and 2012 was approximately $1,173,000 and $1,115,000, respectively. The College contributes one-third of the amount contributed by the U.S. Government to the Program.

The prescribed practices for the Program 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.

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.

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.

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 $33,161 and $65,662 in 2013 and 2012, 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. All assets with a purchased cost, or fair value if acquired by gift, in excess of $2,000 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, 2013 and 2012.

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.

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 $4,035,000 and $3,895,000 in 2013 and 2012, respectively.

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, 2013 and 2012, 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 statement of activities presents expenses by functional classification. Accordingly, depreciation, interest expense and other expenses have been allocated to functional classifications based on various factors.

Advertising

The College expensed advertising costs of approximately $227,000 and $180,000 during the fiscal years ended June 30, 2013 and 2012, respectively.

Other Income

Since 1998, Moravian College and St. Luke's University Health Network have shared in the governance of the St. Luke's School of Nursing at Moravian College. In 2008, the Affiliation Agreement that outlined the terms and conditions governing the operations of the St. Luke's School of Nursing at Moravian College was renewed through 2018.

In March of 2013, Moravian College and St. Luke's University Health Network signed an Amended to the Affiliation Agreement which transitioned the overall governance of the program to Moravian College. As part of the amended agreement, St. Luke's University Health Network provided a payment to the College to partially fund the costs associated with the assumption by the College of sole governance of the program through 2018. The funds received from St. Luke's University Health Network are recorded as Other Income in the Statement of Activities of the College.

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, 2013 and 2012 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, 2012, from which the summarized information was derived.

Subsequent Events

Subsequent events were evaluated through October 16, 2013, the date the financial statements were issued.

New Accounting Standards

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurements and Disclosures (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*s. ASU 2011-04 includes new and clarified guidance on fair value measurements and required additional disclosures. The adoption of the amended guidance required certain additional disclosures regarding fair value measurements in the notes to the financial statements on a prospective basis.

In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale of Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This amendment addresses the diversity in practice with regard to the presentation of cash receipts from the sale of donated assets in the statement of cash flows. Under this update, a not-for-profit entity will be required to classify cash receipts from the sale of donated financial assets as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes. This update is effective for the College's fiscal year beginning July 1, 2013. The guidance is prospective and management does not believe the adoption of this ASU will have a significant impact on the College's financial position or results of operations.

In April 2013, the FASB issued ASU 2013-06, Not-for-Profit Entities (Topic 958): *Services Received from Personnel of an Affiliate*. This amendment will require a recipient non-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Such services will be required to be measured at the cost recognized by the affiliate for the personnel providing those services. However, if this measurement will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either the cost recognized by the affiliate for the personnel providing that service or the fair value of that service. This update is effective for the College's fiscal year beginning July 1, 2014. The guidance is prospective and management does not believe the adoption of this ASU will have a significant impact on the College's financial position or results of operations.

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):

	2013	2012
Accounts receivable	$ 1,394	$ 1,082
Allowance for doubtful accounts	(103)	(76)
	$ 1,291	$ 1,006

4. 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 (in thousands):

	2013	2012
Due in one year or less	$ 1,012	$ 1,381
Due between one year and five years	1,375	2,167
Contributions receivable, gross	2,387	3,548
Unamortized discount	(126)	(235)
Contributions receivable, net	$ 2,261	$ 3,313

The net present value of these cash flows was determined by using discount rates between 1.0% and 6.2% to account for the time value of money.

Management has not established an allowance for doubtful collections at June 30, 2013 and 2012 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.

5. Investments

Investments consisted of the following at June 30, 2013 and 2012 (in thousands):

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Cash and money market accounts	$ 14,703	$ 14,703	$ 5,077	$ 5,077
Domestic equity:				
Common stock	899	1,216	1,098	1,292
Large cap mutual funds	10,675	12,811	13,631	15,972
Natural resources mutual fund	7,550	7,787	3,650	3,804
International equity mutual funds	18,548	18,971	18,353	15,446
Domestic fixed income:				
Taxable fixed income mutual funds	12,179	11,851	9,084	9,532
Government bonds	-	-	2,214	2,350
Corporate bonds and preferred stock	1,070	1,045	4,837	4,983
International fixed income mutual funds	2,648	3,700	2,664	3,696
Alternative investments	24,965	26,869	29,673	29,637
	$ 93,237	$ 98,953	$ 90,281	$ 91,789

	2013	2012
Deposits with trustee under debt agreements:		
Cash and cash equivalents	$ 8,478	$ 2,396
U.S. Government securities	2,147	1,310
	$ 10,625	$ 3,706

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):

	2013	2012
Endowment funds	$ 90,709	$ 84,361
Annuity and life income funds	1,679	1,855
Capital campaign funds	3,520	2,645
Other funds	3,045	2,928
	$ 98,953	$ 91,789

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.

6. Land, Buildings, and Equipment, Net

Land, buildings, and equipment consist of the following at June 30 (in thousands):

	2013	2012
Land and land improvements	$ 15,623	$ 15,000
Buildings	91,749	88,054
Equipment	23,400	23,084
Library books	9,234	9,063
Collection items	4,202	3,018
Construction in progress	4,034	2,091
	148,242	140,310
Accumulated depreciation	(68,109)	(64,466)
	$ 80,133	$ 75,844

Depreciation expense was approximately $3,714,000 and $3,619,000 in 2013 and 2012, respectively.

7. 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, 2013 and 2012.

8. Long-term Debt

Long-term debt of the College consisted of the following at June 30 (in thousands):

	2013	2012
Dormitory Bonds of 1964:		
Series A - 3-3/8%, due serially in annual amounts through 2013.	$ -	$ 20
Series B - 3-5/8%, due serially in annual amounts through 2014.	10	37
College Revenue Bonds of 2005, due serially in annual amounts through 2020, with interest, payable semiannually, ranging from 3.6% to 5.0%.	2,590	2,905
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%.	4,479	4,729
College Revenue Bonds of 2012, due serially in annual amounts through 2032, with interest payable semi-annually ranging from 2.0% to 5.0%.	20,950	21,670
College Revenue Bonds of 2013, due serially in annual amounts through 2042, with interest payable semi-annually ranging from 1.6% to 4.125%.	10,130	-
University Lease, 5.5%, due in equal installments through 2014 for equipment and furniture.	59	115
TCF Equipment Finance, 5.0%, due in equal installments through 2014 with a balloon payment in 2014 for a campus vehicle.	15	26
	38,233	29,502
Less current portion	(1,514)	(1,389)
Original issue premium	677	743
Long-term debt	$ 37,396	$ 28,856

The Dormitory Bonds are collateralized by certain buildings, their related sites, the net revenues from such buildings, and certain other revenues.

The indentures of the College Revenue Bonds of 2005, 2012 and 2013 and the Bank Qualified Debt require the College to pledge as collateral its unrestricted gross revenues not previously pledged.

The College Revenue Bonds of 2005 and 2012 required that the College maintain a debt service reserve fund in accordance with the revenue bond document

Principal repayments of long-term debt for the years ending after June 30, 2013 are as follows (in thousands):

2014	$ 1,514
2015	1,365
2016	5,124
2017	1,185
2018	1,225
Later years	27,820
	$ 38,233

Interest expense related to long-term debt was approximately $1,098,000 and $1,482,000 in 2013 and 2012, respectively.

9. Employee Benefit Plan

The College participates in a defined contribution pension plan covering substantially all regular full-time employees. Pension expense was approximately $1,456,000 and $1,740,000 in 2013 and 2012, respectively.

10. 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 $37,000 in 2013 and $32,000 in 2012. 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):

	2013	2012
Projected benefit obligation, beginning	$ 533	$ 514
Service cost	36	33
Interest cost	18	29
Actuarial gain/loss	(43)	(11)
Benefits paid	(37)	(32)
Projected benefit obligation, ending	$ 507	$ 533

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

	2013	2012
Current portion of postretirement benefit obligation	$ 52	$ 37
Noncurrent portion of postretirement benefit obligation	455	496
Accrued pension liability, net	$ 507	$ 533

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

	2013	2012
Discount rate	3.5 %	3.5 %
Rate of increase in compensation levels	1.5	2.5

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

	2013	2012
Service cost	$ 36	$ 33
Interest cost	18	29
	$ 54	$ 62

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 $52,000.

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

2014	$	52
2015		75
2016		70
2017		71
2018		70
2019 - 2021		306

11. Net Assets

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

	2013	2012
Net assets related to certain split-interest agreements	$ 2,926	$ 2,989
Assets held in perpetuity	57,603	55,854
	$ 60,529	$ 58,843

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

	2013	2012
Net assets related to certain split-interest agreements	$ 1,293	$ 1,592
Specified purposes	26,696	22,672
	$ 27,989	$ 24,264

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

	2013	2012
Long-term investments	$ 16,113	$ 15,348
Plant facilities	51,848	49,305
Other	8,260	10,480
	$ 76,221	$ 75,133

12. Endowment

The College's endowment consists of 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 accounting principles generally accepted in the United States of America, 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 Board of Trustees of the College has developed a policy requiring 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 either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law. Board designated investment funds are balances functioning as an endowment that are established by the institution from either donor or institutional monies, and are usually to be retained and invested rather than expended. Since board designated investment funds are established by the institution rather than an external source, the principal may be expended, as directed by the Board of Trustees.

The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the College 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, 2013 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 17,571	$ 56,800	$ 74,371
Board-designated endowment funds	16,113	-	-	16,113
	$ 16,113	$ 17,571	$ 56,800	$ 90,484

The following schedule represents the changes in endowment net assets for the year ended June 30, 2013 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ 15,348	$ 14,006	$ 54,792	$ 84,146
Investment income	249	1,107	-	1,356
Realized gains	439	1,950	-	2,389
Change in unrealized gains	752	3,309	-	4,061
Contributions	1	194	2,008	2,203
Appropriation for spending	(676)	(2,995)	-	(3,671)
Assets, end of year	$ 16,113	$ 17,571	$ 56,800	$ 90,484

The following schedule represents the endowment net asset composition by type of endowment fund as of June 30, 2012 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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

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, 2013 or 2012.

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 2013 and 2012. 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.

13. Fair Value of Financial Instruments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined 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. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the University for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

The following tables present the financial instruments measured at fair value as of June 30, 2013 and 2012 by caption on the statement of financial position by the valuation hierarchy defined above (in thousands):

	2013			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Reported at Fair Value				
Assets:				
Investments:				
Domestic equity funds	$ 21,814	$ 21,814	$ -	$ -
International equity funds	18,971	18,971	-	-
Domestic fixed income funds	12,896	12,896	-	-
International fixed income funds	3,700	-	3,700	-
Alternative investments	26,869	-	-	26,869
Total investments	84,250	53,681	3,700	26,869
Beneficial interest in perpetual trusts	2,025	-	-	2,025
Split interest agreements	2,354	-	-	2,354
	$ 88,629	$ 53,681	$ 3,700	$ 31,248

Description	2013 Total	Level 1	Level 2	Level 3
Disclosed at Fair Value				
Assets:				
Cash and cash equivalents	$ 24,518	$ 24,518	$ -	$ -
Contributions receivable, net	2,261	1,012	-	1,249
Deposits with trustee under debt agreements	10,625	10,625	-	-
Note receivable	1,000	-	1,000	-
Student loans receivable	1,972	-	1,972	-
Liabilities:		-	-	
Long-term debt (carrying value $38,910)	$ 38,384	$ -	$ 38,384	$ -
Annuities payable	1,287	-	-	1,287
Refundable federal grants and loan funds	1,272	-	1,272	-

Description	2012 Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets:				
Investments:				
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	2012 Total	Level 1	Level 2	Level 3
Disclosed at Fair Value				
Assets:				
Cash and cash equivalents	$ 15,347	$ 15,347	$ -	$ -
Contributions receivable, net	3,313	1,381	-	1,932
Deposits with trustee under debt agreements	3,706	3,706	-	-
Note receivable	1,000	-	1,000	-
Student loans receivable	2,130	-	2,130	-
Liabilities:		-	-	
Long-term debt (carrying value $30,245)	$ 31,052	$ -	$ 31,052	$ -
Annuities payable	1,372	-	-	1,372
Refundable federal grants and loan funds	1,123	-	1,123	-

The following methods and assumptions were used to estimate fair values of the College's financial instruments as of June 30, 2013 and 2012:

Cash and Cash Equivalents and Deposits with Trustee

The carrying amounts are reasonable estimates for their fair values due to the short-term nature of these financial instruments. These are considered Level 1 measurements due to their liquidity.

Contributions Receivable

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, which is considered a Level 1 input. The fair value of contributions receivable to be received in more than one year is estimated based on future cash flows discounted at risk adjusted rates between 1.0% and 6.2%, which are considered to be Level 3 inputs.

Investments

The fair value of equity funds and domestic fixed income securities was based on quoted market prices for the identical securities, which are considered Level 1 inputs. The fair value of international fixed income securities was based on quoted market prices in active markets for similar assets, which are considered Level 2 inputs.

The fair value of alternative investments was based on estimated fair values using net asset value ("NAV") per share of the investment as provided by investment managers, as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the College's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the College sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment.

Beneficial Interest in Perpetual Trusts and Split-interest Agreements

The fair value of the beneficial interest in perpetual trusts and split-interest agreements was based on the College's percent ownership of the underlying trust assets, which approximates the present value of estimated cash flows to be received and are considered Level 3 inputs.

Note Receivable, Student Loans Receivable and Refundable Federal Grants and Loan Funds

The carrying amounts of the note receivable, student loans receivable and refundable federal grants approximate the fair value of these instruments. The fair value of these financial instruments is based upon management's best estimate of the indicated future cash flows discounted at interest rates required by market participants, which are considered to be Level 2 measurements.

Long-Term Debt

The fair value of long-term debt is estimated based on current rates offered for similar issues with similar security terms and maturities, which are considered to be Level 2 measurements.

Annuities Payable

The fair value of annuities payable is estimated using gender based mortality tables. The present value of the obligations was calculated using discount rates between 1.2% and 10.0%.

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2013 and 2012 are as follows (in thousands):

	Alternative Investments	Beneficial Interest in Perpetual Trusts	Split-Interest Agreements	Level 3 Total
Balance at June 30, 2011	$ 26,996	$ 2,007	$ 2,831	$ 31,834
Unrealized gains	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
Unrealized gains (losses)	1,939	98	(473)	1,564
Purchases	1,972	-	-	1,972
Proceeds from sales	(7,465)	-	-	(7,465)
Realized losses	786	-	-	786
Balance at June 30, 2013	$ 26,869	$ 2,025	$ 2,354	$ 31,248

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, 2013 are as follows (in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds	$ 12,734	$ -	Various	35 - 65 days
Private Equity Funds	10,497	6,700	Illiquid	
Real Asset Funds	3,638	3,166	Illiquid	
	$ 26,869	$ 9,866		

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.

14. Commitments

In connection with several ongoing projects on campus, the College has commitments to several vendors totaling approximately $5,875,000 as of June 30, 2013. The College is using debt financing and operating cash flow to fund these projects.

15. Contingency

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The College has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate these buildings and, as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the buildings and sufficient information becomes available to estimate the liability, it will be recognized at that time.

16. 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, four 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 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 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, 2013, consolidation of MCHI with the College is not required.

17. Income Taxes

The College qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes.

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. Management determined that there were no tax uncertainties that met the recognition threshold at June 30, 2013 and 2012.

The College's federal Exempt Organization Business Income Tax Returns remain subject to examination by the IRS for years subsequent to June 30, 2009.

The College's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.