2013-2014

FINANCIAL REPORT

MORAVIAN COLLEGE

Bethlehem, Pennsylvania

Management Discussion

"An investment in knowledge always pays the highest return." - Ben Franklin

Moravian College and Theological Seminary entered the 2013/2014 academic and fiscal year with a new President and Board leadership equipped with the strong financial resources to implement a new vision for the College and Seminary. During the year, those resources were invested in technology for our students, faculty and staff, as well as continued improvements in the facilities of Collier Hall of Science, Comenius and Johnston Hall.

In September of 2013, Moravian announced a new learning and technology initiative to become an all-MacBook Pro and iPad Campus. A small combination of faculty and staff were issued the equipment initially. Shortly thereafter, the remaining full-time faculty were issued MacBooks and iPads to incorporate into their curriculum. Most recently, in May 2014, over 400 MacBooks and iPads were issued to the registering freshman class of 2018. "Ultimately, we'll be creating a personalized learning environment where access to information through multiple modalities is more closely aligned to the learning styles of our students. The standardization of technology across the campus will facilitate even greater collaboration between faculty members and students and between peers of both groups," noted President Grigsby in the news release.

Additional technology investment is also being made throughout the campus with the deployment of advanced networking technology, or "wireless mesh". This will enable students, faculty and staff secured access to retrieve and stream data anywhere at any time on campus. The wireless mesh initiative will support the all-Apple device environment as envisioned on campus.

In conjunction with these technology initiatives, continued improvements across campus occurred during the year. The Collier Hall of Science modernized its entrance with "Science on Display" and its new SuperLab. Johnston Hall received an infrastructure redesign deserving of our athletic teams and coaches. It is worthy to mention that no additional debt was issued or incurred by the College to pay for these initiatives.

The College and Seminary endowment surpassed the $100 million mark during the year, ending with a market value of $109 million as of June 30, 2014. Over the past 5 years the fund has received gifts totaling $23.6 million and has provided $25.6 million in support for operations and capital projects. Investment returns for the one and three year periods were 15.6% and 8.3% (annualized), respectively. In 2013/2014, the endowment spending rate was increased temporarily to 5.0% but has been reduced to a more conservative rate of 4.5% in 2014/15. The portfolio allocation as of year-end was: 16.2% Domestic equity, 21.7% international equity, 13.8% bonds, 1.6% cash, 13.3% real estate and natural resources and 33.4% private equity and hedge funds.

Moravian confidently began the 2014/2015 academic and fiscal year registering a larger than planned 2018 freshman class, developing a new strategic plan, and having been awarded the Morning Call's 2014 Top Workplace. Collectively, the campus is excited about defining Moravian's role in the Great American Liberal Arts education.

Financial Review

Statement of Financial Position

At the end of 2014, consolidated net assets were up $10.4 million. All categories of net assets: unrestricted, temporarily restricted and permanently restricted saw increases from 2013. There was a decrease in current assets as cash balances declined year over the year with investments made in technology and infrastructure. Relatedly, non-current assets saw a large increase. Investment valuations at June 30, 2014, were higher due to positive market performance. Finally, total liabilities saw a modest decrease compared to the prior year as a result of the principal payments made on outstanding debt.

College Statement of Activities

College operating revenues declined by more than $3.7 million in 2014, primarily due to lower gift income and a slight decrease in net tuition revenues as a result of lower enrollment. Auxiliary services were also down as a result, however a similar reduction in auxiliary expenses was also realized. Total operating expenses were reduced by 3% due cost containment measures taken during the year. Finally, non-operating activity reflects a total gain of $9.2 million as a result of the institution's investment portfolio market performance.

Seminary Statement of Activities

Seminary net assets increased by $2.1 million from 2013 to 2014. Operating revenues from tuition, gifts and auxiliary sources were stable from the prior year. Operating expenses decreased $105 thousand or (4.6%). The negative contribution was more than offset by changes in the market value of the investments which resulted in non-operating gains of $2.8 million.

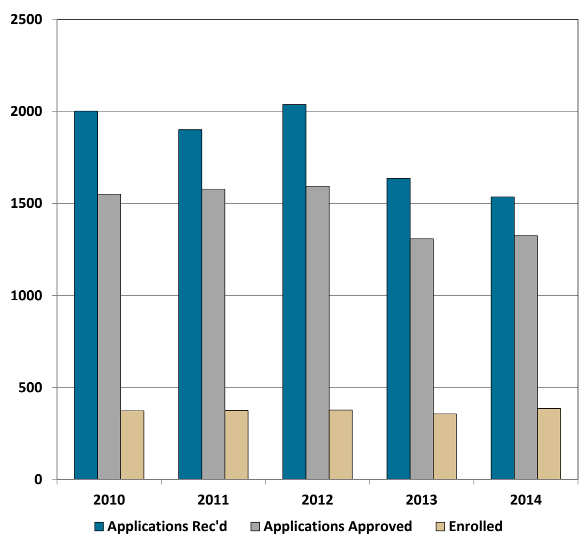
Statement of Cash Flows

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.

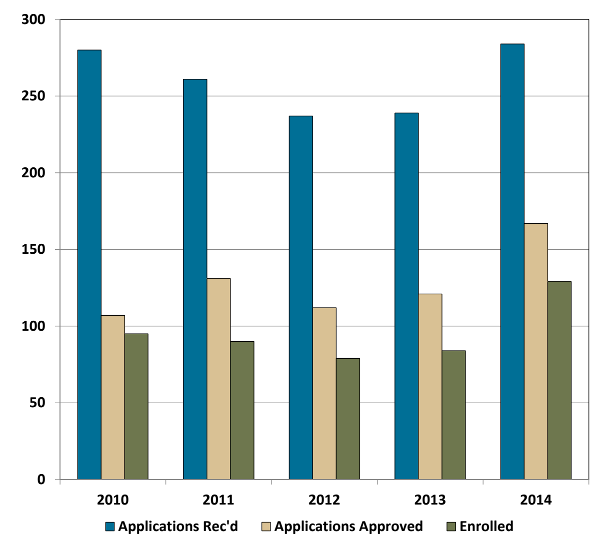
> **Operating activities**: During the 2013/2014 year, the College and Seminary contributed over $876 thousand from operations. This figure is calculated based on the adjustments to the change in total net assets for non-cash operating items and the changes in certain asset and liability accounts.
>
> **Investing activities**: The College invested $13.7 million in capital projects, primarily in technology and facility improvements.
>
> **Financing activities:** The College financing activities provided a net $343 thousand to cash.

In summary, these three categories resulted in a net cash outflow just over $4 million due to investing activities, however, at June 30, 2014 the consolidated institution's cash balance remains liquid at $5.8 million.

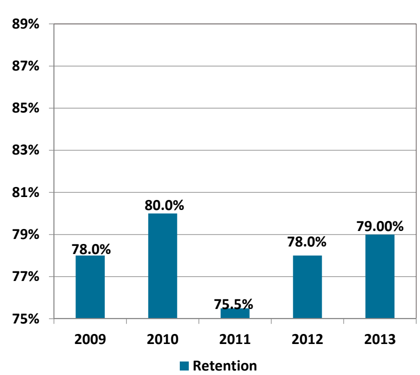
Freshmen Applications



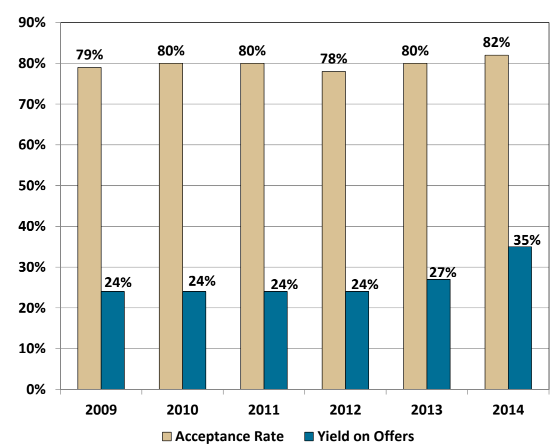
Transfer Applications



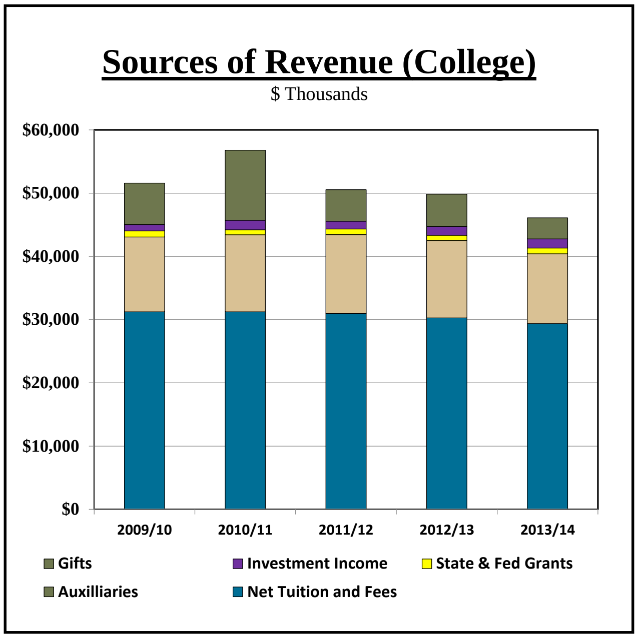
Freshmen to Sophomore Retention Rates

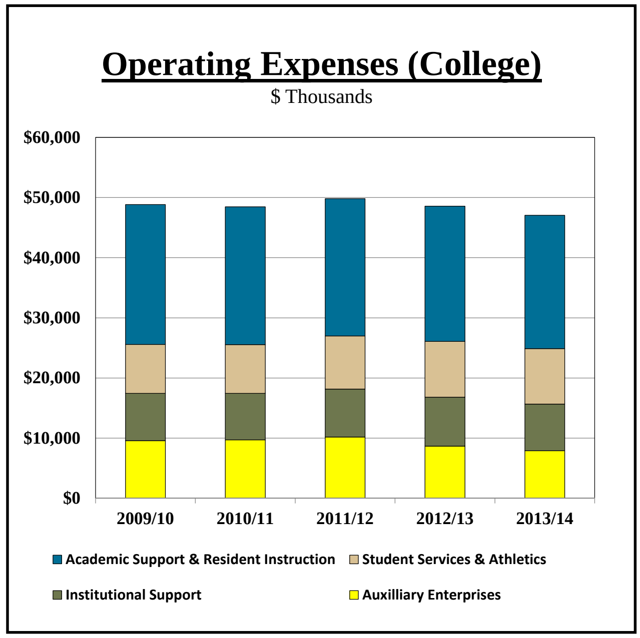


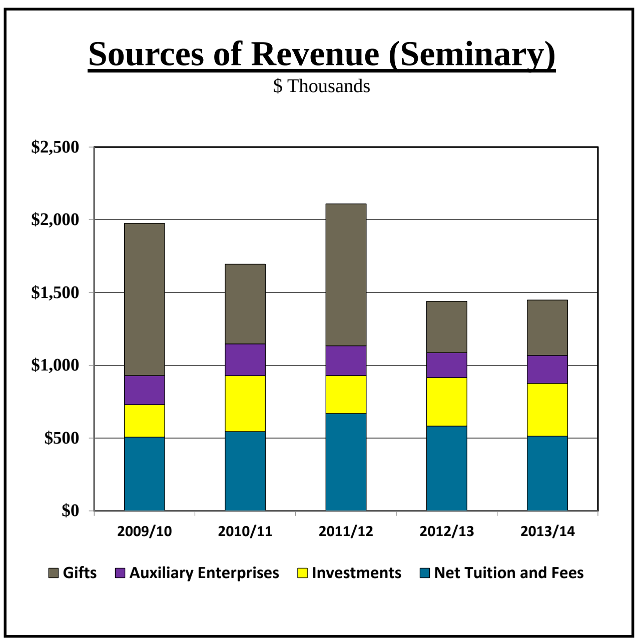
Acceptance Rate & Yield on Offers

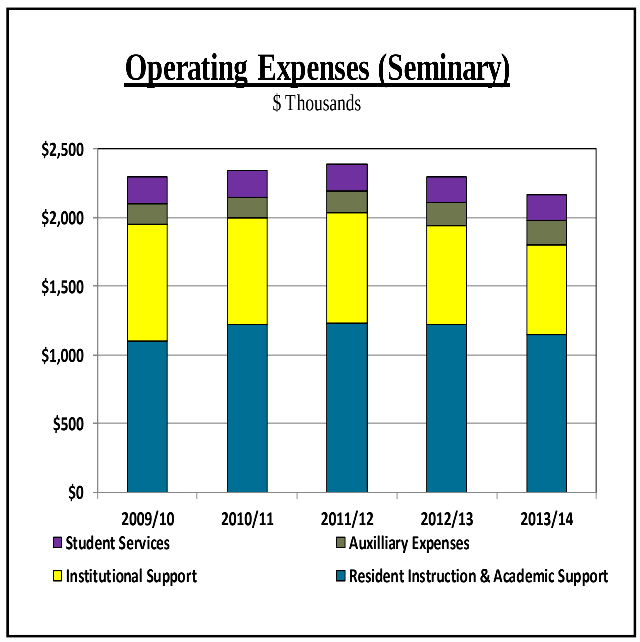


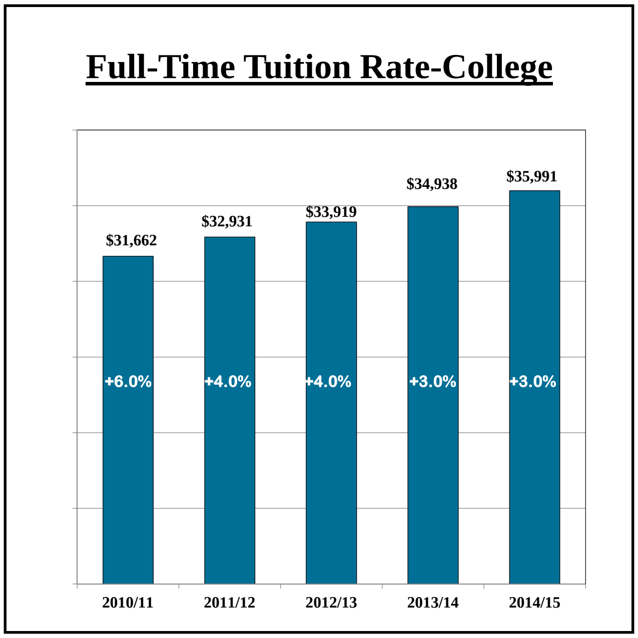
9/15/2014

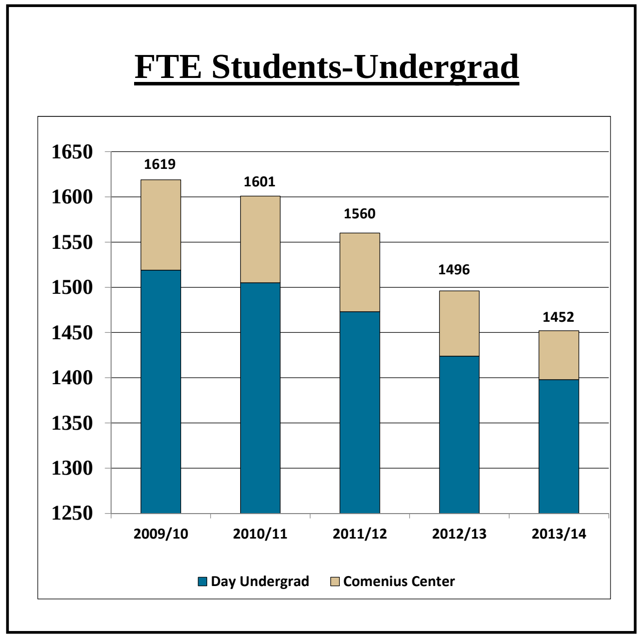

Sources of Revenue (College)
$ Thousands
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
2009/10
2010/11
2011/12
2012/13
2013/14
Gifts
Investment Income
State & Fed Grants
Auxilliaries
Net Tuition and Fees

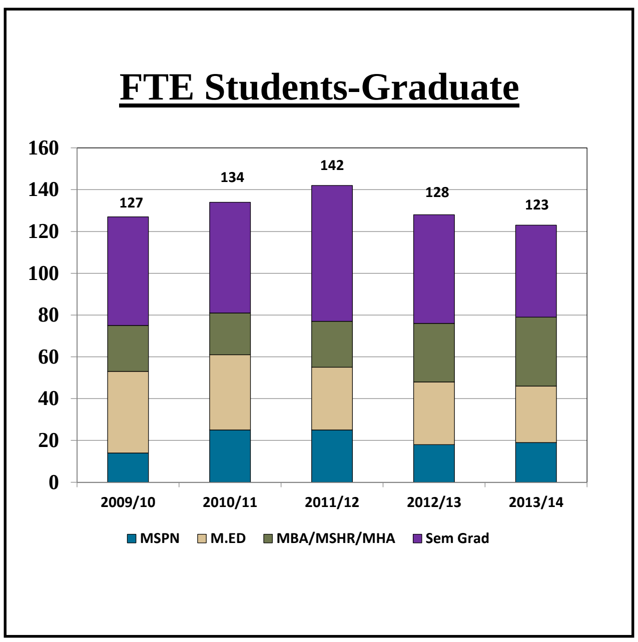

Operating Expenses (College)
$ Thousands
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
2009/10
2010/11
2011/12
2012/13
2013/14
Academic Support & Resident Instruction
Student Services & Athletics
Institutional Support
Auxilliary Enterprises

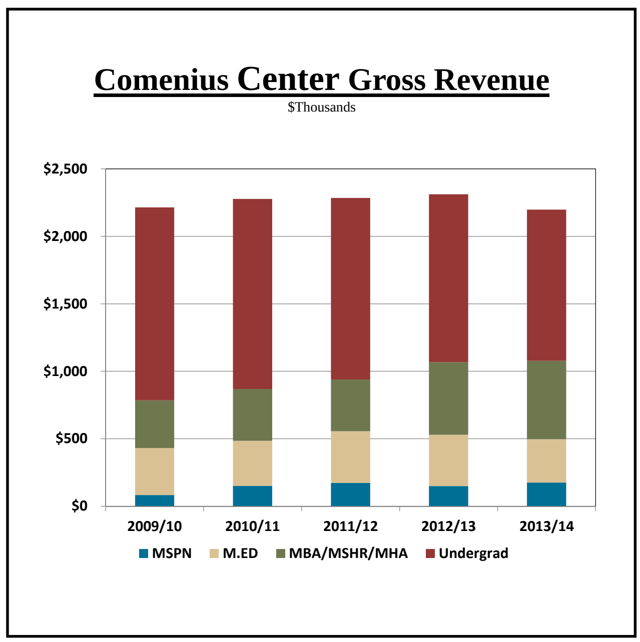

Sources of Revenue (Seminary)
$ Thousands
$2,500
$2,000
$1,500
$1,000
$500
$0
2009/10
2010/11
2011/12
2012/13
2013/14
Gifts
Auxiliary Enterprises
Investments
Net Tuition and Fees


Operating Expenses (Seminary)
$ Thousands
$2,500
$2,000
$1,500
$1,000
$500
$0
2009/10
2010/11
2011/12
2012/13
2013/14
Student Services
Auxilliary Expenses
Institutional Support
Resident Instruction & Academic Support


Full-Time Tuition Rate-College
$31,662
$32,931
$33,919
$34,938
$35,991
+6.0%
+4.0%
+4.0%
+3.0%
+3.0%
2010/11
2011/12
2012/13
2013/14
2014/15

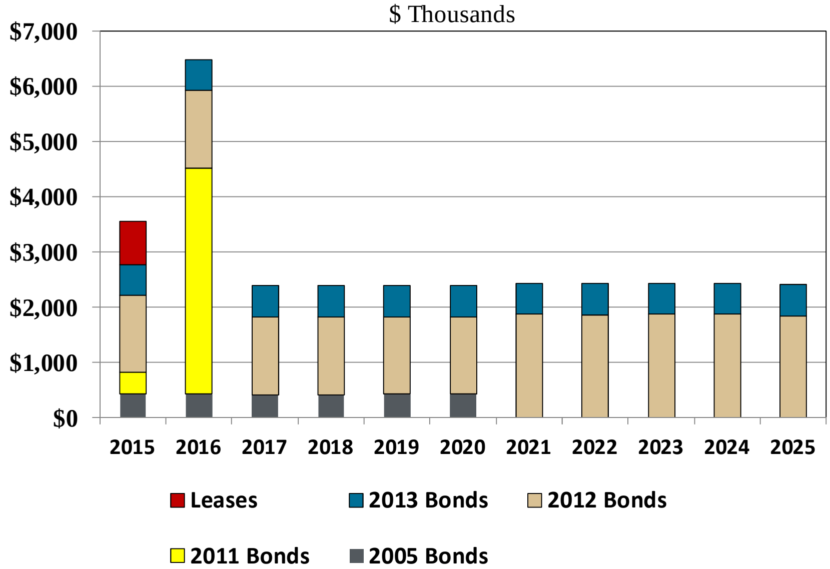

FTE Students-Undergrad
1650
1600
1550
1500
1450
1400
1350
1300
1250
1619
1601
1560
1496
1452
2009/10
2010/11
2011/12
2012/13
2013/14
Day Undergrad
Comenius Center


FTE Students-Graduate
160
140
120
100
80
60
40
20
0
127
134
142
128
123
2009/10
2010/11
2011/12
2012/13
2013/14
MSPN
M.ED
MBA/MSHR/MHA
Sem Grad


Comenius Center Gross Revenue
$Thousands
$2,500
$2,000
$1,500
$1,000
$500
$0
2009/10
2010/11
2011/12
2012/13
2013/14
MSPN
M.ED
MBA/MSHR/MHA
Undergrad

10 Year Debt Service Summary

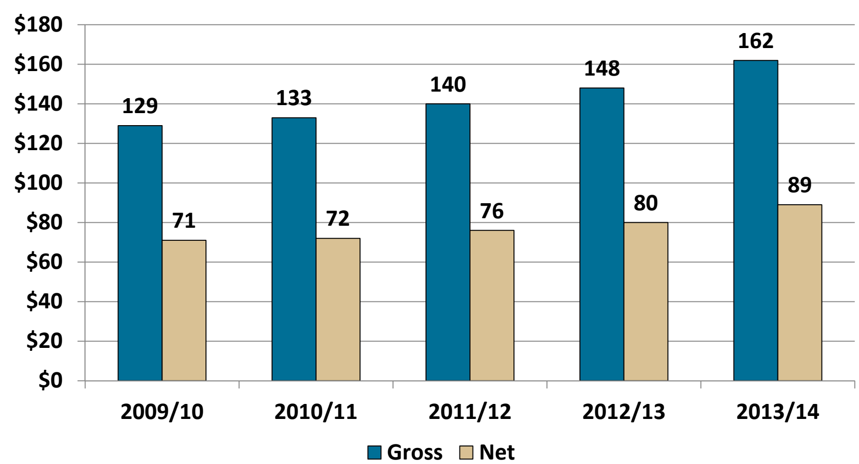
$ Thousands

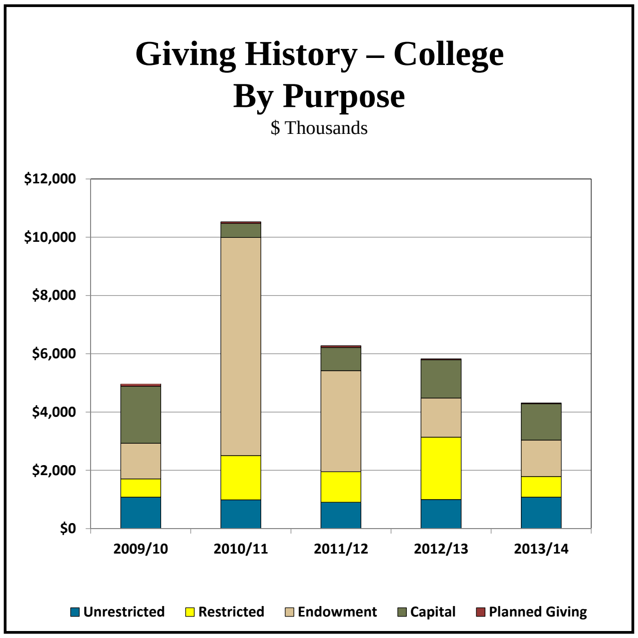


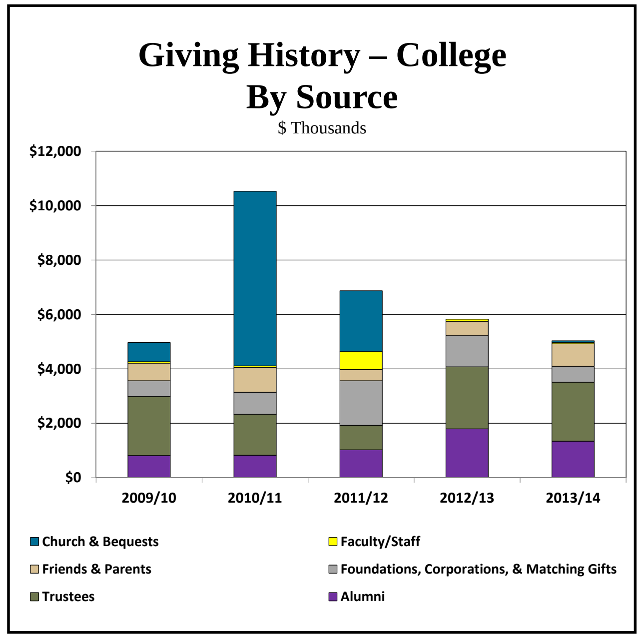
Investment in Property, Plant & Equipment

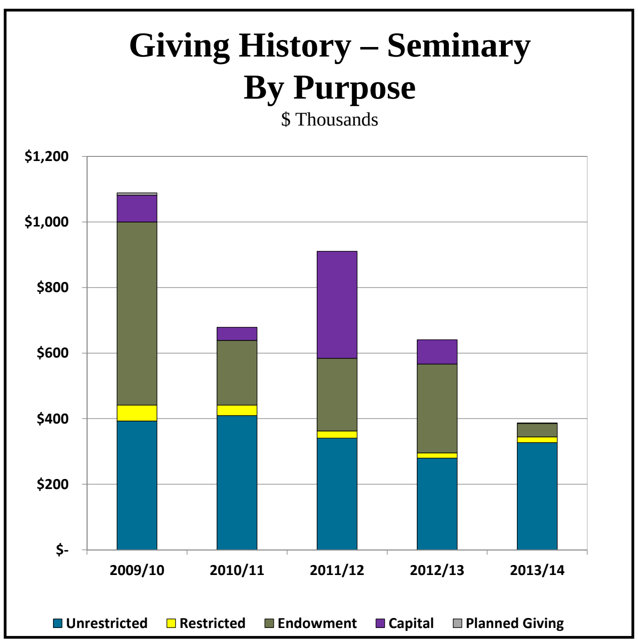
Gross & Net of Depreciation

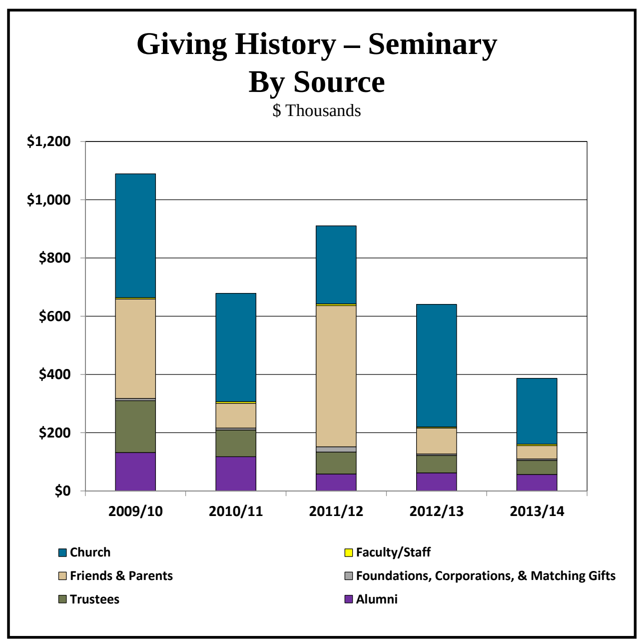
$ Millions

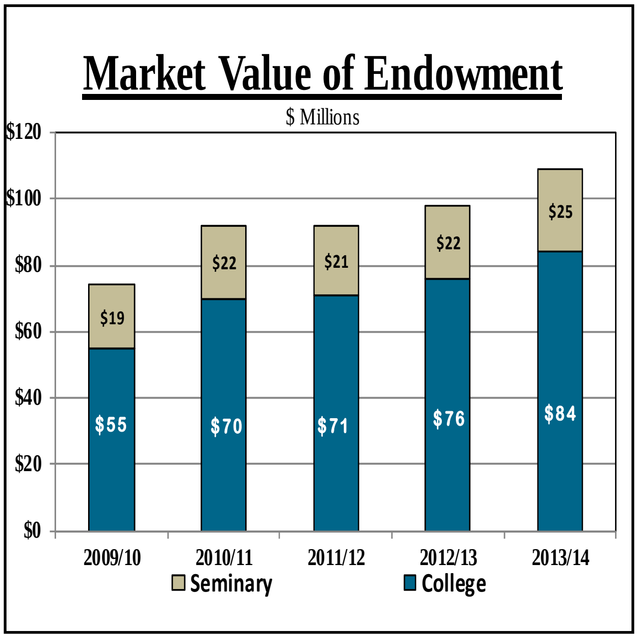


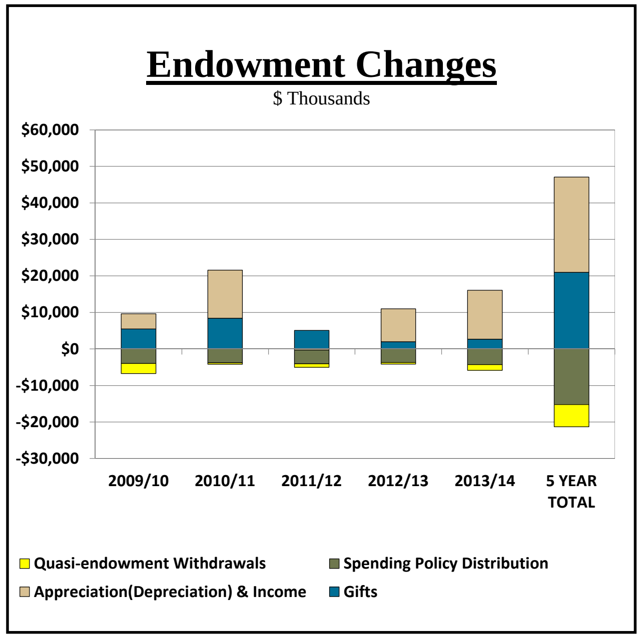

Giving History – College
By Purpose
$ Thousands
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
2009/10
2010/11
2011/12
2012/13
2013/14
Unrestricted
Restricted
Endowment
Capital
Planned Giving

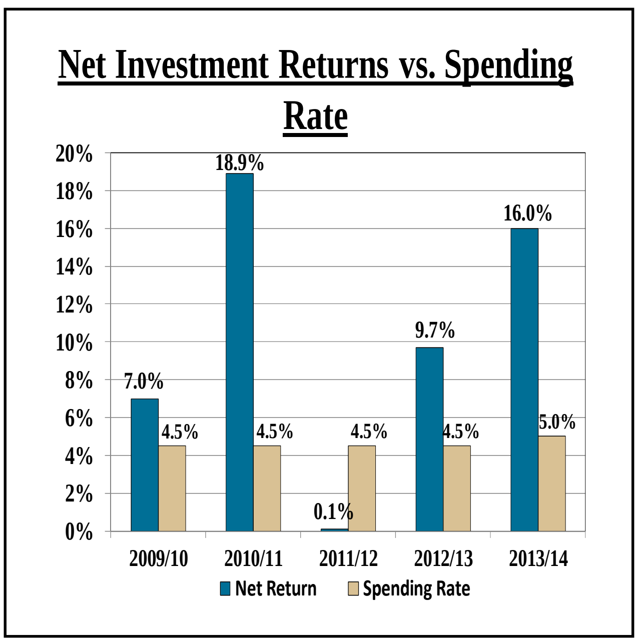

Giving History – College
By Source
$ Thousands
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
2009/10
2010/11
2011/12
2012/13
2013/14
Church & Bequests
Faculty/Staff
Friends & Parents
Foundations, Corporations, & Matching Gifts
Trustees
Alumni

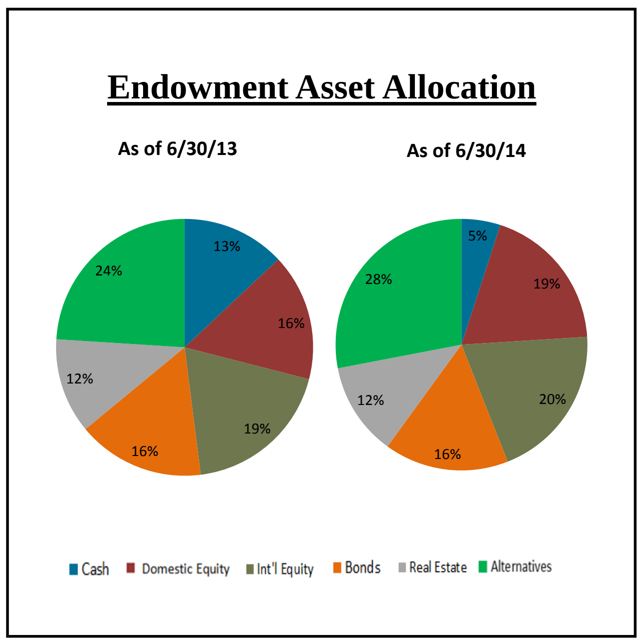

Giving History – Seminary
By Purpose
$ Thousands
$1,200
$1,000
$800
$600
$400
$200
$-
2009/10
2010/11
2011/12
2012/13
2013/14
Unrestricted
Restricted
Endowment
Capital
Planned Giving


Giving History – Seminary
By Source
$ Thousands
$1,200
$1,000
$800
$600
$400
$200
$0
2009/10
2010/11
2011/12
2012/13
2013/14
Church
Faculty/Staff
Friends & Parents
Foundations, Corporations, & Matching Gifts
Trustees
Alumni


Market Value of Endowment
$ Millions
$120
$100
$80
$60
$40
$20
$0
$19
$22
$21
$22
$25
$55
$70
$71
$76
$84
2009/10
2010/11
2011/12
2012/13
2013/14
Seminary
College


Endowment Changes
$ Thousands
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
-$10,000
-$20,000
-$30,000
2009/10
2010/11
2011/12
2012/13
2013/14
5 YEAR TOTAL
Quasi-endowment Withdrawals
Spending Policy Distribution
Appreciation(Depreciation) & Income
Gifts


Net Investment Returns vs. Spending Rate
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
7.0%
4.5%
18.9%
4.5%
0.1%
4.5%
9.7%
4.5%
16.0%
5.0%
2009/10
2010/11
2011/12
2012/13
2013/14
Net Return
Spending Rate


Endowment Asset Allocation
As of 6/30/13
As of 6/30/14
13%
16%
19%
16%
12%
24%
5%
19%
20%
16%
12%
28%
Cash
Domestic Equity
Int'l Equity
Bonds
Real Estate
Alternatives

Moravian College

Financial Statements

June 30, 2014 and 2013

BAKER TILLY

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formerly
PARENTEBEARD

Baker Tilly Virchow Krause, LLP
7535 Windsor Dr, Ste 300
Allentown, PA 18195-1027
tel 610 336 8180
tel 800 267 9405
fax 888 264 9617
bakertilly.com

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, 2014, 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 2013 financial statements and, in our report dated October 16, 2013 we expressed an unmodified 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, 2014, 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.

Baker Tilly Virchow Krause, LLP

Allentown, Pennsylvania
October 13, 2014

Moravian College

Statement of Financial Position
(In Thousands)
June 30, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	$ 5,784	$ 9,815
Accounts receivable, net	1,072	1,291
Investment income receivable	215	205
Contributions receivable	913	1,012
Prepaids and other	1,830	988
Deposits with trustee under debt agreement	1,478	1,506
Total current assets	11,292	14,817
Noncurrent Assets		
Contributions receivables, net	347	1,249
Note receivable	1,000	1,000
Deposits with trustee under debt agreement	2,451	9,119
Investments	109,279	98,953
Split-interest agreements	4,421	4,379
Student loans receivable (net of allowance of $206 in 2014; $213 in 2013)	1,875	1,972
Other non-current assets	958	842
Deferred financing costs, net	523	562
Land, buildings and equipment, net	89,448	80,133
Total noncurrent assets	210,302	198,209
Total assets	$ 221,594	$ 213,026

See notes to financial statements

Moravian College

Statement of Financial Position
(In Thousands)
June 30, 2014 and 2013

	2014	2013
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	$ 1,365	$ 1,514
Accounts payable	800	568
Accrued interest	568	581
Accrued expenses and other liabilities	3,083	3,437
Deferred revenue and deposits	1,115	1,068
Current portion of postretirement benefit obligation	65	52
Total current liabilities	6,996	7,220
Noncurrent Liabilities		
Annuities payable	1,202	1,287
Long-term debt	35,971	37,396
Postretirement benefit obligation	391	455
Refundable federal grants and loan funds	1,272	1,272
Other liabilities	635	657
Total liabilities	46,467	48,287
Net Assets		
Unrestricted:		
College	64,693	63,645
Theological Seminary	13,301	12,576
Total unrestricted	77,994	76,221
Temporarily restricted:		
College	29,635	24,144
Theological Seminary	5,200	3,845
Total temporarily restricted	34,835	27,989
Permanently restricted:		
College	52,887	51,166
Theological Seminary	9,411	9,363
Total permanently restricted	62,298	60,529
Total net assets	175,127	164,739
Total liabilities and net assets	$ 221,594	$ 213,026

See notes to financial statements

Moravian College

Statement of Activities
(In Thousands)
Year Ended June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $22,876 in 2014; and $21,799 in 2013)	$ 29,933	$ -	$ -	$ 29,933	$ 30,843
Private gifts and grants	1,496	1,149	1,069	3,714	5,468
Investment income	1,552	16	224	1,792	1,707
Sponsored federal government programs and grants	578	-	-	578	507
State grants	328	-	-	328	334
Auxiliary enterprises	10,849	-	-	10,849	11,071
Other sources	343	-	-	343	1,350
Net assets released from restrictions, satisfaction of program restrictions	3,731	(3,731)	-	-	-
Total operating revenues and other additions	48,810	(2,566)	1,293	47,537	51,280
Operating Expenses					
Resident instruction	20,115	-	-	20,115	20,545
Academics support	3,209	-	-	3,209	3,157
Student services	4,787	-	-	4,787	4,857
Athletics	4,610	-	-	4,610	4,605
Institutional support	7,114	-	-	7,114	7,549
Fund-raising	1,297	-	-	1,297	1,297
Auxiliary enterprises	8,082	-	-	8,082	8,835
Total operating expenses	49,214	-	-	49,214	50,845
Change in net assets from operating activities	(404)	(2,566)	1,293	(1,677)	435
Nonoperating					
Realized net gain on investments	426	1,941	-	2,367	2,426
Unrealized net gain on investments	1,704	7,569	340	9,613	4,063
Gain (loss) on the sale of assets	47	-	-	47	(64)
Change in value of split-interest agreements	-	(98)	136	38	(361)
Increase in net assets from nonoperating activities	2,177	9,412	476	12,065	6,064
Change in net assets	1,773	6,846	1,769	10,388	6,499
Net Assets, Beginning	76,221	27,989	60,529	164,739	158,240
Net Assets, Ending	$ 77,994	$ 34,835	$ 62,298	$ 175,127	$ 164,739

See notes to financial statements

Moravian College

Statement of Activities (College Only)
(In Thousands)
Year Ended June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $22,655 in 2014; and $21,506 in 2013)	$ 29,420	$ -	$ -	$ 29,420	$ 30,260
Private gifts and grants	1,174	1,131	1,028	3,333	5,115
Investment income	1,189	16	224	1,429	1,374
Sponsored federal government programs and grants	578	-	-	578	507
State grants	328	-	-	328	334
Auxiliary enterprises	10,658	-	-	10,658	10,900
Other sources	342	-	-	342	1,350
Net assets released from restrictions, satisfaction of program restrictions	3,441	(3,441)	-	-	-
Total operating revenues and other additions	47,130	(2,294)	1,252	46,088	49,840
Operating Expenses					
Resident instruction	19,154	-	-	19,154	19,506
Academic support	3,023	-	-	3,023	2,997
Student services	4,605	-	-	4,605	4,671
Athletics	4,610	-	-	4,610	4,605
Institutional support	6,541	-	-	6,541	6,925
Fund-raising	1,211	-	-	1,211	1,202
Auxiliary enterprises	7,905	-	-	7,905	8,669
Total operating expenses	47,049	-	-	47,049	48,575
Change in net assets from operating activities	81	(2,294)	1,252	(961)	1,265
Nonoperating					
Realized net gain on investments	180	1,610	-	1,790	1,828
Unrealized net gain on investments	740	6,273	346	7,359	3,064
Gain (loss) on the sale of assets	47	-	-	47	(64)
Change in value of split-interest agreements	-	(98)	123	25	(369)
Increase in net assets from nonoperating activities	967	7,785	469	9,221	4,459
Change in net assets	1,048	5,491	1,721	8,260	5,724
Net Assets, Beginning	63,645	24,144	51,166	138,955	133,231
Net Assets, Ending	$ 64,693	$ 29,635	$ 52,887	$ 147,215	$ 138,955

See notes to financial statements

Moravian College

Statement of Activities (Theological Seminary Only)
(In Thousands)
Year Ended June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total (Summarized)
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships $221 in 2014; and $293 in 2013)	$ 513	$ -	$ -	$ 513	$ 583
Private gifts and grants	322	18	41	381	353
Investment income	363	-	-	363	333
Auxiliary enterprises	191	-	-	191	171
Other sources	1	-	-	1	-
Net assets released from restrictions, satisfaction of program restrictions	290	(290)	-	-	-
Total operating revenues and other additions	1,680	(272)	41	1,449	1,440
Operating Expenses					
Resident instruction	961	-	-	961	1,039
Academics support	186	-	-	186	160
Student services	182	-	-	182	186
Institutional support	573	-	-	573	624
Fund-raising	86	-	-	86	95
Auxiliary enterprises	177	-	-	177	166
Total operating expenses	2,165	-	-	2,165	2,270
Change in net assets from operating activities	(485)	(272)	41	(716)	(830)
Nonoperating					
Realized net gain on investments	246	331	-	577	598
Unrealized net gain (loss) on investments	964	1,296	(6)	2,254	999
Change in value of split-interest agreements	-	-	13	13	8
Increase in net assets from nonoperating activities	1,210	1,627	7	2,844	1,605
Change in net assets	725	1,355	48	2,128	775
Net Assets, Beginning	12,576	3,845	9,363	25,784	25,009
Net Assets, Ending	$ 13,301	$ 5,200	$ 9,411	$ 27,912	$ 25,784

See notes to financial statements

Moravian College

Statement of Cash Flows
(In Thousands)
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Increase in net assets	$ 10,388	$ 6,499
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	4,354	3,681
Change in value of split-interest agreement and annuities payable	(127)	290
Gifts and grants restricted for long-term investments	(1,220)	(2,894)
(Gain) loss on disposal of assets	(47)	64
Other restricted earnings for long-term investments	224	183
Net realized and unrealized gains on investments	(11,980)	(6,489)
(Increase) decrease in assets:		
Accounts receivable, net	219	(285)
Investment income receivable	(10)	78
Contributions receivable, net	140	411
Prepaids and other	(842)	75
Other non-current assets	(116)	960
Increase (decrease) in liabilities:		
Accounts payable and accrued interest payable	225	346
Accrued expenses and other liabilities	(354)	623
Deferred revenue and deposits	47	(288)
Accumulated postretirement benefit obligation	(51)	(26)
Other liabilities	(22)	(4)
Net cash provided by operating activities	828	3,224
Cash Flows from Investing Activities		
Purchase of land, building and equipment	(13,697)	(8,408)
Proceeds from sale of land, building and equipment	48	240
Purchase of investments	(9,551)	(33,295)
Proceeds from sale of investments	11,205	32,620
Change in deposits with trustee under debt agreements	6,696	(6,919)
Disbursement of student loans	(264)	(230)
Repayments of student loans	361	388
Net cash used in investing activities	(5,202)	(15,604)
Cash Flows from Financing Activities		
Gifts and grants restricted for long-term investments	2,081	3,536
Other restricted earnings for long-term investments	(224)	(183)
Repayment of debt	(1,514)	(1,399)
Proceeds from issuance of long-term debt	-	10,130
Payment of financing costs	-	(308)
Net repayment of refundable federal grants and loan funds	-	149
Net cash provided by financing activities	343	11,925
Net decrease in cash and cash equivalents	(4,031)	(455)
Cash and Cash Equivalents, Beginning	9,815	10,270
Cash and Cash Equivalents, Ending	$ 5,784	$ 9,815
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,406	$ 825
Supplementary Disclosure of Noncash Investing Activities		
Land, building and equipment purchases in accounts payable	$ 145	$ 152

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 1,368 full-time day students, 583 men and 785 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 and changes in value of split interest agreements (primarily life income, annuity and trust agreements).

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, 2014 and 2013 was approximately $1,173,000. 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 $36,603 and $33,161 in 2014 and 2013, 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 (3-10 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, 2014 and 2013.

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 $3,954,000 and $4,035,000 in 2014 and 2013, 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, 2014 and 2013, 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 $165,300 and $227,000 during the fiscal years ended June 30, 2014 and 2013, 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. 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, 2014 and 2013 for the years then ended, the College's composite score exceeded 1.5.

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, 2014 and 2013.

The College's federal Exempt Organization Business Income Tax Returns remain subject to examination by the IRS for years subsequent to June 30, 2010.

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

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, 2013, from which the summarized information was derived.

Subsequent Events

Subsequent events were evaluated through October 13, 2014, the date the financial statements were issued.

New Accounting Standards

In October 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale 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 was effective for the College's fiscal year beginning July 1, 2013. The adoption of this ASU did not 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 not-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.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (students) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The College will be required to retroactively adopt the guidance in ASU 2014-09 for the fiscal year beginning July 1, 2017. The College has not yet determined the impact of adoption of ASU 2014-09 on its financial statements.

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):

	2014	2013
Accounts receivable	$ 1,197	$ 1,394
Allowance for doubtful accounts	(125)	(103)
	$ 1,072	$ 1,291

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):

	2014	2013
Due in one year or less	$ 913	$ 1,012
Due between one year and five years	418	1,375
Contributions receivable, gross	1,331	2,387
Unamortized discount	(71)	(126)
Contributions receivable, net	$ 1,260	$ 2,261

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, 2014 and 2013 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. Fair Value Measurements, Investments and Other Financial Instruments

The College measures its deposits with trustees, investments, beneficial interest in perpetual trusts and split interest agreements at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. 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. The framework that the authoritative guidance established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined 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 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the College for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the same term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The following tables present the financial instruments measured at fair value as of June 30, 2014 and 2013 by caption on the statement of financial position by the valuation hierarchy defined above (in thousands):

	2014			
	Total	**Level 1**	**Level 2**	**Level 3**
Reported at Fair Value				
Investments:				
Cash and money market accounts	$ 6,211	$ 6,211	$ -	$ -
Domestic equity:				
Common stock	1,616	1,616	-	-
Large cap mutual funds	17,255	17,255	-	-
Natural resources mutual funds	9,569	9,569	-	-
International equity mutual funds	21,548	21,548	-	-
Domestic fixed income:				
Taxable fixed income mutual funds	11,674	11,674	-	-
Corporate bonds and preferred stock	2,108	2,108	-	-
International fixed income mutual funds	4,979	-	4,979	-
Alternative investments	34,319	-	-	34,319
Total investments	109,279	69,981	4,979	34,319
Deposits with trustee under debt agreements:				
Cash and cash equivalents	1,784	1,784	-	-
U.S. government securities	2,145	2,145	-	-
Total deposits with trustee under debt agreements	3,929	3,929	-	-
Beneficial interest in perpetual trusts	2,212	-	-	2,212
Split interest agreements	2,209	-	-	2,209
	$ 117,629	$ 73,910	$ 4,979	$ 38,740

	2014			
	Total	**Level 1**	**Level 2**	**Level 3**
Disclosed at Fair Value				
Assets:				
Cash and cash equivalents	$ 5,784	$ 5,784	$ -	$ -
Contributions receivable, net	1,260	-	-	1,260
Note receivable	1,000	-	1,000	-
Student loans receivable	1,875	-	1,875	-
Liabilities:				
Long-term debt (carrying value $37,336)	37,630	-	37,630	-
Annuities payable	1,202	-	-	1,202
Refundable federal grants and loan funds	1,272	-	1,272	-

	2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Reported at Fair Value				
Investments:				
Cash and money market accounts	$ 14,703	$ 14,703	$ -	$ -
Domestic equity:				
Common stock	1,216	1,216	-	-
Large cap mutual funds	12,811	12,811	-	-
Natural resources mutual funds	7,787	7,787	-	-
International equity mutual funds	18,971	18,971	-	-
Domestic fixed income:				
Taxable fixed income mutual funds	11,851	11,851	-	-
Corporate bonds and preferred stock	1,045	1,045	-	-
International fixed income mutual funds	3,700	-	3,700	-
Alternative investments	26,869	-	-	26,869
Total investments	98,953	68,384	3,700	26,869
Deposits with trustee under debt agreements:				
Cash and cash equivalents	8,478	8,478	-	-
U.S. government securities	2,147	2,147	-	-
Total deposits with trustee under debt agreements	10,625	10,625	-	-
Beneficial interest in perpetual trusts	2,025	-	-	2,025
Split interest agreements	2,354	-	-	2,354
	$ 113,957	$ 79,009	$ 3,700	$ 31,248

	2013			
	Total	Level 1	Level 2	Level 3
Disclosed at Fair Value				
Assets:				
Cash and cash equivalents	$ 9,815	$ 9,815	$ -	$ -
Contributions receivable, net	2,261	-	-	2,261
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	-

The following methods and assumptions were used to estimate fair values of the College's financial instruments as of June 30, 2014 and 2013:

Cash and Cash Equivalents

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 fair value of contributions receivable 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%.

Alternative Investments

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.

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.

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2014 are as follows (in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds	$ 19,125	$ -	Various	35 - 65 days
Private Equity Funds	12,097	9,556	Illiquid	
Real Asset Funds	3,097	2,419	Illiquid	
	$ 34,319	$ 11,975		

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2014 and 2013 are as follows (in thousands):

	Alternative Investments	Beneficial Interest in Perpetual Trusts	Split-Interest Agreements	Level 3 Total
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 gains	786	-	-	786
Balance at June 30, 2013	26,869	2,025	2,354	31,248
Unrealized gains (losses)	2,120	187	(145)	2,162
Purchases	7,502	-	-	7,502
Proceeds from sales	(3,547)	-	-	(3,547)
Realized gains	1,375	-	-	1,375
Balance at June 30, 2014	$ 34,319	$ 2,212	$ 2,209	$ 38,740

Investments

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):

	2014	2013
Endowment funds	$ 101,278	$ 90,709
Annuity and life income funds	1,765	1,679
Capital campaign funds	3,128	3,520
Other funds	3,108	3,045
	$ 109,279	$ 98,953

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):

	2014	2013
Land and land improvements	$ 15,925	$ 15,623
Buildings	103,713	91,749
Equipment	28,212	23,400
Library books	9,377	9,234
Collection items	4,218	4,202
Construction in progress	460	4,034
	161,905	148,242
Accumulated depreciation	(72,457)	(68,109)
	$ 89,448	$ 80,133

Depreciation expense was approximately $4,375,000 and $3,714,000 in 2014 and 2013, 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, 2014 and 2013.

8. Long-term Debt

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

	2014	2013
College Revenue Bonds of 2005, due serially in annual amounts through 2020, with interest, payable semiannually, ranging from 3.6% to 5.0%.	$ 2,270	$ 2,590
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%.	4,229	4,479
College Revenue Bonds of 2012, due serially in annual amounts through 2032, with interest payable semi-annually ranging from 2.0% to 5.0%.	20,415	20,950
College Revenue Bonds of 2013, due serially in annual amounts through 2042, with interest payable semi-annually ranging from 1.6% to 4.125%.	9,800	10,130
TCF Equipment Finance, 5.0%, due in equal installments through 2015 with a balloon payment in 2015 for a campus vehicle.	5	15
University Lease, repaid in 2014.	-	59
Dormitory Bonds of 1964 Series B, repaid in 2014.	-	10
	36,719	38,233
Less current portion	(1,365)	(1,514)
Original issue premium	617	677
Long-term debt	$ 35,971	$ 37,396

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, 2014 are as follows (in thousands):

2015	$ 1,365
2016	5,124
2017	1,185
2018	1,225
2019	1,255
Later years	26,565
	$ 36,719

Interest expense related to long-term debt was approximately $1,370,000 and $1,098,000 in 2014 and 2013, 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 $1,155,000 and $1,456,000 in 2014 and 2013, 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 approximately $43,000 in 2014 and $37,000 in 2013. 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):

	2014	2013
Projected benefit obligation, beginning	$ 507	$ 533
Service cost	29	36
Interest cost	17	18
Actuarial gain/loss	(54)	(43)
Benefits paid	(43)	(37)
Projected benefit obligation, ending	$ 456	$ 507

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

	2014	2013
Current portion of postretirement benefit obligation	$ 65	$ 52
Noncurrent portion of postretirement benefit obligation	391	455
Accrued pension liability, net	$ 456	$ 507

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

	2014	2013
Discount rate	3.5 %	3.5 %
Rate of increase in compensation levels	1.5	1.5

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

	2014	2013
Service cost	$ 29	$ 36
Interest cost	17	18
	$ 46	$ 54

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 $65,000.

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

2015	$ 65
2016	58
2017	55
2018	57
2019	58
2020 - 2021	291

11. Net Assets

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

	2014	2013
Net assets related to certain split-interest agreements	$ 3,062	$ 2,926
Assets held in perpetuity	59,236	57,603
	$ 62,298	$ 60,529

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

	2014	2013
Net assets related to certain split-interest agreements	$ 1,196	$ 1,293
Specified purposes	33,639	26,696
	$ 34,835	$ 27,989

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

	2014	2013
Long-term investments	$ 17,697	$ 16,113
Plant facilities	56,041	51,848
Other	4,256	8,260
	$ 77,994	$ 76,221

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, 2014 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 24,971	$ 58,342	$ 83,313
Board-designated endowment funds	17,696	-	-	17,696
	$ 17,696	$ 24,971	$ 58,342	$ 101,009

The following schedule represents the changes in endowment net assets for the year ended June 30, 2014 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ 16,113	$ 17,571	$ 56,800	$ 90,484
Investment income	261	1,185	-	1,446
Realized gains	426	1,941	-	2,367
Change in unrealized gains	1,667	7,570	-	9,237
Contributions	1	204	1,542	1,747
Appropriation for spending	(772)	(3,500)	-	(4,272)
Assets, end of year	$ 17,696	$ 24,971	$ 58,342	$ 101,009

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 losses	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

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, 2014 or 2013.

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 7.5% 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 5.0% for 2014 and 4.5% for 2013, respectively. 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 7.5% 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. Commitments

In connection with several ongoing projects on campus, the College has commitments to several vendors totaling approximately $4,079,000 as of June 30, 2014. The College is using debt financing and operating cash flow to fund these projects.

14. 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.

15. 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, 2014, consolidation of MCHI with the College is not required.