

# FINANCIAL REPORT 2014-2015



MORAVIAN  
COLLEGE

## **About the Cover:**

**Our Priscilla Payne Hurd (South) Campus provides a historic backdrop for the bustling Main Street of downtown Bethlehem, Pa. But behind the Colonial buildings and historic markers is another oasis for students to convene, collaborate, and create. Whether enjoying a sunny afternoon on the Adirondack chairs or a working lunch on the picnic tables, our South Campus easily becomes a home away from home to our students.**



## Management Discussion

In the fall of 2014, Moravian College welcomed the Class of 2018 with 356 freshman and 81 transfer students. At 1,445 annual full time equivalent (FTE) students, the undergraduate population increased by 66 over the previous year, and exceeded our 2014/15 budgeted FTE of 1,385 FTE, by 60 students. This growth in our student body resulted in additional revenue in excess of \$1.3 million. The administration was able to strategically allocate these additional resources to support both curricular and co-curricular initiatives that are directly related to the mission of Moravian College. This increased enrollment is a direct result of our recent investments in enrollment management, campus facilities, marketing and technology.

Recent capital projects include major renovations to the Collier Hall of Science, Johnston Hall athletic facility and Comenius Hall, all of which were completed during the summer of 2014. In the Collier Hall of Science, students and faculty can now enjoy state of the art labs, office space and equipment. Revitalized interior spaces and classrooms promote collaborative learning and engagement. In addition, we are investing in the future growth of our academic programs with the purchase of the 1441 Schoenersville Road property in December 2014. When renovations are complete, this new gateway to our west campus will be the home of our new Athletic Training and Occupational Therapy programs.

Additionally, the investment was made in our enrollment staff and processes to better market the exceptional value of the Moravian College liberal arts experience to prospective students. New search services, improved admission events, such as open houses and accepted students days, and better campus tours directly resulted in increased applications and matriculations.

Technology improvements include the first phase of a wireless mesh project which will eventually allow uninterrupted wireless connectivity between campuses. A more robust information security system has allowed the MacBook pro/iPad initiative to be implemented with the 2014 freshman class. Adoption of the technology and collaboration between students and faculty has exceeded expectations. The Moravian College community has embraced this initiative with over 500 MacBook pros and iPads distributed to new students at registration in May 2015 for the incoming Class of 2019.

The College and Seminary endowment remained steady during the year, ending with a market value of \$106 million as of June 30, 2015. Over the past 5 years the fund has received gifts totaling \$21.5 million and has provided \$26.1 million in support for operations and capital projects. Investment returns for the one and three year periods were 1.1% and 8.8% (annualized), respectively. The endowment spending rate for 2014/2015 was a conservative 4.5% which produced approximately \$4 million, of which \$1.5 million was used for College and Seminary financial aid. The portfolio allocation as of year-end was: 27.5% Domestic equity, 18.6% international equity, 13.4% fixed income, 2.4% cash, 9.9% real estate and natural resources and 28.2% private equity and hedge funds.

Moravian College is beginning the 2015/2016 academic year with 619 new students, the largest incoming class in its 273 year history. This clearly demonstrates the success of the investments outlined above. Our new strategic plan, "Vision 2020" has been launched and is designed to lead the College for the next five years with mission focused goals and initiatives.

# Financial Review

## Statement of Financial Position

As of June 30, 2015, consolidated net assets were down slightly to \$174.9 million. Increases in unrestricted and permanently restricted net assets were offset by a decrease in temporarily restricted net assets resulting from the release of restrictions for many capital projects. There was a decrease in current assets as accumulated cash balances were used to fund essential investments made in technology and infrastructure. These investments are reflected in the increase in non-current capital assets. Investment valuations at June 30, 2015, were down due flat market performance which was insufficient to fund the annual spending policy. Total liabilities saw a modest decrease as we continued to pay down outstanding debt.

## College Statement of Activities

College operating revenues increased by more than \$6.8 million in 2015, primarily due to increased tuition revenues. Auxiliary enterprise revenues and related expenses were also up as a result of increased enrollment. Total operating expenses increased 10% year over year due to enrollment driven expenditures in Resident Instruction, Student Services and Institutional Support (Information technology). Finally, non-operating activity reflects a total loss of \$504 thousand as a result of the flat market performance and liquidations necessary to fund the annual spending policy withdrawal.

## Seminary Statement of Activities

Seminary net assets decreased by \$690 thousand from 2014 to 2015. Operating revenues from tuition, gifts and auxiliary sources were ahead slightly from the prior year, however, operating expenses were up a modest 3.5%. Overall, the negative contribution was largely attributable to the loss from non-operating activities.

## 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.

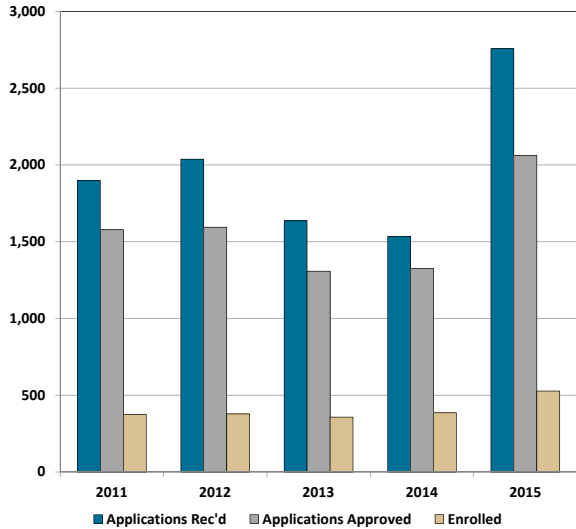
**Operating activities:** During the 2014/2015 year, the College and Seminary contributed almost \$4.6 million from operations. This figure is calculated based on the adjustments to the change in total net assets for non-cash operating items and the changes in certain asset and liability accounts.

**Investing activities:** The College invested \$10.2 million in capital projects, again, primarily in technology and facility improvements. Sales and purchases of investments provided \$2.0 million in cash.

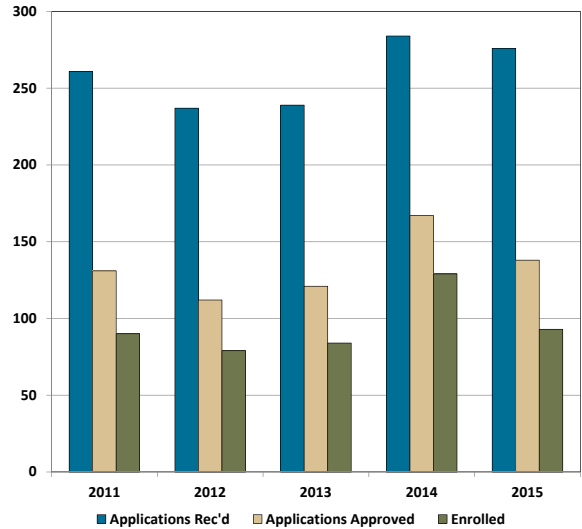
**Financing activities:** The College financing activities provided a net \$474 thousand to cash.

In summary, these three categories of activity resulted in a net cash outflow just approximately \$3.1 million. At June 30, 2015 the consolidated cash balance of the institution remains liquid at \$2.7 million.

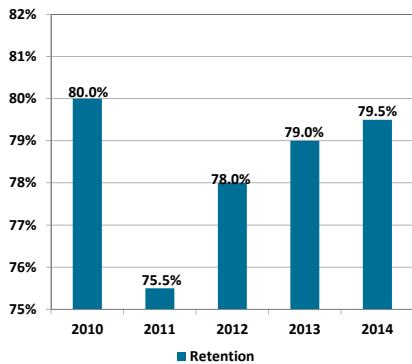
### Freshmen Applications



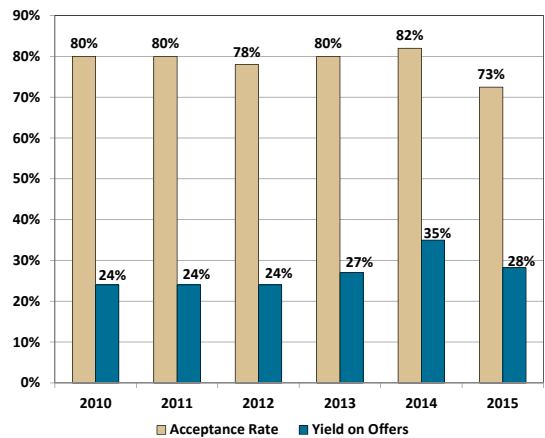
### Transfer Applications



### Freshmen to Sophomore Retention Rates

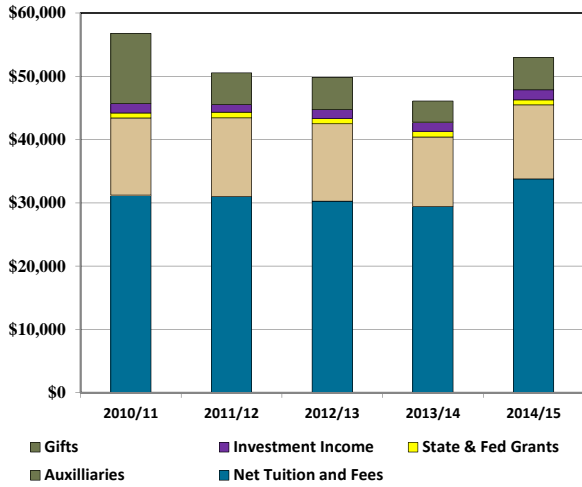


### Acceptance Rate & Yield on Offers



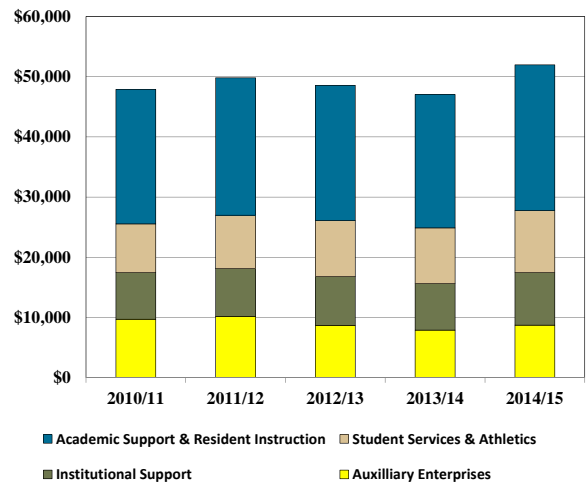
### Sources of Revenue (College)

\$ Thousands



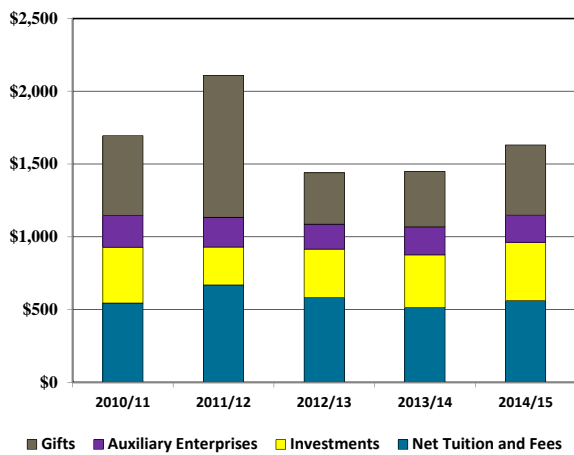
### Operating Expenses (College)

\$ Thousands



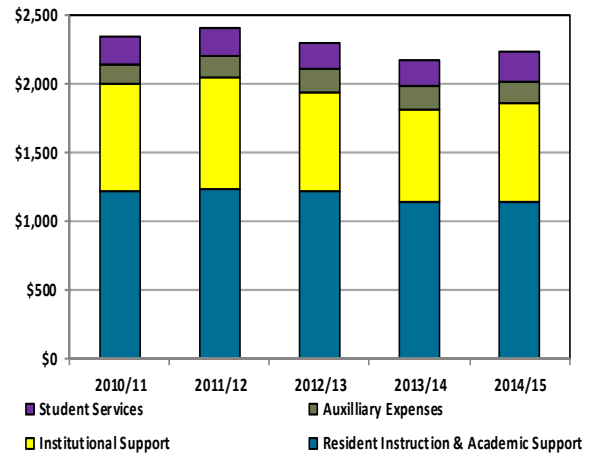
### Sources of Revenue (Seminary)

\$ Thousands

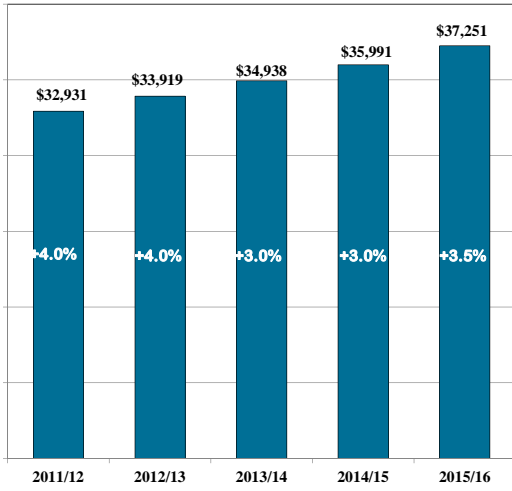


### Operating Expenses (Seminary)

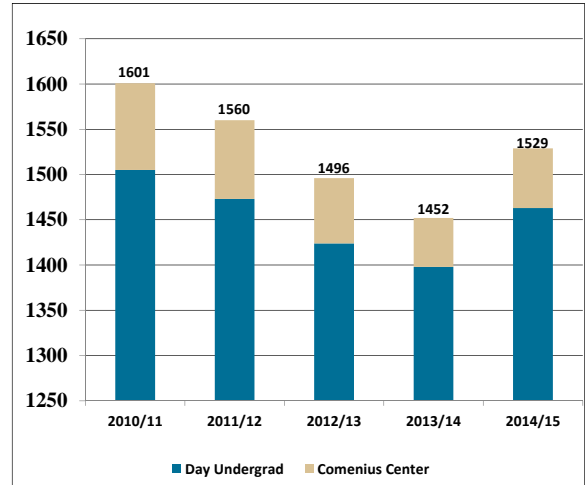
\$ Thousands



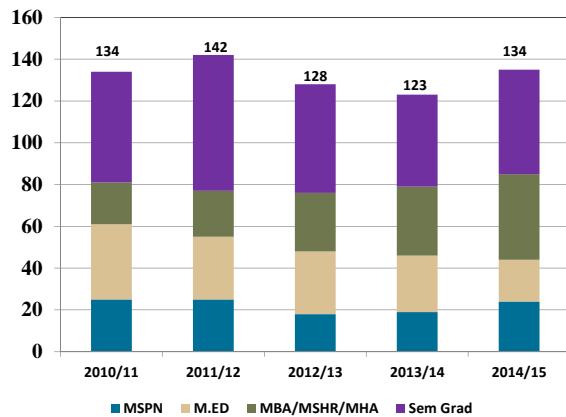
### Full-Time Tuition Rate-College



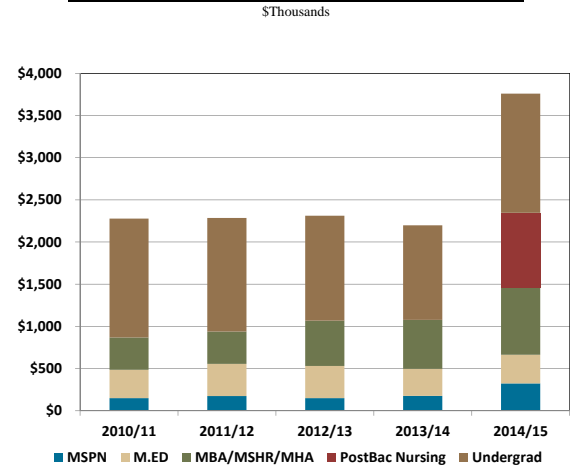
### FTE Students-Undergrad



### FTE Students-Graduate

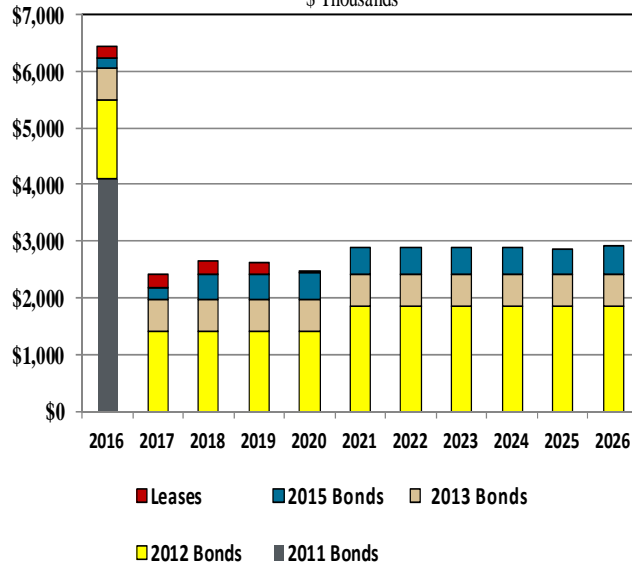


### Comenius Center Gross Revenue



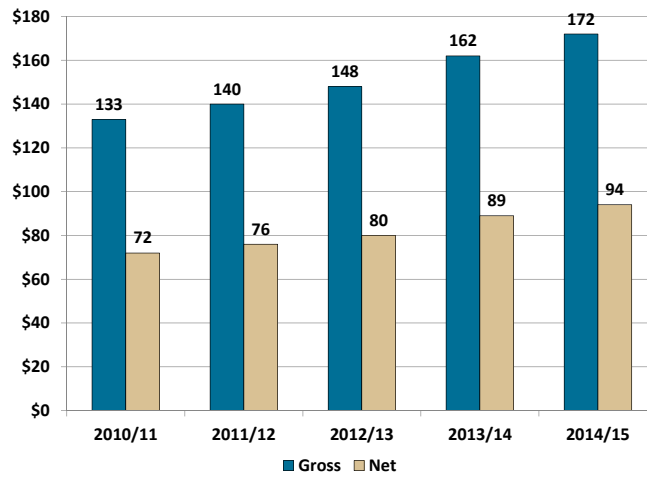
## 10 Year Debt Service Summary

\$ Thousands



## Investment in Property, Plant & Equipment

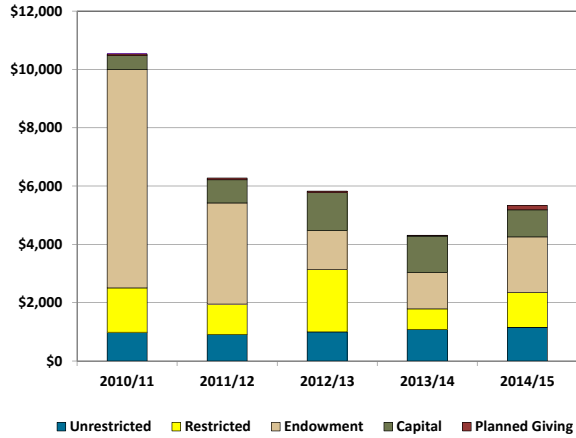
Gross & Net of Depreciation  
\$ Millions





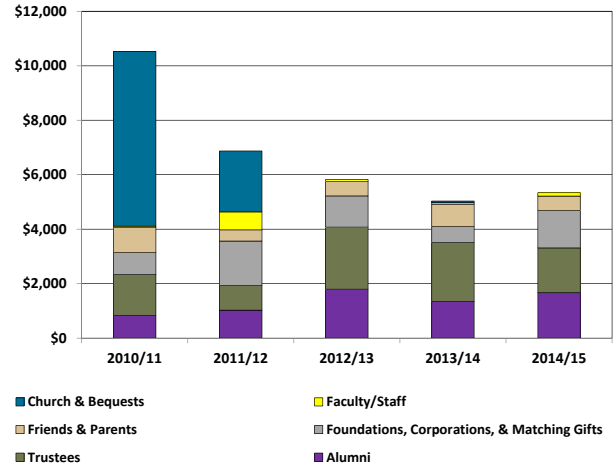
### Giving History – College By Purpose

\$ Thousands



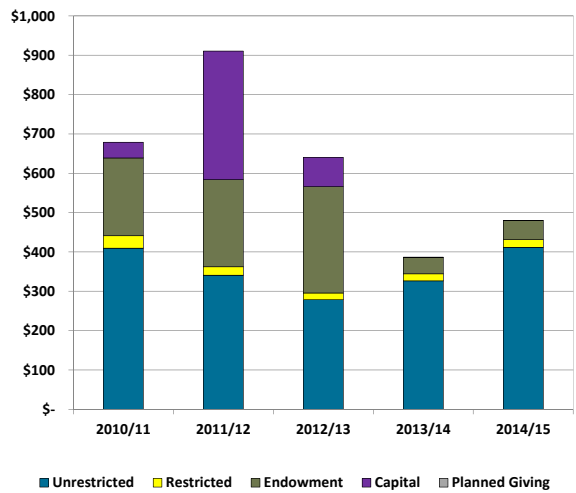
### Giving History – College By Source

\$ Thousands



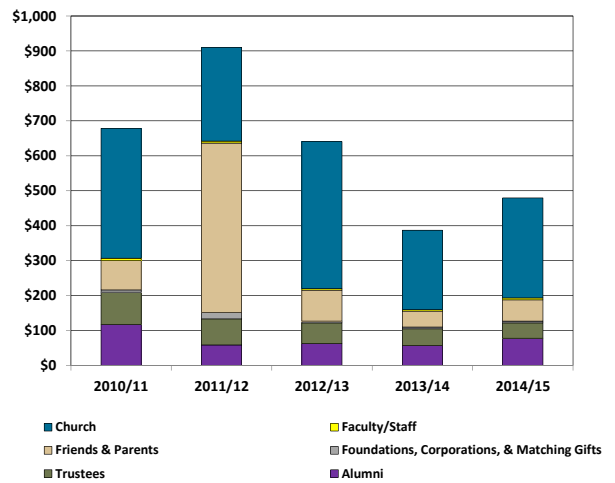
### Giving History – Seminary By Purpose

\$ Thousands



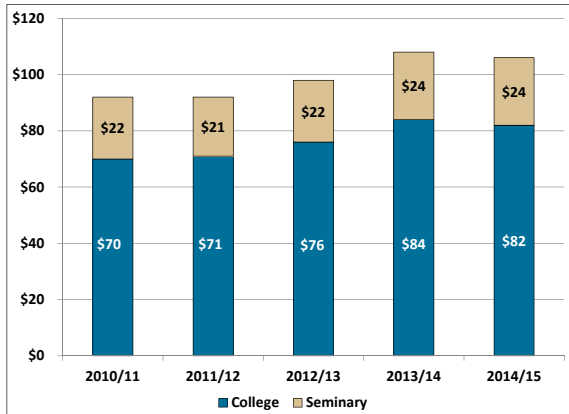
### Giving History – Seminary By Source

\$ Thousands



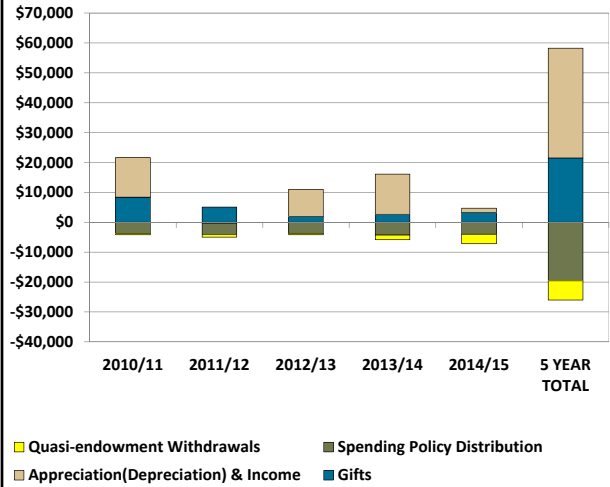
### Market Value of Endowment

\$Millions

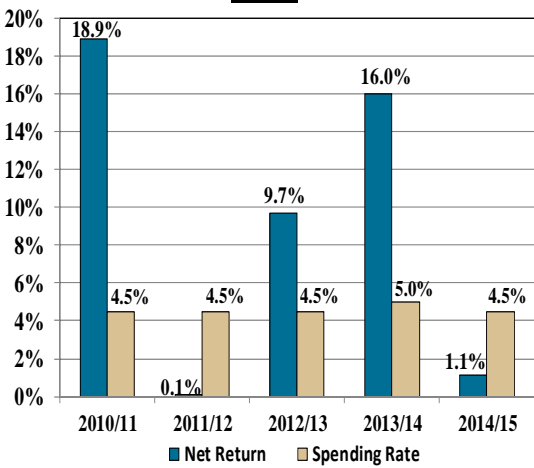


### Endowment Changes

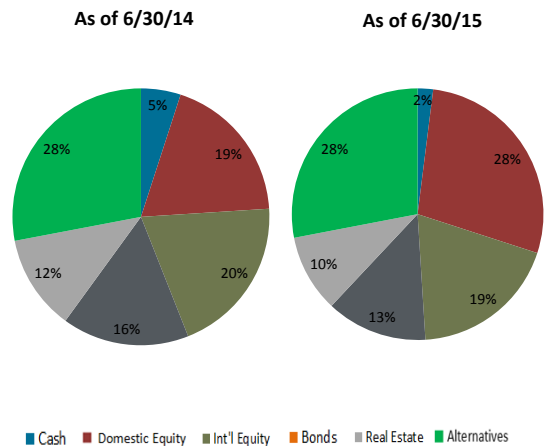
\$ Thousands



### Net Investment Returns vs. Spending Rate



### Endowment Asset Allocation



# **Moravian College**

Financial Statements

June 30, 2015 and 2014



**BAKER TILLY**

Candor. Insight. Results.

# Moravian College

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## 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, 2015, 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.

### 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, 2015, 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.

## **Report on Summarized Comparative Information**

We have previously audited Moravian College's June 30, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 13, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Baker Tilly Viechow Krause, LLP*

Allentown, Pennsylvania  
October 16, 2015

# Moravian College

## Statement of Financial Position

(In Thousands)

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,677	\$ 5,784
Accounts receivable, net	1,222	1,072
Investment income receivable	213	215
Contributions receivable	486	913
Prepays and other	1,448	1,830
Deposits with trustee under debt agreement	<u>3,079</u>	<u>1,478</u>
Total current assets	<u>9,125</u>	<u>11,292</u>
<b>Noncurrent Assets</b>		
Contributions receivables, net	279	347
Note receivable	1,000	1,000
Deposits with trustee under debt agreement	2,081	2,451
Investments	105,577	109,279
Split-interest agreements	4,291	4,421
Student loans receivable (net of allowance of \$225 in 2015; \$206 in 2014)	1,825	1,875
Other non-current assets	1,155	958
Land, buildings and equipment, net	<u>94,184</u>	<u>89,448</u>
Total noncurrent assets	<u>210,392</u>	<u>209,779</u>
Total assets	<u>\$ 219,517</u>	<u>\$ 221,071</u>

See notes to financial statements

# Moravian College

## Statement of Financial Position

(In Thousands)

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 6,823	\$ 1,365
Accounts payable	604	800
Accrued interest	555	568
Accrued expenses and other liabilities	3,053	3,083
Deferred revenue and deposits	1,243	1,115
Current portion of postretirement benefit obligation	44	65
	<u>12,322</u>	<u>6,996</u>
<b>Noncurrent Liabilities</b>		
Annuities payable	1,015	1,202
Long-term debt	29,103	35,448
Postretirement benefit obligation	371	391
Refundable federal grants and loan funds	1,250	1,272
Other liabilities	561	635
	<u>44,622</u>	<u>45,944</u>
<b>Net Assets</b>		
Unrestricted:		
College	67,796	64,693
Theological Seminary	12,923	13,301
	<u>80,719</u>	<u>77,994</u>
Temporarily restricted:		
College	25,095	29,635
Theological Seminary	4,851	5,200
	<u>29,946</u>	<u>34,835</u>
Permanently restricted:		
College	54,782	52,887
Theological Seminary	9,448	9,411
	<u>64,230</u>	<u>62,298</u>
Total net assets	<u>174,895</u>	<u>175,127</u>
Total liabilities and net assets	<u>\$ 219,517</u>	<u>\$ 221,071</u>

See notes to financial statements

**Moravian College**

## Statement of Activities

(In Thousands)

Year Ended June 30, 2015 (with Comparative Totals for the Year Ended June 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total (Summarized)</u>
<b>Operating Revenues and Other Additions</b>					
Tuition and fees (net of student scholarships of \$24,890 in 2015; and \$22,876 in 2014)	\$ 34,351	\$ -	\$ -	\$ 34,351	\$ 29,933
Private gifts and grants	1,855	1,689	2,029	5,573	3,714
Investment income	1,741	-	233	1,974	1,792
Sponsored federal government programs and grants	457	-	-	457	578
State grants	327	-	-	327	328
Auxiliary enterprises	11,487	-	-	11,487	10,849
Other sources	410	-	-	410	343
Net assets released from restrictions, satisfaction of program restrictions	6,323	(6,323)	-	-	-
Total operating revenues and other additions	<u>56,951</u>	<u>(4,634)</u>	<u>2,262</u>	<u>54,579</u>	<u>47,537</u>
<b>Operating Expenses</b>					
Resident instruction	22,075	-	-	22,075	20,115
Academics support	3,279	-	-	3,279	3,209
Student services	5,789	-	-	5,789	4,787
Athletics	4,734	-	-	4,734	4,610
Institutional support	8,044	-	-	8,044	7,114
Fund-raising	1,427	-	-	1,427	1,297
Auxiliary enterprises	8,879	-	-	8,879	8,082
Total operating expenses	<u>54,227</u>	<u>-</u>	<u>-</u>	<u>54,227</u>	<u>49,214</u>
Change in net assets from operating activities	<u>2,724</u>	<u>(4,634)</u>	<u>2,262</u>	<u>352</u>	<u>(1,677)</u>
<b>Nonoperating</b>					
Realized net gain on investments	923	4,271	42	5,236	2,367
Unrealized net gain (loss) on investments	(949)	(4,505)	(286)	(5,740)	9,613
Gain on the sale of assets	27	-	-	27	47
Change in value of split-interest agreements	-	(21)	(86)	(107)	38
Change in net assets from nonoperating activities	<u>1</u>	<u>(255)</u>	<u>(330)</u>	<u>(584)</u>	<u>12,065</u>
Change in net assets	2,725	(4,889)	1,932	(232)	10,388
<b>Net Assets, Beginning</b>	<u>77,994</u>	<u>34,835</u>	<u>62,298</u>	<u>175,127</u>	<u>164,739</u>
<b>Net Assets, Ending</b>	<u>\$ 80,719</u>	<u>\$ 29,946</u>	<u>\$ 64,230</u>	<u>\$ 174,895</u>	<u>\$ 175,127</u>

See notes to financial statements

**Moravian College**

## Statement of Activities (College Only)

(In Thousands)

Year Ended June 30, 2015 (with Comparative Totals for the Year Ended June 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total (Summarized)</u>
<b>Operating Revenues and Other Additions</b>					
Tuition and fees (net of student scholarships of \$24,601 in 2015; and \$22,655 in 2014)	\$ 33,787	\$ -	\$ -	\$ 33,787	\$ 29,420
Private gifts and grants	1,441	1,669	1,981	5,091	3,333
Investment income	1,342	-	233	1,575	1,429
Sponsored federal government programs and grants	457	-	-	457	578
State grants	327	-	-	327	328
Auxiliary enterprises	11,303	-	-	11,303	10,658
Other sources	408	-	-	408	342
Net assets released from restrictions, satisfaction of program restrictions	5,993	(5,993)	-	-	-
	<u>55,058</u>	<u>(4,324)</u>	<u>2,214</u>	<u>52,948</u>	<u>46,088</u>
Total operating revenues and other additions					
<b>Operating Expenses</b>					
Resident instruction	21,096	-	-	21,096	19,154
Academic support	3,117	-	-	3,117	3,023
Student services	5,571	-	-	5,571	4,605
Athletics	4,734	-	-	4,734	4,610
Institutional support	7,429	-	-	7,429	6,541
Fund-raising	1,325	-	-	1,325	1,211
Auxiliary enterprises	8,714	-	-	8,714	7,905
	<u>51,986</u>	<u>-</u>	<u>-</u>	<u>51,986</u>	<u>47,049</u>
Total operating expenses					
Change in net assets from operating activities	3,072	(4,324)	2,214	962	(961)
<b>Nonoperating</b>					
Realized net gain on investments	390	3,552	42	3,984	1,790
Unrealized net gain (loss) on investments	(386)	(3,747)	(280)	(4,413)	7,359
Gain on the sale of assets	27	-	-	27	47
Change in value of split-interest agreements	-	(21)	(81)	(102)	25
	<u>31</u>	<u>(216)</u>	<u>(319)</u>	<u>(504)</u>	<u>9,221</u>
Change in net assets from nonoperating activities					
Change in net assets	3,103	(4,540)	1,895	458	8,260
<b>Net Assets, Beginning</b>	<u>64,693</u>	<u>29,635</u>	<u>52,887</u>	<u>147,215</u>	<u>138,955</u>
<b>Net Assets, Ending</b>	<u>\$ 67,796</u>	<u>\$ 25,095</u>	<u>\$ 54,782</u>	<u>\$ 147,673</u>	<u>\$ 147,215</u>

See notes to financial statements



**Moravian College**

## Statement of Activities (Theological Seminary Only)

(In Thousands)

Year Ended June 30, 2015 (with Comparative Totals for the Year Ended June 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total (Summarized)</u>
<b>Operating Revenues and Other Additions</b>					
Tuition and fees (net of student scholarships \$289 in 2015; and \$221 in 2014)	\$ 564	\$ -	\$ -	\$ 564	\$ 513
Private gifts and grants	414	20	48	482	381
Investment income	399	-	-	399	363
Auxiliary enterprises	184	-	-	184	191
Other sources	2	-	-	2	1
Net assets released from restrictions, satisfaction of program restrictions	330	(330)	-	-	-
 Total operating revenues and other additions	 <u>1,893</u>	 <u>(310)</u>	 <u>48</u>	 <u>1,631</u>	 <u>1,449</u>
<b>Operating Expenses</b>					
Resident instruction	979	-	-	979	961
Academics support	162	-	-	162	186
Student services	218	-	-	218	182
Institutional support	615	-	-	615	573
Fund-raising	102	-	-	102	86
Auxiliary enterprises	165	-	-	165	177
 Total operating expenses	 <u>2,241</u>	 <u>-</u>	 <u>-</u>	 <u>2,241</u>	 <u>2,165</u>
 Change in net assets from operating activities	 <u>(348)</u>	 <u>(310)</u>	 <u>48</u>	 <u>(610)</u>	 <u>(716)</u>
<b>Nonoperating</b>					
Realized net gain on investments	533	719	-	1,252	577
Unrealized net gain (loss) on investments	(563)	(758)	(6)	(1,327)	2,254
Change in value of split-interest agreements	-	-	(5)	(5)	13
 Change in net assets from nonoperating activities	 <u>(30)</u>	 <u>(39)</u>	 <u>(11)</u>	 <u>(80)</u>	 <u>2,844</u>
 Change in net assets	 <u>(378)</u>	 <u>(349)</u>	 <u>37</u>	 <u>(690)</u>	 <u>2,128</u>
<b>Net Assets, Beginning</b>	<u>13,301</u>	<u>5,200</u>	<u>9,411</u>	<u>27,912</u>	<u>25,784</u>
<b>Net Assets, Ending</b>	<u>\$ 12,923</u>	<u>\$ 4,851</u>	<u>\$ 9,448</u>	<u>\$ 27,222</u>	<u>\$ 27,912</u>

See notes to financial statements

**Moravian College**

## Statement of Cash Flows

(In Thousands)

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ (232)	\$ 10,388
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	5,473	4,354
Change in value of split-interest agreement and annuities payable	(57)	(127)
Gifts and grants restricted for long-term investments	(1,090)	(1,220)
Gain on disposal of assets	(27)	(47)
Other restricted earnings for long-term investments	233	224
Net realized and unrealized losses (gains) on investments	504	(11,980)
(Increase) decrease in assets:		
Accounts receivable, net	(150)	219
Investment income receivable	2	(10)
Contributions receivable, net	(17)	140
Prepays and other	382	(842)
Other non-current assets	(197)	(116)
Increase (decrease) in liabilities:		
Accounts payable and accrued interest payable	(219)	225
Accrued expenses and other liabilities	(30)	(354)
Deferred revenue and deposits	128	47
Accumulated postretirement benefit obligation	(41)	(51)
Other liabilities	(74)	(22)
Net cash provided by operating activities	<u>4,588</u>	<u>828</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of land, building and equipment	(10,231)	(13,697)
Proceeds from sale of land, building and equipment	45	48
Purchase of investments	(29,220)	(9,551)
Proceeds from sale of investments	32,418	11,205
Change in deposits with trustee under debt agreements	(1,231)	6,696
Disbursement of student loans	(332)	(264)
Repayments of student loans	382	361
Net cash used in investing activities	<u>(8,169)</u>	<u>(5,202)</u>
<b>Cash Flows from Financing Activities</b>		
Gifts and grants restricted for long-term investments	1,602	2,081
Other restricted earnings for long-term investments	(233)	(224)
Repayment of debt	(1,428)	(1,514)
Proceeds from issuance of long-term debt	555	-
Repayment of refundable federal grants and loan funds	(22)	-
Net cash provided by financing activities	<u>474</u>	<u>343</u>
Net decrease in cash and cash equivalents	(3,107)	(4,031)
<b>Cash and Cash Equivalents, Beginning</b>	<u>5,784</u>	<u>9,815</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 2,677</u>	<u>\$ 5,784</u>
<b>Supplementary Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 1,493</u>	<u>\$ 1,406</u>
<b>Supplementary Disclosure of Noncash Investing Activities</b>		
Land, building and equipment purchases in accounts payable	<u>\$ 155</u>	<u>\$ 145</u>

See notes to financial statements

# Moravian College

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Notes to Financial Statements  
June 30, 2015 and 2014

## 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 1,442 full-time day students, 642 men and 800 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).

## **Moravian College**

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Notes to Financial Statements  
June 30, 2015 and 2014

### **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 and Refundable Federal Loan Funds**

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, 2015 and 2014 was approximately \$1,153,000 and is recorded as a liability in the statement of financial position. 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

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.

## 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.



## **Moravian College**

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### Notes to Financial Statements

June 30, 2015 and 2014

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.

### **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, 2015 and 2014, 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.

### **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, 2015 and 2014.

### **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 in both 2015 and 2014. Deferred financing costs are presented as a reduction in the carrying amount of the debt liability on the statement of financial position.

## **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 \$4,012,000 and \$3,954,000 in 2015 and 2014, respectively.

## **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 \$295,400 and \$165,300 during the fiscal years ended June 30, 2015 and 2014, respectively.

## **Refundable Grants**

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenues when the College has incurred expenditures in compliance with the contract. Amounts received but not yet earned are reported as refundable grants.

## **Title IV Requirements**

The College participates in Government Student Financial Assistance Programs ("Title IV") administered by the U.S. Department of Education ("ED") for the payment of student tuitions. A substantial number of College students are dependent upon the College's continued participation in the Title IV programs for assistance in tuition payment.

Institutions participating in Title IV programs are also required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.5 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2015 and 2014 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, 2015 and 2014.

The College's federal Exempt Organization Business Income Tax Returns remain subject to examination by the IRS for years subsequent to June 30, 2012.

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, 2014, from which the summarized information was derived.

**Reclassifications**

Certain amounts in the 2014 financial statements have been reclassified to conform to the current year 2015 presentation format. This change did not affect total changes in net assets or total net assets.

**Subsequent Events**

Subsequent events were evaluated through October 16, 2015, the date the financial statements were issued.

## New Accounting Standards

In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*. ASU 2013-06 requires 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 should 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. ASU 2013-06 is effective for the College's fiscal year beginning July 1, 2014. The guidance is prospective and the adoption of this ASU did not have a significant impact on the College's financial position or results of operations.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest (Topic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 was issued as a result of feedback received relating to the different balance sheet presentation requirements for debt issuance costs and debt discounts and premiums. To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for the College's fiscal year beginning July 1 2016; early adoption was permitted for financial statements that have not been previously issued. The College elected to adopt the guidance for the fiscal year beginning July 1, 2014. The guidance is retrospective and the adoption of ASU 2015-03 did not have a significant impact on the College's financial position or results of operations. The adoption of ASU 2015-03 caused the Deferred Financing Costs previously reported in the June 30, 2014 statement of financial position to decrease by \$523,000 and Long-term debt to decrease by \$523,000.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities the Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 was issued to address the diversity in practice relating to how certain investments measured at net asset value are categorized in the fair value hierarchy. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU 2015-07 is effective for the College's fiscal year beginning July 1, 2016; early adoption is permitted. The College elected to adopt the guidance for the fiscal year beginning July 1, 2014. The guidance is retrospective, and the adoption of ASU 2015-07 did not have a significant impact on the College's disclosures related to investments.

## Moravian College

Notes to Financial Statements  
June 30, 2015 and 2014

### 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):

	<u>2015</u>	<u>2014</u>
Accounts receivable	\$ 1,369	\$ 1,197
Allowance for doubtful accounts	(147)	(125)
	<u>\$ 1,222</u>	<u>\$ 1,072</u>

### 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):

	<u>2015</u>	<u>2014</u>
Due in one year or less	\$ 486	\$ 913
Due between one year and five years	328	418
Contributions receivable, gross	814	1,331
Unamortized discount	(49)	(71)
Contributions receivable, net	<u>\$ 765</u>	<u>\$ 1,260</u>

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, 2015 and 2014 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.

## Moravian College

Notes to Financial Statements  
June 30, 2015 and 2014

The following tables present the financial instruments measured at fair value as of June 30, 2015 and 2014 by caption on the statement of financial position by the valuation hierarchy defined above (in thousands):

	2015			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Reported at Fair Value:</b>				
Investments:				
Cash and money market accounts	\$ 2,588	\$ -	\$ -	\$ 2,588
Domestic equity:				
Common stock	1,738	-	-	1,738
Large cap mutual funds	25,211	-	-	25,211
Natural resources mutual funds	7,851	-	-	7,851
International equity mutual funds	20,154	-	-	20,154
Domestic fixed income:				
Taxable fixed income mutual funds	9,197	-	-	9,197
Corporate bonds and preferred stock	2,052	-	-	2,052
International fixed income mutual funds	-	4,109	-	4,109
Total investments by valuation hierarchy	68,791	4,109	-	72,900
Alternative investments (measured at net asset value)				32,677
Total investments				\$ 105,577

## Moravian College

Notes to Financial Statements  
June 30, 2015 and 2014

	2015			Total Fair Value
	Level 1	Level 2	Level 3	
Deposits with trustee under debt agreements:				
Cash and cash equivalents	\$ 3,119	\$ -	\$ -	\$ 3,119
U.S. government securities	2,041	-	-	2,041
Total deposits with trustee under debt agreements	5,160	-	-	5,160
Beneficial interest in perpetual trusts	-	-	2,119	2,119
Split interest agreements	-	-	2,172	2,172
	<u>\$ 73,951</u>	<u>\$ 4,109</u>	<u>\$ 4,291</u>	<u>\$ 82,351</u>
<b>Disclosed at Fair Value</b>				
Assets:				
Cash and cash equivalents	\$ 2,677	\$ -	\$ -	\$ 2,677
Contributions receivable, net	-	-	765	765
Note receivable	-	1,000	-	1,000
Student loans receivable	-	1,825	-	1,825
Liabilities:				
Long-term debt (carrying value \$35,926)	-	36,844	-	36,844
Annuities payable	-	-	1,015	1,015
Refundable federal grants and loan funds	-	1,250	-	1,250



## Moravian College

Notes to Financial Statements  
June 30, 2015 and 2014

	2014			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Reported at Fair Value:</b>				
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
Total investments by valuation hierarchy	69,981	4,979	-	74,960
Alternative investments (measured at net asset value)				34,319
Total investments				\$ 109,279

## Moravian College

Notes to Financial Statements  
June 30, 2015 and 2014

	2014			Total Fair Value
	Level 1	Level 2	Level 3	
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
	<u>\$ 73,910</u>	<u>\$ 4,979</u>	<u>\$ 4,421</u>	<u>\$ 83,310</u>
<b>Disclosed at Fair Value</b>				
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 \$36,813)	-	37,107	-	37,107
Annuities payable	-	-	1,202	1,202
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, 2015 and 2014:

**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. In accordance with Subtopic 820-10, investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

**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.

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.

## Moravian College

Notes to Financial Statements  
June 30, 2015 and 2014

Fair value measurements of investments in certain entities that calculate net asset value ("NAV") per share (or its equivalent) as of June 30, 2015 are as follows (in thousands):

	<u>Fair Value at NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Funds	\$ 18,097	\$ -	Various	35 - 65 days
Private Equity Funds	12,498	7,560	Illiquid	
Real Asset Funds	<u>2,082</u>	<u>1,837</u>	Illiquid	
	<u>\$ 32,677</u>	<u>\$ 9,397</u>		

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2015 and 2014 are as follows (in thousands):

	<u>Beneficial Interest in Perpetual Trusts</u>	<u>Split-Interest Agreements</u>	<u>Level 3 Total</u>
Balance at June 30, 2013	\$ 2,025	\$ 2,354	\$ 4,379
Unrealized gains (losses)	<u>187</u>	<u>(145)</u>	<u>42</u>
Balance at June 30, 2014	2,212	2,209	4,421
Unrealized losses	<u>(93)</u>	<u>(37)</u>	<u>(130)</u>
Balance at June 30, 2015	<u>\$ 2,119</u>	<u>\$ 2,172</u>	<u>\$ 4,291</u>

### 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):

	<u>2015</u>	<u>2014</u>
Endowment funds	\$ 101,204	\$ 101,278
Annuity and life income funds	1,438	1,765
Capital campaign funds	887	3,128
Other funds	<u>2,048</u>	<u>3,108</u>
	<u>\$ 105,577</u>	<u>\$ 109,279</u>

## Moravian College

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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):

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 16,429	\$ 15,925
Buildings	108,464	103,713
Equipment	32,451	28,212
Library books	9,474	9,377
Collection items	4,224	4,218
Construction in progress	<u>1,028</u>	<u>460</u>
	172,070	161,905
Accumulated depreciation	<u>(77,886)</u>	<u>(72,457)</u>
	<u>\$ 94,184</u>	<u>\$ 89,448</u>

Depreciation expense was approximately \$5,487,000 and \$4,375,000 in 2015 and 2014, 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, 2015 and 2014.

## Moravian College

Notes to Financial Statements  
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### 8. Long-Term Debt

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

	<u>2015</u>	<u>2014</u>
College Revenue Bonds of 2005, called on July 1, 2015.	\$ 1,930	\$ 2,270
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%.	3,979	4,229
College Revenue Bonds of 2012, due serially in annual amounts through 2032, with interest payable semi-annually ranging from 2.0% to 5.0%.	19,860	20,415
College Revenue Bonds of 2013, due serially in annual amounts through 2042, with interest payable semi-annually ranging from 1.6% to 4.125%.	9,585	9,800
TCF Equipment Finance, 5.0%, repaid in 2015.	-	5
First American Leases, 1.5%, due in equal installments through 2020 for technology equipment.	492	-
	<u>35,846</u>	<u>36,719</u>
Less deferred financing costs	(481)	(523)
Less current portion	(6,823)	(1,365)
Original issue premium	561	617
	<u>29,103</u>	<u>35,448</u>
Long-term debt	<u>\$ 29,103</u>	<u>\$ 35,448</u>

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.

On July 1, 2015, the College Revenue Bonds of 2005 with final maturities of July 2017 and 2019 were called for redemption at par. The redemption totaled \$1,930,000 and was funded by deposits with trustee under debt agreement and operating cash and cash equivalents.

## Moravian College

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Principal repayments of long-term debt for the years ending after June 30, 2014 are as follows (in thousands):

2016	\$ 6,823
2017	943
2018	966
2019	943
2020	902
Later years	<u>25,269</u>
	<u>\$ 35,846</u>

Interest expense related to long-term debt was approximately \$1,424,000 and \$1,370,000 in 2015 and 2014, 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 \$1,255,000 and \$1,155,000 in 2015 and 2014, 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 \$57,000 in 2015 and \$43,000 in 2014. 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):

	<u>2015</u>	<u>2014</u>
Projected benefit obligation, beginning	\$ 456	\$ 507
Service cost	27	29
Interest cost	15	17
Actuarial gain/loss	(26)	(54)
Benefits paid	<u>(57)</u>	<u>(43)</u>
Projected benefit obligation, ending	<u>\$ 415</u>	<u>\$ 456</u>



## Moravian College

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

	<u>2015</u>	<u>2014</u>
Current portion of postretirement benefit obligation	\$ 44	\$ 65
Noncurrent portion of postretirement benefit obligation	<u>371</u>	<u>391</u>
Accrued pension liability, net	<u>\$ 415</u>	<u>\$ 456</u>

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

	<u>2015</u>	<u>2014</u>
Discount rate	3.5 %	3.5 %
Rate of increase in compensation levels	2.5	1.5

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

	<u>2015</u>	<u>2014</u>
Service cost	\$ 27	\$ 29
Interest cost	<u>15</u>	<u>17</u>
	<u>\$ 42</u>	<u>\$ 46</u>

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 \$44,000.

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

2016	\$ 44
2017	46
2018	52
2019	57
2020	63
2021 - 2022	274

## Moravian College

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### 11. Net Assets

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

	<u>2015</u>	<u>2014</u>
Net assets related to certain split-interest agreements	\$ 2,976	\$ 3,062
Assets held in perpetuity	<u>61,254</u>	<u>59,236</u>
	<u>\$ 64,230</u>	<u>\$ 62,298</u>

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

	<u>2015</u>	<u>2014</u>
Net assets related to certain split-interest agreements	\$ 1,174	\$ 1,196
Specified purposes	<u>28,772</u>	<u>33,639</u>
	<u>\$ 29,946</u>	<u>\$ 34,835</u>

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

	<u>2015</u>	<u>2014</u>
Long-term investments	\$ 17,417	\$ 17,697
Plant facilities	62,936	56,041
Other	<u>366</u>	<u>4,256</u>
	<u>\$ 80,719</u>	<u>\$ 77,994</u>

### 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, 2015 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 22,920	\$ 60,606	\$ 83,526
Board-designated endowment funds	17,417	-	-	17,417
	<u>\$ 17,417</u>	<u>\$ 22,920</u>	<u>\$ 60,606</u>	<u>\$ 100,943</u>

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The following schedule represents the changes in endowment net assets for the year ended June 30, 2015 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 17,696	\$ 24,971	\$ 58,342	\$ 101,009
Investment income	286	1,331	-	1,617
Realized gains	923	4,270	-	5,193
Change in unrealized gains	(977)	(4,505)	-	(5,482)
Contributions	200	224	2,264	2,688
Appropriation for spending	(711)	(3,371)	-	(4,082)
Assets, end of year	<u>\$ 17,417</u>	<u>\$ 22,920</u>	<u>\$ 60,606</u>	<u>\$ 100,943</u>

The following schedule represents the endowment net asset composition by type of endowment fund as of June 30, 2014 (in thousands):

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>\$ 17,696</u>	<u>\$ 24,971</u>	<u>\$ 58,342</u>	<u>\$ 101,009</u>

### 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, 2015 or 2014.

## **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 4.5% for 2015 and 5.0% for 2014. 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 \$5,138,000 as of June 30, 2015. The College is using debt financing noted below and operating cash flow to fund these projects.

On July 10, 2015, Moravian College entered into a taxable note with Lafayette Ambassador Bank for the face amount of \$6,000,000 to finance renovations and improvements to the 1441 Schoenersville Road property. The note will be payable in annual payments ranging from \$234,000 through \$432,000 starting in July 2016 and maturing in July 2034. The note bears interest at 2.99% through July 2016, then 3.65% through July 2025, then one month LIBOR plus 2% which will be paid semiannually.

On August 19, 2015 Moravian College entered into a Lease Agreement with St. Luke's Health Network for over 10,000 square feet in the aforementioned finished space of 1441 Schoenersville Road. It is planned for St. Luke's to move into the space in December 2015 and pay annual rent of approximately \$174,000 to the College for the ten year term of the lease.

### 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.

## Moravian College

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### Notes to Financial Statements

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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, 2015, consolidation of MCHI with the College is not required.