FINANCIAL REPORT
2016-2017

MORAVIAN COLLEGE

ABOUT THE COVER:

The Sally Breidegam Miksiewicz Center for Health Sciences opened to Moravian College students in August 2017. The building is a state-of-the-art, 55,000 square-foot facility that features high- and low-fidelity simulation labs, the Lehigh Valley's only virtual cadaver lab and an informatics lab where students will analyze big data. The "Sally" will house Moravian College's nursing, public health, informatics and undergraduate health sciences programs and student lounges are tucked throughout the building, ideal for studying and collaboration.

MORAVIAN COLLEGE

Management Discussion

"Without continual growth and progress, such words as improvement, achievement, and success have no meaning."

- Benjamin Franklin

And much progress has been made at Moravian College this past 2016/2017 fiscal year. The College continued to increase its enrollment with 489 freshmen joining the class of 2020 in August 2016. Additionally, we welcomed 110 transfer students bringing total full time equivalent day student enrollment for the fall to a record 1,812. As of fall 2017, with the MacBook Pro Initiative fully implemented, all students now have a common technology platform to transform their educational experience at Moravian College.

The College celebrated its 275th anniversary during the 2016/2017 year with many captivating events. The year kicked off with the College's first annual Heritage Day. Other events included birthday parties for Benigna von Zinzendorf and Comenius, along with the College's 2nd Annual Day of Giving. In May, the College celebrated the 275th Anniversary of Benigna opening a school for girls, which would evolve into Moravian College and Moravian Academy. Behind the new Sally Breidegam Miksiewicz Center for Health Science, a time capsule was buried in September to be opened in 25 years on the 300th anniversary of the College.

Continued investments in our current and future students are reflected in the capital improvements made this year. In May 2016, the College held the ground-breaking ceremony for the Sally Breidegam Miksiewicz Center for Health Sciences. The building is stunning, featuring a six-foot-high illuminated Moravian Star at the top of the facility. The building was completed in August 2017 and houses state of the art labs and classrooms in support of the College's growing health science programs. The nursing programs now have their own state-of-the-art simulation labs, innovative classrooms, a virtual cadaver lab, and other unique learning spaces. Equally important will be the addition of three science labs that will not only benefit nursing and health science students but will also provide additional lab space for our biology and chemistry students. The College is continuing to improve and expand its graduate programs. A new program in Predictive Analytics has been developed. In addition, the Rehabilitation Sciences programs (occupational therapy, speech pathology and athletic training) have retained experienced program directors and are actively recruiting faculty and students. This was also the first year the John Makuvek Artificial Turf Field was used by the soccer, field hockey, and lacrosse programs with much success.

The College and Seminary endowment increased significantly during the year, ending with a market value of $111 million as of June 30, 2017. Over the past 5 years the fund has received gifts of $15.8 million and has provided $28 million in support for operations and capital projects. Investment returns for the one, three and five year periods were 12%, 3.6%, and 7.3%, respectively. The endowment spending rate for 2016/2017 remained a conservative 4.5% producing approximately $4.5 million, of which $1.75 million was used for College and Seminary financial aid. As of June 30, 2017, the College and Seminary endowment investment portfolio, which includes funds held in trust by others and long term campaign investments, consisted of 45.9% domestic and international equity, 20.7% fixed income, 3.1% real estate and natural resources, 28.4% alternative assets and 1.9% cash.

The positive trend for undergrad enrollment continues in 2017/2018 with annual enrollment expected to exceed 1,820 full time equivalent students. The College purchased software to aid in retention and created the Student Success Office.

Financial Review

Statement of Financial Position

The consolidated net assets at fiscal year-end were up 5%, or $9.4 million. All asset categories: unrestricted, temporarily restricted and permanently restricted, reflect net increases. Contributors to this positive increase include increased tuition from higher enrollment and carefully controlled spending which resulted in positive operating results. Additionally, the realized and unrealized gains on investments contributed to the increase in net assets.

Statement of Activities

In consolidation, operating revenues decreased almost $6 million from the prior-year. A decrease in private gifts and grants from the prior-year was the largest contributor to this. Non-operating revenues increased $13.6 million from the prior-year due to realized and unrealized gains on restricted investments.

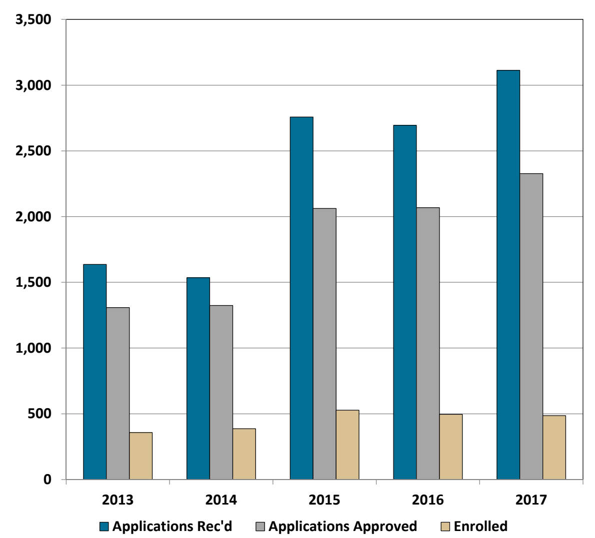
Operating expenses grew by $8 million or 13.5%, primarily in institutional support, resident instruction and auxiliary enterprises. All expenditures were strategically focused to benefit the increased student enrollment. This was deliberately aligned with Moravian College's Vision 2020 Strategic Plan.

Statement of Cash Flows

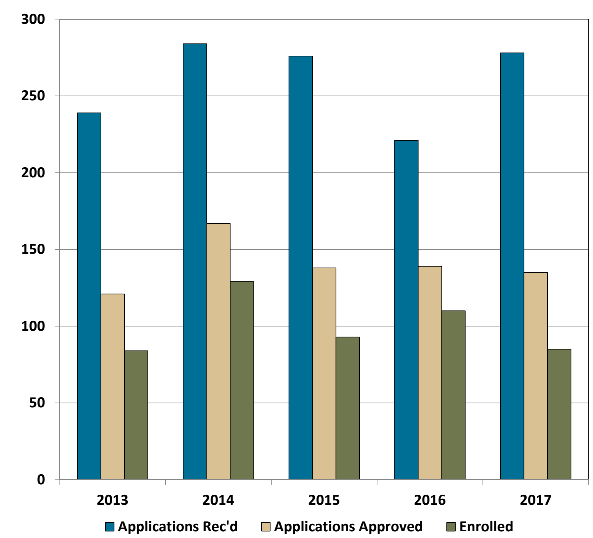
The primary purpose of the statement of cash flows is to provide relevant information about the cash receipts and cash payments of the consolidated enterprise. The information provided in the statement of cash flows, used with the related disclosures and information in the other financial statements, 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 financing; (3) assess the reason for differences between the change in net assets and associate 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 2016/17 fiscal year, the consolidated operating activities of the College contributed $4 million in cash. 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. Net realized and unrealized investment gains and depreciation are key factors.
>
> **Investing activities**: Significant investments of note include the construction of the Sally Breidegam Miksiewicz Center for Health Science which was offset by cash inflow from the 2016 Bond Construction Fund held by the debt trustee.
>
> **Financing activities**: A small cash outflow was caused by the College's repayment of $1.9M of debt which was offset by $596k of restricted gifts and grants.

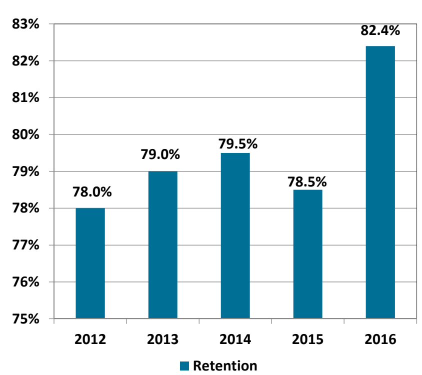
Freshmen Applications



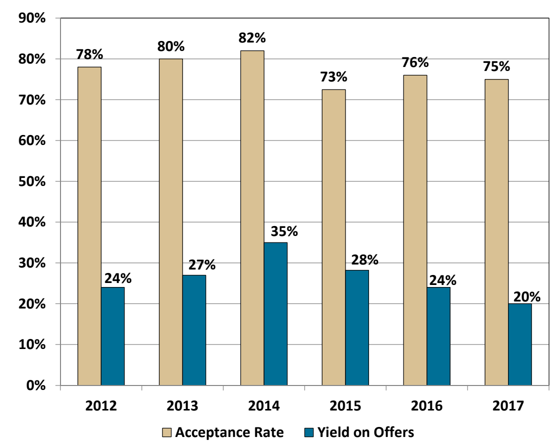
Transfer Applications

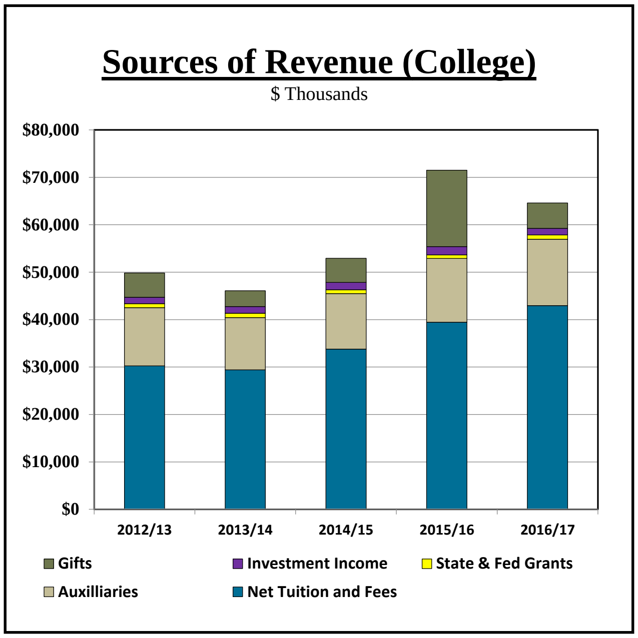


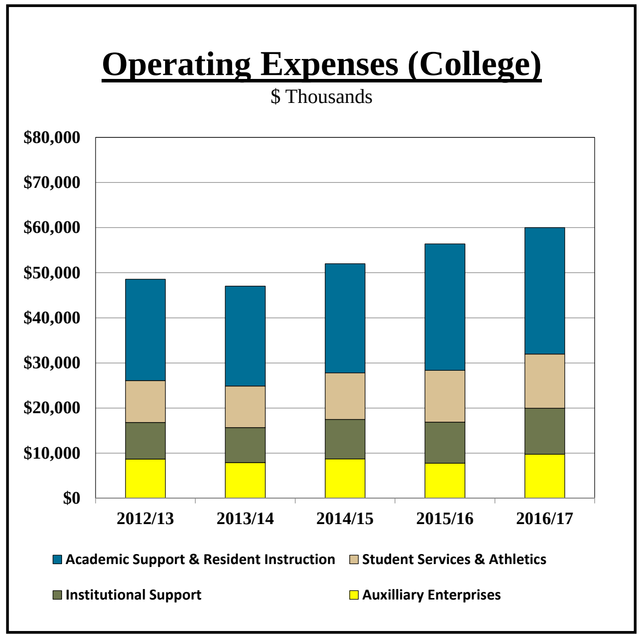
Freshmen to Sophomore Retention Rates

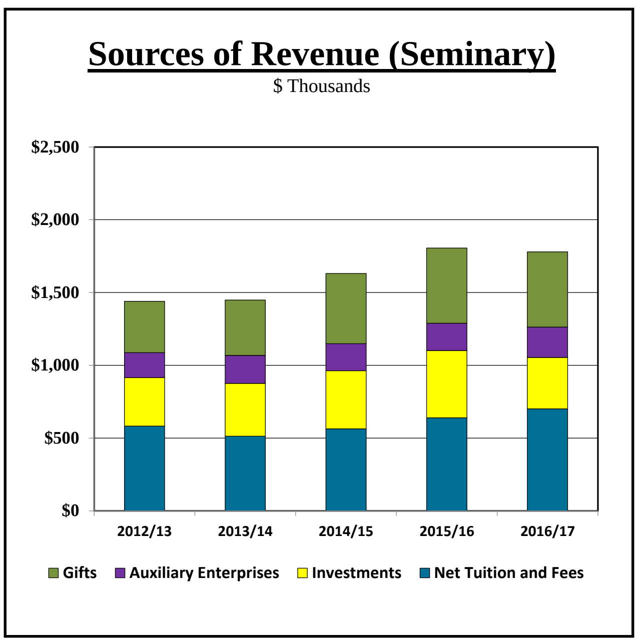


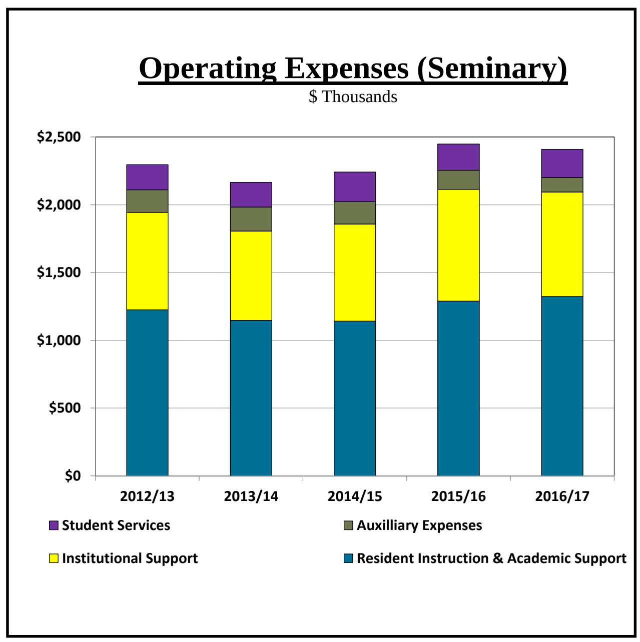
Acceptance Rate & Yield on Offers

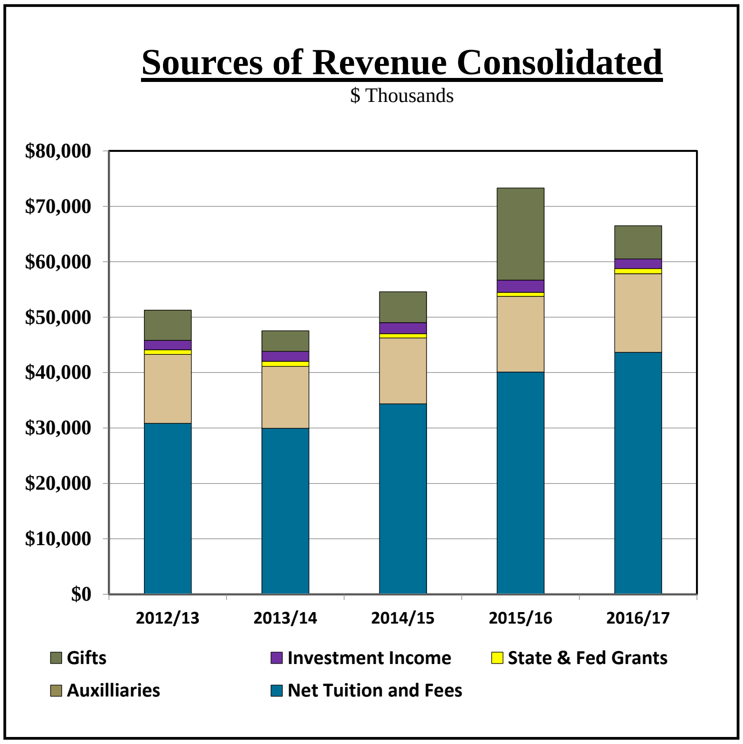



Sources of Revenue (College)
$ Thousands
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
2012/13
2013/14
2014/15
2015/16
2016/17
Gifts
Investment Income
State & Fed Grants
Auxilliaries
Net Tuition and Fees

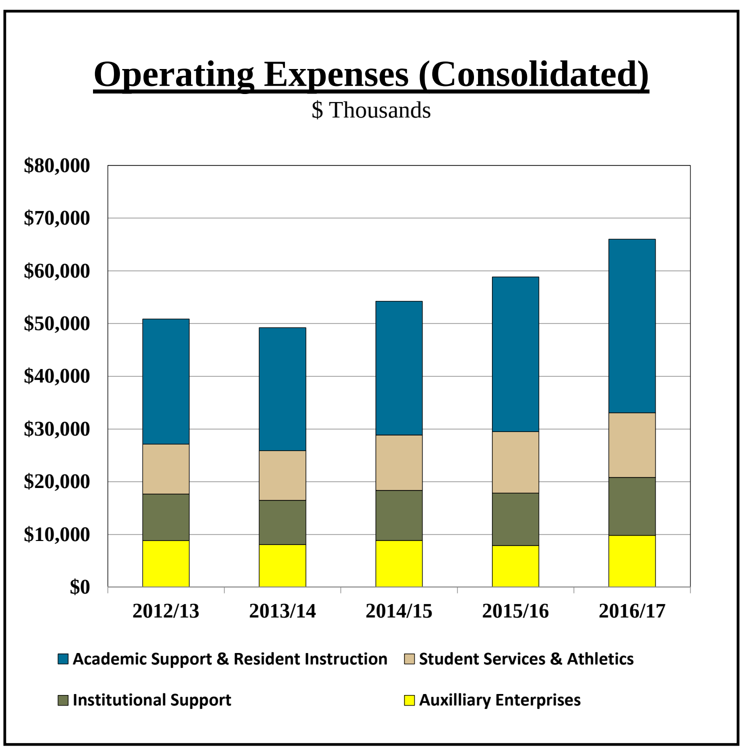

Operating Expenses (College)
$ Thousands
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
2012/13
2013/14
2014/15
2015/16
2016/17
Academic Support & Resident Instruction
Student Services & Athletics
Institutional Support
Auxilliary Enterprises


Sources of Revenue (Seminary)
$ Thousands
$2,500
$2,000
$1,500
$1,000
$500
$0
2012/13
2013/14
2014/15
2015/16
2016/17
Gifts
Auxiliary Enterprises
Investments
Net Tuition and Fees

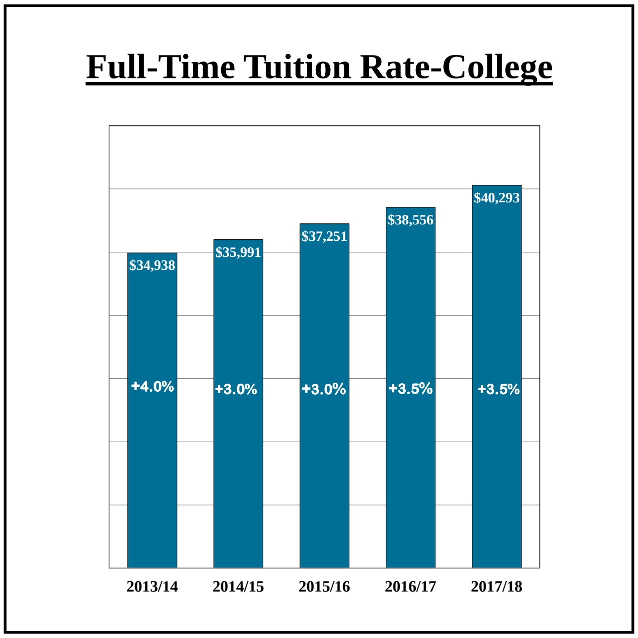

Operating Expenses (Seminary)
$ Thousands
$2,500
$2,000
$1,500
$1,000
$500
$0
2012/13
2013/14
2014/15
2015/16
2016/17
Student Services
Auxilliary Expenses
Institutional Support
Resident Instruction & Academic Support

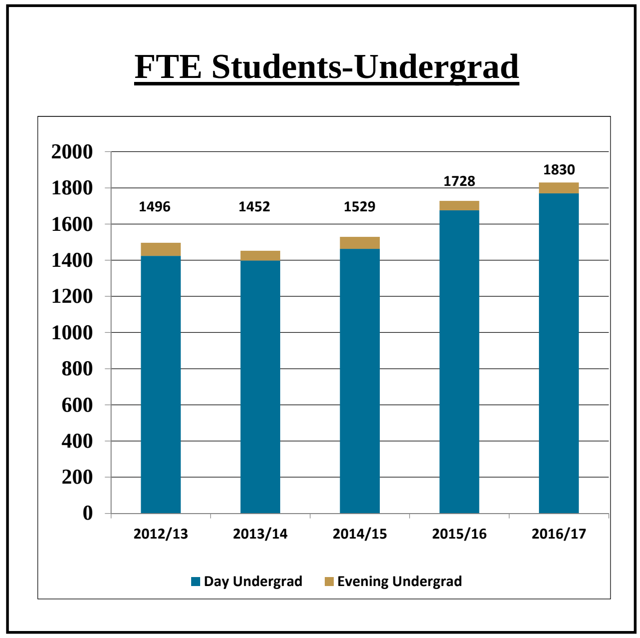


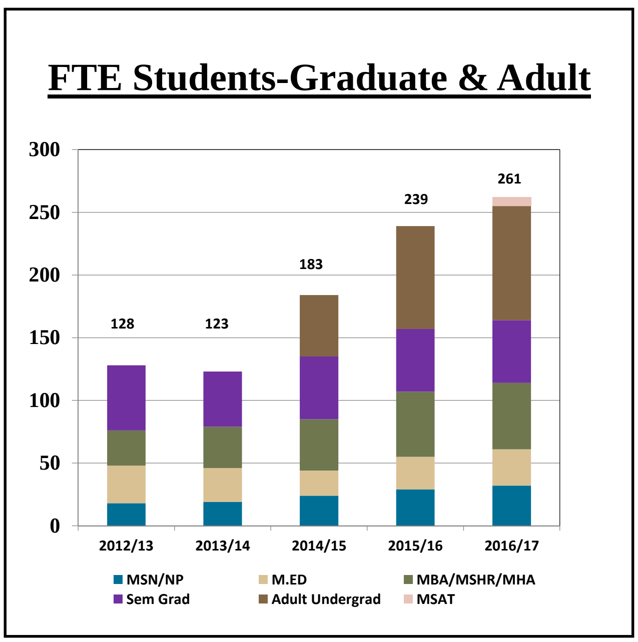
Sources of Revenue Consolidated
$ Thousands
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
2012/13
2013/14
2014/15
2015/16
2016/17
Gifts
Investment Income
State & Fed Grants
Auxilliaries
Net Tuition and Fees

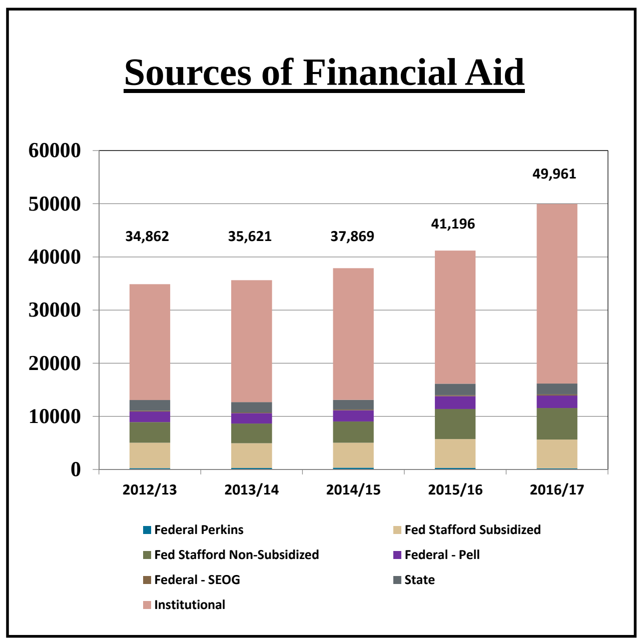


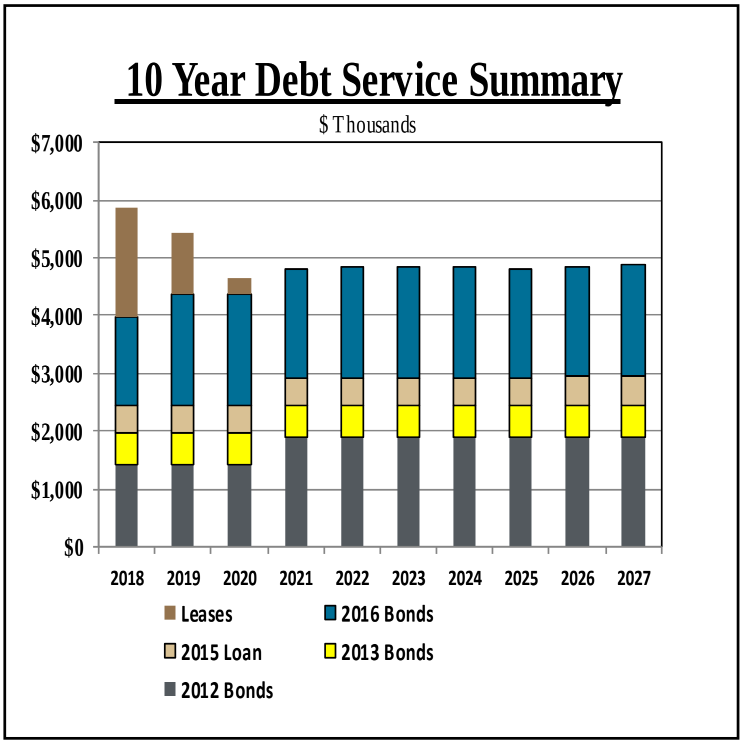
Operating Expenses (Consolidated)
$ Thousands
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
2012/13
2013/14
2014/15
2015/16
2016/17
Academic Support & Resident Instruction
Student Services & Athletics
Institutional Support
Auxilliary Enterprises

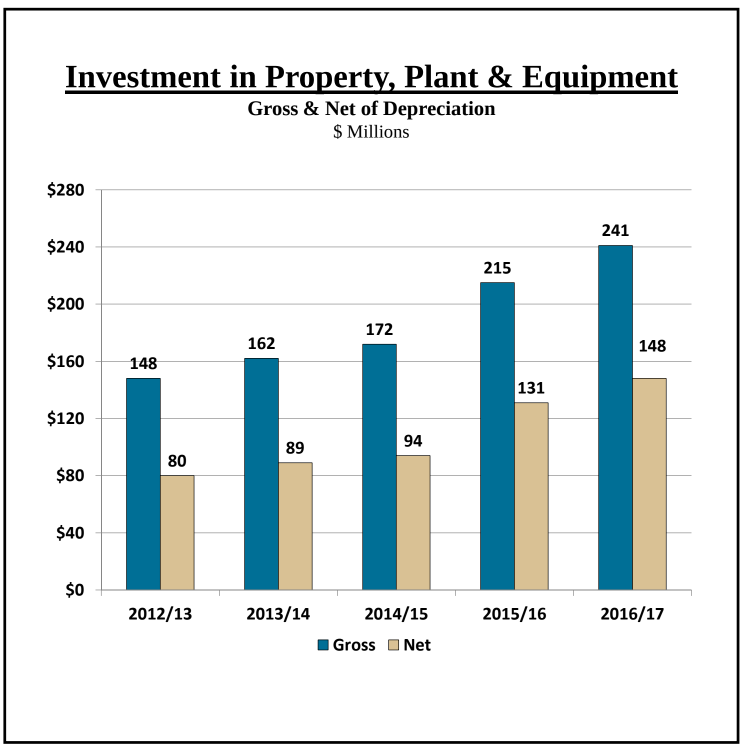

Full-Time Tuition Rate-College
$34,938
$35,991
$37,251
$38,556
$40,293
+4.0%
+3.0%
+3.0%
+3.5%
+3.5%
2013/14
2014/15
2015/16
2016/17
2017/18

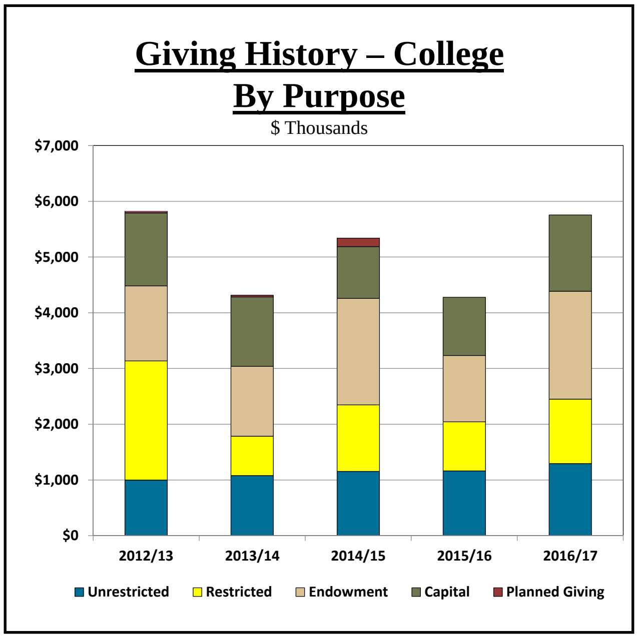

FTE Students-Undergrad
2000
1800
1600
1400
1200
1000
800
600
400
200
0
1496
1452
1529
1728
1830
2012/13
2013/14
2014/15
2015/16
2016/17
Day Undergrad
Evening Undergrad

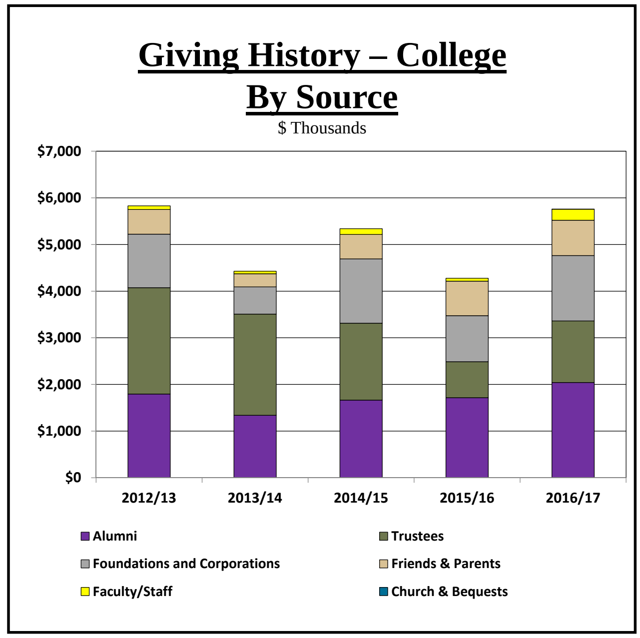

FTE Students-Graduate & Adult
300
250
200
150
100
50
0
128
123
183
239
261
2012/13
2013/14
2014/15
2015/16
2016/17
MSN/NP
M.ED
MBA/MSHR/MHA
Sem Grad
Adult Undergrad
MSAT

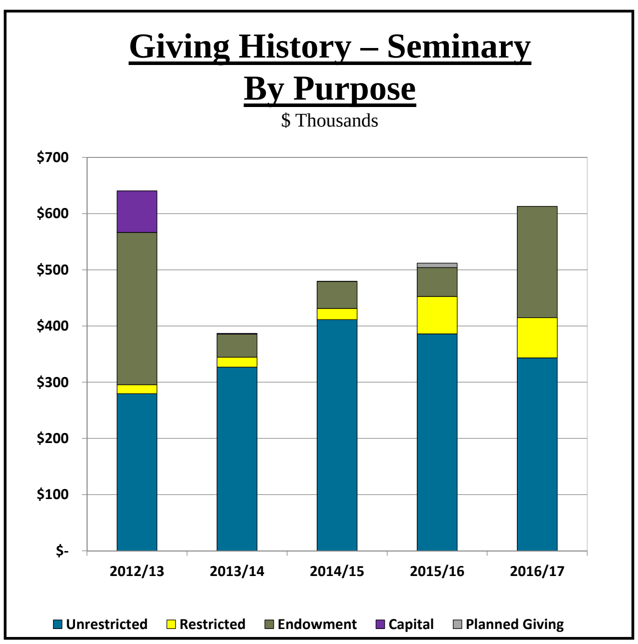

Sources of Financial Aid
60000
50000
40000
30000
20000
10000
0
34,862
35,621
37,869
41,196
49,961
2012/13
2013/14
2014/15
2015/16
2016/17
Federal Perkins
Fed Stafford Subsidized
Fed Stafford Non-Subsidized
Federal - Pell
Federal - SEOG
State
Institutional

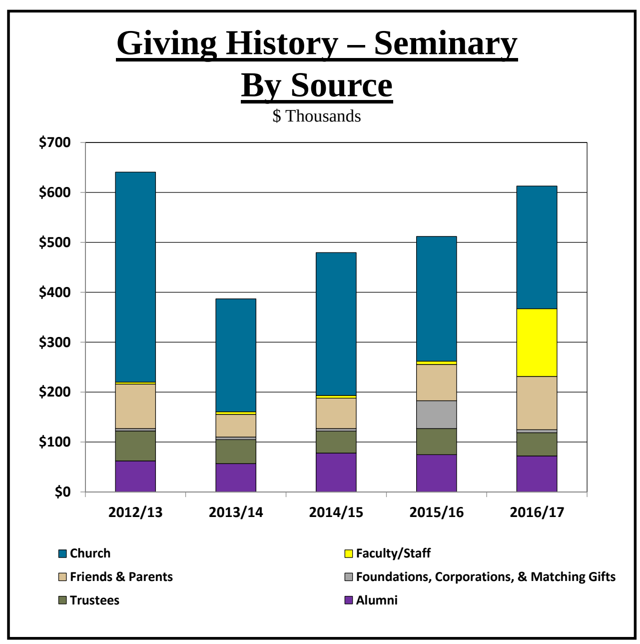

10 Year Debt Service Summary
$ Thousands
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
Leases
2016 Bonds
2015 Loan
2013 Bonds
2012 Bonds

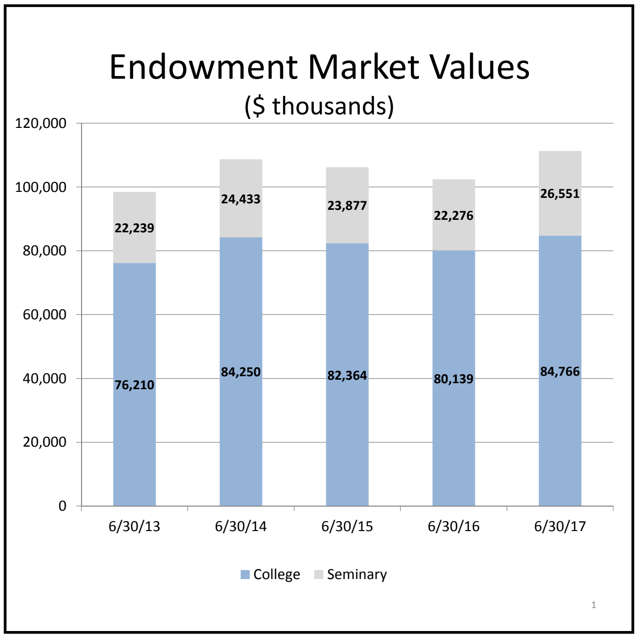

Investment in Property, Plant & Equipment
Gross & Net of Depreciation
$ Millions
$280
$240
$200
$160
$120
$80
$40
$0
148
80
162
89
172
94
215
131
241
148
2012/13
2013/14
2014/15
2015/16
2016/17
Gross
Net

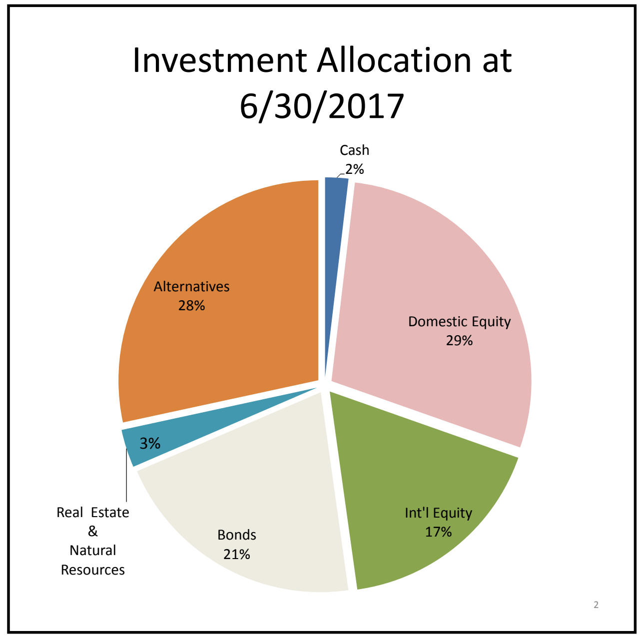

Giving History – College
By Purpose
$ Thousands
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
2012/13
2013/14
2014/15
2015/16
2016/17
Unrestricted
Restricted
Endowment
Capital
Planned Giving

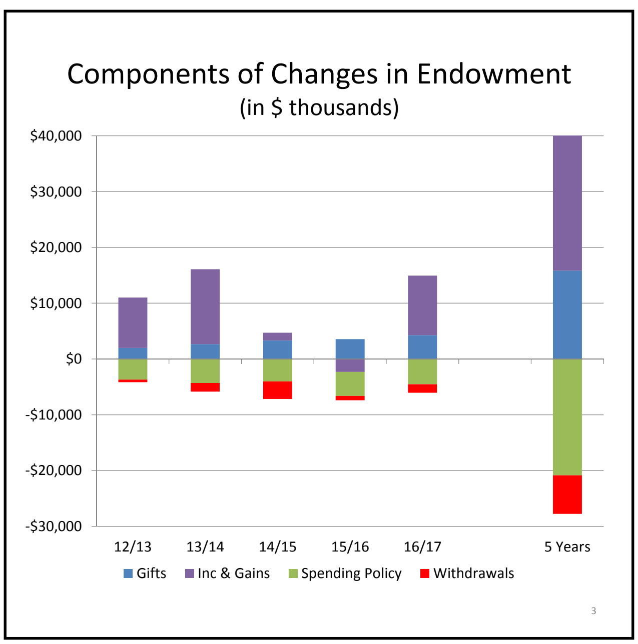

Giving History – College
By Source
$ Thousands
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
2012/13
2013/14
2014/15
2015/16
2016/17
Alumni
Trustees
Foundations and Corporations
Friends & Parents
Faculty/Staff
Church & Bequests

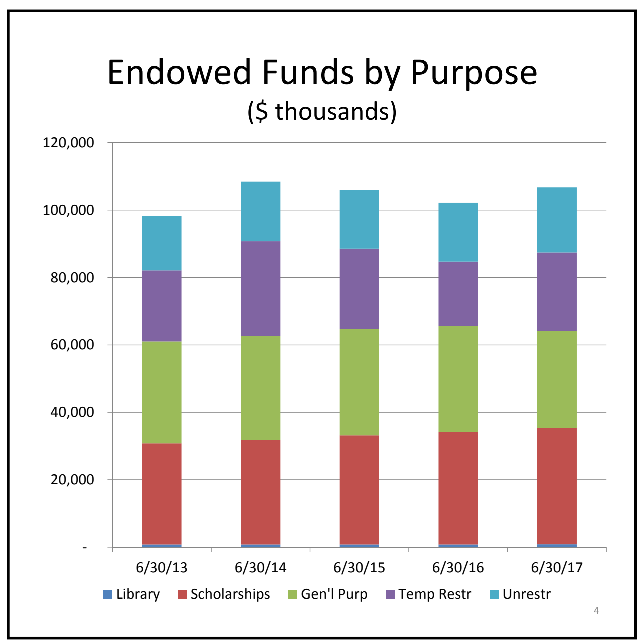

Giving History – Seminary
By Purpose
$ Thousands
$700
$600
$500
$400
$300
$200
$100
$-
2012/13
2013/14
2014/15
2015/16
2016/17
Unrestricted
Restricted
Endowment
Capital
Planned Giving


Giving History – Seminary
By Source
$ Thousands
$700
$600
$500
$400
$300
$200
$100
$0
2012/13
2013/14
2014/15
2015/16
2016/17
Church
Faculty/Staff
Friends & Parents
Foundations, Corporations, & Matching Gifts
Trustees
Alumni

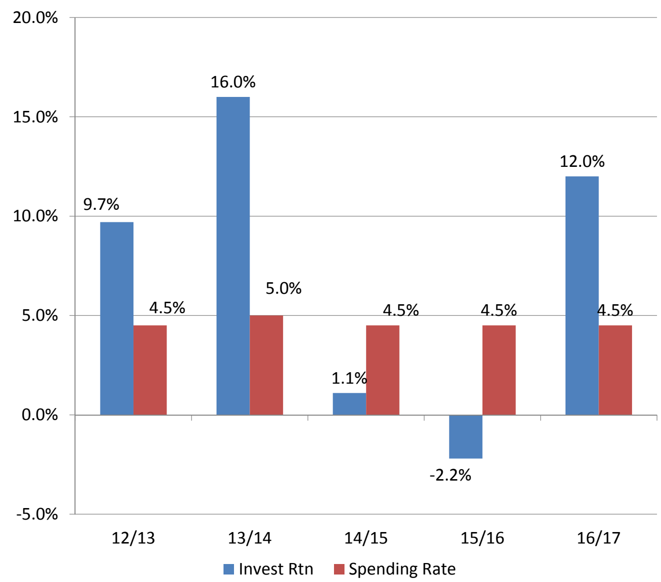

Endowment Market Values
($ thousands)
120,000
100,000
80,000
60,000
40,000
20,000
0
22,239
24,433
23,877
22,276
26,551
76,210
84,250
82,364
80,139
84,766
6/30/13
6/30/14
6/30/15
6/30/16
6/30/17
College
Seminary
1


Investment Allocation at 6/30/2017
Cash
2%
Domestic Equity
29%
Int'l Equity
17%
Bonds
21%
Real Estate & Natural Resources
3%
Alternatives
28%
2

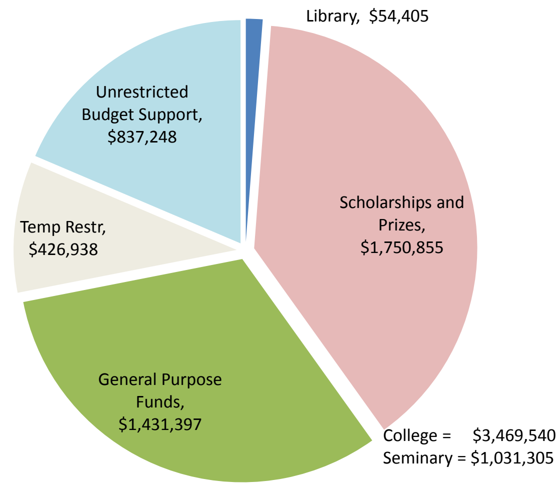

Components of Changes in Endowment
(in $ thousands)
$40,000
$30,000
$20,000
$10,000
$0
-$10,000
-$20,000
-$30,000
12/13
13/14
14/15
15/16
16/17
5 Years
Gifts
Inc & Gains
Spending Policy
Withdrawals
3


Endowed Funds by Purpose
($ thousands)
120,000
100,000
80,000
60,000
40,000
20,000
-
6/30/13
6/30/14
6/30/15
6/30/16
6/30/17
Library
Scholarships
Gen'l Purp
Temp Restr
Unrestr
4

Investment Return vs. Spending Policy



Endowment Spending Policy Allocation at 6/30/2017



Moravian College

Consolidated Financial Statements

June 30, 2017 and 2016

BAKER TILLY

Candor. Insight. Results.

	Page

Independent Auditors' Report

Board of Trustees
Moravian College and Subsidiary

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Moravian College and subsidiary (the "College"), which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Moravian College and subsidiary as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of financial position and consolidating schedule of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Allentown, Pennsylvania
October 20, 2017

Moravian College and Subsidiary

Consolidated Statement of Financial Position
(In Thousands)
June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 7,301	$ 6,177
Accounts receivable, net	2,129	1,461
Investment income receivable	13	32
Contributions receivable	2,694	2,879
Prepaids and other	1,406	1,430
Deposits with trustee under debt agreement	1,015	1,121
Total current assets	14,558	13,100
Noncurrent Assets		
Contributions receivable, net	9,254	9,386
Deposits with trustee under debt agreement	3,431	23,748
Investments	111,673	101,783
Split-interest agreements	3,048	3,905
Student loans receivable (net of allowance of $244 in 2017; $241 in 2016)	1,615	1,726
Other non-current assets	1,467	1,618
Land, buildings and equipment, net	148,266	130,531
Total noncurrent assets	278,754	272,697
Total assets	$ 293,312	$ 285,797

See notes to consolidated financial statements

Moravian College and Subsidiary

Consolidated Statement of Financial Position
(In Thousands)
June 30, 2017 and 2016

	2017	2016
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	$ 2,769	$ 1,964
Accounts payable	1,661	1,478
Accrued interest	934	1,113
Accrued expenses and other liabilities	2,534	3,363
Deferred revenue and deposits	1,695	1,619
Current portion of postretirement benefit obligation	60	58
Total current liabilities	9,653	9,595
Noncurrent Liabilities		
Annuities payable	1,085	1,134
Long-term debt	83,625	85,317
Interest rate swaps	898	1,019
Postretirement benefit obligation	352	386
Refundable federal grants and loan funds	1,199	1,248
Other liabilities	435	480
Total liabilities	97,247	99,179
Net Assets		
Unrestricted	86,416	84,563
Temporarily restricted	37,474	31,581
Permanently restricted	72,175	70,474
Total net assets	196,065	186,618
Total liabilities and net assets	$ 293,312	$ 285,797

See notes to consolidated financial statements

Moravian College and Subsidiary

Consolidated Statement of Activities
(In Thousands)
Year Ended June 30, 2017 (with Comparative Totals for the Year Ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Operating Revenues and Other Additions					
Tuition and fees (net of student scholarships of $34,168 in 2017; and $30,137 in 2016)	$ 43,648	$ -	$ -	$ 43,648	$ 40,099
Private gifts and grants	1,363	2,766	1,857	5,986	16,605
Investment income	1,509	-	235	1,744	2,212
Federal grants and contracts	586	-	-	586	328
State grants	314	-	-	314	387
Auxiliary enterprises	16,003	-	-	16,003	14,475
Other sources	674	-	-	674	451
Net assets released from restrictions, satisfaction of program restrictions	4,067	(4,067)	-	-	-
Total operating revenues and other additions	68,164	(1,301)	2,092	68,955	74,557
Operating Expenses					
Resident instruction	28,655	-	-	28,655	25,534
Academics support	4,297	-	-	4,297	3,802
Student services	6,930	-	-	6,930	6,657
Athletics	5,315	-	-	5,315	5,008
Institutional support	9,390	-	-	9,390	8,345
Fund-raising	1,580	-	-	1,580	1,589
Auxiliary enterprises	11,805	-	-	11,805	8,891
Other	56	-	-	56	100
Total operating expenses	68,028	-	-	68,028	59,926
Change in net assets from operating activities	136	(1,301)	2,092	927	14,631
Nonoperating					
Realized net gain on investments	1,205	5,225	41	6,471	1,572
Unrealized net gain (loss) on investments	491	2,264	122	2,877	(5,869)
Gain (loss) on the sale of assets	21	-	-	21	(9)
Change in value of split-interest agreements	-	(295)	(554)	(849)	(375)
Contribution from acquisition of MCHI	-	-	-	-	1,773
Change in net assets from nonoperating activities	1,717	7,194	(391)	8,520	(2,908)
Change in net assets	1,853	5,893	1,701	9,447	11,723
Net Assets, Beginning	84,563	31,581	70,474	186,618	174,895
Net Assets, Ending	$ 86,416	$ 37,474	$ 72,175	$ 196,065	$ 186,618

See notes to consolidated financial statements

Moravian College and Subsidiary

Consolidated Statement of Activities
(In Thousands)
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Operating Revenues and Other Additions				
Tuition and fees (net of student scholarships of $30,137)	$ 40,099	$ -	$ -	$ 40,099
Private gifts and grants	2,065	7,860	6,680	16,605
Investment income	1,979	-	233	2,212
Federal grants and contracts	328	-	-	328
State grants	387	-	-	387
Auxiliary enterprises	14,475	-	-	14,475
Other sources	451	-	-	451
Net assets released from restrictions, satisfaction of program restrictions	2,863	(2,863)	-	-
Total operating revenues and other additions	62,647	4,997	6,913	74,557
Operating Expenses				
Resident instruction	25,534	-	-	25,534
Academics support	3,802	-	-	3,802
Student services	6,657	-	-	6,657
Athletics	5,008	-	-	5,008
Institutional support	8,345	-	-	8,345
Fund-raising	1,589	-	-	1,589
Auxiliary enterprises	8,891	-	-	8,891
	100	-	-	100
Total operating expenses	59,926	-	-	59,926
Change in net assets from operating activities	2,721	4,997	6,913	14,631
Nonoperating				
Realized net gain on investments	267	1,216	89	1,572
Unrealized net loss on investments	(908)	(4,357)	(604)	(5,869)
Loss on the sale of assets	(9)	-	-	(9)
Change in value of split-interest agreements	-	(221)	(154)	(375)
Contribution from acquisition of MCHI	1,773	-	-	1,773
Change in net assets from nonoperating activities	1,123	(3,362)	(669)	(2,908)
Change in net assets	3,844	1,635	6,244	11,723
Net Assets, Beginning	80,719	29,946	64,230	174,895
Net Assets, Ending	$ 84,563	$ 31,581	$ 70,474	$ 186,618

See notes to consolidated financial statements

Moravian College and Subsidiary

Consolidated Statement of Cash Flows
(In Thousands)
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase in net assets	$ 9,447	$ 11,723
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	8,145	6,794
Change in value of split-interest agreement and annuities payable	808	505
Gifts and grants restricted for long-term investments	(3,249)	(13,772)
(Loss) gain on disposal of assets	(21)	9
Other restricted earnings for long-term investments	(235)	(233)
Net realized and unrealized losses (gains) on investments	(9,348)	4,297
Change in value of interest rate swaps	(121)	(266)
Contribution from acquisition of MCHI	-	(1,773)
(Increase) decrease in assets:		
Accounts receivable, net	(668)	(239)
Investment income receivable	19	(499)
Contributions receivable, net	234	519
Prepaids and other	24	(1,099)
Other non-current assets	151	(463)
Increase (decrease) in liabilities:		
Accounts payable and accrued interest payable	(420)	1,330
Accrued expenses and other liabilities	(829)	310
Deferred revenue and deposits	76	376
Accumulated postretirement benefit obligation	(32)	29
Other liabilities	(45)	(81)
Net cash provided by operating activities	3,936	7,467
Cash Flows from Investing Activities		
Purchase of land, building and equipment	(24,621)	(13,473)
Cash paid for acquisition of MCHI, net of cash acquired	-	(2,121)
Proceeds from sale of land, building and equipment	88	-
Purchase of investments	(107,220)	(21,765)
Proceeds from sale of investments	106,678	21,328
Change in deposits with trustee under debt agreements	20,423	(19,709)
Disbursement of student loans	(208)	(291)
Repayments of student loans	319	390
Net cash used in investing activities	(4,541)	(35,641)
Cash Flows from Financing Activities		
Gifts and grants restricted for long-term investments	3,332	1,753
Other restricted earnings for long-term investments	235	233
Repayment of debt	(1,964)	(7,152)
Proceeds from issuance of long-term debt	175	37,101
Cash paid for deferred financing costs	-	(259)
Repayment of refundable federal grants and loan funds	(49)	(2)
Net cash provided by financing activities	1,729	31,674
Net increase in cash and cash equivalents	1,124	3,500
Cash and Cash Equivalents, Beginning	6,177	2,677
Cash and Cash Equivalents, Ending	$ 7,301	$ 6,177
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	$ 3,150	$ 1,568
Supplementary Disclosure of Noncash Investing Activities		
Land, building and equipment purchases in accounts payable	$ 424	$ 79
Land, building and equipment purchases in equipment financing	$ 1,157	$ 1,894

See notes to consolidated financial statements

1. Nature of Operations

Moravian 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, Moravian College today educates a socially and religiously diverse group of students. Moravian College has an enrollment of 1,783 full-time day students, 769 men and 1,014 women. Moravian College enrolls students that come from a variety of socioeconomic, religious, racial, and ethnic backgrounds.

Moravian College Housing, Inc. ("MCHI") is a non-profit corporation organized under the laws of the Commonwealth of Pennsylvania. The purposes of the organization is to develop and operate college and university student housing. Moravian College acquired MCHI effective December 10, 2015.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Moravian College have been prepared on the accrual basis of accounting and include the accounts of Moravian College and MCHI (collectively the College) from the date of acquisition. All significant intercompany transactions and balances have been eliminated in consolidation.

These consolidated financial statements present consolidated 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 are 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), and certain transfers between net asset classifications. 2016 nonoperating activities also reflect the contribution from MCHI in connection with the acquisition of MCHI by Moravian College. See Note 3.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the College considers all highly liquid investments, with an original 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 was approximately $1,100,000 and $1,149,000 at June 30, 2017 and 2016, respectively, 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 until 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 consolidated 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 (40-50 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.

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, 2017 and 2016, 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 consolidated 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, 2017 and 2016.

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 approximately $32,000 in 2017 and $73,000 in 2016. Deferred financing costs are presented as a reduction in the carrying amount of the debt liability on the statement of financial position. See Note 9.

Derivative Financial Instrument

In managing its interest rate exposure, MCHI utilizes interest rate swap arrangements. An interest rate swap is a contractual exchange of interest payments between two parties. A typical interest rate swap involves the payment of a fixed rate times a notional amount by one party in exchange for a floating rate times the same notional amount from another party. To the extent a swap agreement has a positive fair value, indicating that the counterparty to the agreement owes MCHI money, MCHI is exposed to credit risk. The counter party to the MCHI's interest swap agreement is a major financial institution. MCHI recognizes the interest rate swap agreements at fair value and records changes in fair value in the statement of activities.

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 $4,600,000 and $4,605,000 in 2017 and 2016, 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 $322,000 and $203,000 during the fiscal years ended June 30, 2017 and 2016, 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

Moravian 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, 2017 and 2016 and for the years then ended, the College's composite score exceeded 1.5.

Income Taxes

Moravian College and MCHI qualify as tax-exempt, nonprofit organizations 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, 2017 and 2016.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interest Capitalized

Interest on borrowed money used to finance construction costs is capitalized as part of the related projects. The College capitalized interest costs of approximately $820,000 and $312,000 during the fiscal years ended June 30, 2017 and 2016, respectively.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform with the 2017 classifications. These reclassifications had no effect on previously reported net assets for the year ended June 30, 2016.

Subsequent Events

Subsequent events were evaluated through October 20, 2017, the date the consolidated financial statements were issued.

New Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU No. 2014-09, *Revenue from Contracts with Customers.* This new accounting guidance was issued that outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective for the College in fiscal 2019. The College is assessing the impact this new standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases.* ASU 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the consolidated statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU 2016-02 is effective for the College in fiscal 2020. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The College is assessing the impact this standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning July 1, 2018. ASU 2016-14 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The ASU addresses diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows.

The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU does not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 effective for the College in fiscal year beginning July 1, 2020. Early adoption is permitted. The amendments should be applied using a retrospective transition method to each period presented. The College is assessing the impact this standard will have on its financial statements.

3. MCHI Acquisition

Effective December 10, 2015, the College completed the acquisition of and became the sole corporate member of MCHI in exchange for $3,300,000 in cash, net of cash acquired of approximately $1,179,000 as well as the assumption of certain debt and other liabilities. The acquisition was accounted for under the acquisition method of accounting and the operating results of MCHI have been included in the consolidated financial statements from the date of acquisition. The effective allocation of the purchase transaction and acquisition accounting on December 10, 2015 has been recorded as follows:

Purchase price - cash, net of cash acquired	$ 2,121
Acquired assets and liabilities assumed:	
Prepaid expenses	34
Buildings and equipment	27,873
Accounts payable	(23)
Deferred rent revenue	(1,151)
Loan payable, related parties	(1,614)
Revenue note payable	(19,940)
Interest rate swap	(1,285)
Net assets acquired	3,894
Inherent contribution recognized on acquisition	$ 1,773

The fair value of the assets acquired exceeded the purchase price of the acquisition. Accordingly, an inherent contribution in the amount of $1,773,000 has been recognized in the nonoperating section of the accompanying consolidated statement of activities at June 30, 2016.

4. 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):

	2017	2016
Accounts receivable	$ 2,406	$ 1,662
Allowance for doubtful accounts	(277)	(201)
	$ 2,129	$ 1,461

5. Contributions Receivable

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

Contributions receivable consisted of the following at June 30 (in thousands):

	2017	2016
Due in one year or less	$ 2,694	$ 2,879
Due between one year and five years	9,792	10,067
Greater than five years	91	-
Contributions receivable, gross	12,577	12,946
Unamortized discount	(629)	(681)
Contributions receivable, net	$ 11,948	$ 12,265

The net present value of these cash flows was determined by using discount rates between 1.2% and 6.2% to account for the time value of money.

Management has not established an allowance for doubtful collections at June 30, 2017 and 2016 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.

6. 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, 2017 and 2016 by caption on the statement of financial position by the valuation hierarchy defined above (in thousands):

	2017			
	Level 1	Level 2	Level 3	Total Fair Value
Assets reported at fair value:				
Investments:				
Cash and money market accounts	$ 2,104	$ -	$ -	$ 2,104
Domestic equity:				
Common stock	1,745	-	-	1,745
Large cap mutual funds	28,108	-	-	28,108
International equity mutual funds	19,701	-	-	19,701
Domestic fixed income:				
Taxable fixed income mutual funds	22,795	-	-	22,795
Corporate bonds and preferred stock	2,193	-	-	2,193
Total investments by valuation hierarchy	76,646	-	-	76,646
Alternative investments (measured at net asset value)				35,027
Total investments				$ 111,673

	2017			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Deposits with trustee under debt agreements:				
Cash and cash equivalents	$ 2,337	$ -	$ -	$ 2,337
U.S. government securities	2,109	-	-	2,109
Total deposits with trustee under debt agreements	4,446	-	-	4,446
Beneficial interest in perpetual trusts	-	-	2,126	2,126
Split interest agreements	-	-	922	922
Total assets	$ 81,092	$ -	$ 3,048	$ 84,140
Liabilities reported at fair value:				
Interest rate swaps	$ -	$ 898	$ -	$ 898

	2016			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Assets reported at fair value:				
Investments:				
Cash and money market accounts	$ 3,329	$ -	$ -	$ 3,329
Domestic equity:				
Common stock	1,487	-	-	1,487
Large cap mutual funds	25,726	-	-	25,726
Natural resources mutual funds	7,219	-	-	7,219
International equity mutual funds	20,184	-	-	20,184
Domestic fixed income:				
Taxable fixed income mutual funds	10,699	-	-	10,699
Corporate bonds and preferred stock	2,028	-	-	2,028
Total investments by valuation hierarchy	70,672	-	-	70,672
Alternative investments (measured at net asset value)				31,111
Total investments				$ 101,783

	2016			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Deposits with trustee under debt agreements:				
Cash and cash equivalents	$ 7,394	$ -	$ -	$ 7,394
U.S. government securities	17,475	-	-	17,475
Total deposits with trustee under debt agreements	24,869	-	-	24,869
Beneficial interest in perpetual trusts	-	-	2,020	2,020
Split interest agreements	-	-	1,885	1,885
Total assets	$ 95,541	$ -	$ 3,905	$ 99,446
Liabilities reported at fair value:				
Interest rate swap	$ -	$ 1,019	$ -	$ 1,019

The following methods and assumptions were used to estimate fair values of the College's financial instruments as of June 30, 2017 and 2016:

Cash, Cash Equivalents and Money Market Accounts

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.

Investments

The fair value of domestic and international equity funds, domestic fixed income securities and U.S. government securities was based on quoted market prices for the identical securities, which are considered Level 1 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 NAV 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.

Interest Rate Swap

Interest rate swaps are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

Alternative Investments

Alternative investments are funds and partnerships that invest in a variety of strategies including hedge funds, private equity, real estate and multi-strategy 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.

Fair value measurements of investments in certain entities that calculate net asset value ("NAV") per share (or its equivalent) as of June 30, 2017 are as follows (in thousands):

	Fair Value at NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds	$ 20,984	$ -	Various	35 - 65 days
Private Equity Funds	12,173	9,596	Illiquid	
Real Asset Funds	1,870	883	Illiquid	
	$ 35,027	$ 10,479		

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2017 and 2016 are as follows (in thousands):

	Beneficial Interest in Perpetual Trusts	Split-Interest Agreements	Level 3 Total
Balance at June 30, 2015	$ 2,119	$ 2,172	$ 4,291
Unrealized losses	(99)	(287)	(386)
Balance at June 30, 2016	2,020	1,885	3,905
Unrealized gains (losses)	106	(963)	(857)
Balance at June 30, 2017	$ 2,126	$ 922	$ 3,048

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):

	2017	2016
Endowment funds	$ 106,981	$ 97,544
Annuity funds	1,085	1,115
Capital campaign funds	1,414	1,096
Other funds	2,193	2,028
	$ 111,673	$ 101,783

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.

7. Land, Buildings, and Equipment, Net

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

	2017	2016
Land and land improvements	$ 20,111	$ 17,180
Buildings	143,731	142,254
Equipment	41,079	36,959
Library books	9,609	9,557
Collection items	4,469	4,227
Construction in progress	22,243	4,976
	241,242	215,153
Accumulated depreciation	(92,976)	(84,622)
	$ 148,266	$ 130,531

Depreciation expense was approximately $8,400,000 and $6,963,000 in 2017 and 2016, respectively.

8. 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, 2017 and 2016.

9. Long-Term Debt

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

	2017	2016
College Revenue Bonds of 2012, due serially in annual amounts through 2032, with interest payable semi-annually ranging from 0.5% to 5.07% (3.0% at June 30, 3017)	$ 18,690	$ 19,285
College Revenue Bonds of 2013, due serially in annual amounts through 2042, with interest payable semi-annually ranging from 1.6% to 4.125% (2.0% at June 30, 2017).	9,140	9,365
College Revenue Bonds of 2016, due serially in annual amounts starting in 2018 through 2035, with interest payable semi-annually ranging from 2.125% to 5.0%.	28,560	28,560
Note payable, due in annual principal repayments starting in 2018 through 2035 and interest payable semi-annually at 2.99% through July 2016, 3.65% through July 2025, then LIBOR thereafter.	6,000	5,825
MCHI Revenue Bonds of 2008, due serially in monthly amounts through 2037, with interest payable monthly at 68% of LIBOR plus 2.00% (2.83% at June 30, 2017).	19,120	19,670
Equipment financing, interest ranging from 2.4% to 4.8%, due in equal installments through 2021 for technology equipment.	2,772	2,209
	84,282	84,914
Less deferred financing costs	(635)	(667)
Less current portion	(2,769)	(1,964)
Original issue premium	2,747	3,034
Long-term debt	$ 83,625	$ 85,317

The indentures of the College Revenue Bonds of 2012, 2013, and 2016 require the College to pledge as collateral its unrestricted gross revenues not previously pledged.

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

The MCHI Revenue Bonds of 2008 require that MCHI maintain a debt service reserve fund in accordance with the revenue bond document.

The HILL dormitory is the only pledged asset of the MCHI Revenue Bonds of 2008, thus the debt is separate from the obligated group of the College and neither entity may claim more than their respective revenues.

Principal repayments of long-term debt for the years ending after June 30, 2017 are as follows (in thousands):

2018	$ 2,769
2019	3,218
2020	3,222
2021	3,326
2022	3,155
Later years	68,592
	$ 84,282

Interest expense, net of amounts capitalized, related to long-term debt was approximately $2,716,000 and $2,182,000 in 2017 and 2016, respectively and included in the statement of activities.

10. Interest Rate Swap Agreements

MCHI executed an interest rate swap agreement, which is considered a derivative financial instrument, to hedge its variable rate interest rate payments. The swap agreement requires MCHI to make 3.33% fixed interest payments and receive variable interest rate payments from its counter party based on USD-SIFMA Municipal Swap Index rate. The notional amount outstanding on the agreement was $19,400,000 at June 30, 2017. The variable rate at June 30, 2017 was .80% and the fair value of the swap instrument was approximately $(383,000). The swap agreement terminates on April 1, 2018.

MCHI executed two interest rate swap agreements on May 31, 2017 which will become effective on April 1, 2018 upon termination of previous agreement. The swap agreements require MCHI to make 3.26% fixed interest payments and receive variable interest rate payments from its counter party based on USD-SIFMA Municipal Swap Index rate. The notional amount outstanding on each agreement was $9,322,000 at June 30, 2017. The variable rates at June 30, 2017 were 68% of one-month LIBOR and the fair value of the swap instruments were approximately $(515,000). The swap agreements terminate on April 1, 2032.

11. Employee Benefit Plan

The College participates in a defined contribution pension plan covering substantially all regular full-time employees. Pension expense was approximately $1,563,000 and $1,536,000 in 2017 and 2016, respectively.

12. 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 $71,000 in 2017 and $69,000 in 2016. 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):

	2017	2016
Projected benefit obligation, beginning	$ 444	$ 415
Service cost	23	24
Interest cost	16	13
Actuarial gain/loss	-	61
Benefits paid	(71)	(69)
Projected benefit obligation, ending	$ 412	$ 444

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

	2017	2016
Current portion of postretirement benefit obligation	$ 60	$ 58
Noncurrent portion of postretirement benefit obligation	352	386
Accrued pension liability, net	$ 412	$ 444

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

	2017	2016
Discount rate	3.5 %	3.5 %
Rate of increase in compensation levels	2.5	2.5

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

	2017	2016
Service cost	$ 23	$ 24
Interest cost	16	13
	$ 39	$ 37

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 $60,000.

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

2018	$ 60
2019	57
2020	63
2021	63
2022	66
2023 - 2027	190

13. Net Assets

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

	2017	2016
Net assets related to certain split-interest agreements	$ 2,267	$ 2,821
Assets held in perpetuity	69,908	67,653
	$ 72,175	$ 70,474

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

	2017	2016
Net assets related to certain split-interest agreements	$ 658	$ 953
Specified purposes	36,816	30,628
	$ 37,474	$ 31,581

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

	2017	2016
Long-term investments	$ 19,308	$ 18,102
Plant facilities	64,786	66,433
Other	2,322	28
	$ 86,416	$ 84,563

14. 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 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, 2017 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 23,261	$ 64,139	$ 87,400
Board-designated endowment funds	19,308	-	-	19,308
	$ 19,308	$ 23,261	$ 64,139	$ 106,708

The following schedule represents the changes in endowment net assets for the year ended June 30, 2017 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ 17,477	$ 18,026	$ 61,796	$ 97,299
Investment income	283	1,229	-	1,512
Realized gains	1,205	5,225	-	6,430
Change in unrealized gains	534	2,264	-	2,798
Contributions	645	180	2,343	3,168
Appropriation for spending	(836)	(3,663)	-	(4,499)
Assets, end of year	$ 19,308	$ 23,261	$ 64,139	$ 106,708

The following schedule represents the endowment net asset composition by type of endowment fund as of June 30, 2016 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 18,026	$ 61,796	$ 79,822
Board-designated endowment funds	17,477	-	-	17,477
	$ 17,477	$ 18,026	$ 61,796	$ 97,299

The following schedule represents the changes in endowment net assets for the year ended June 30, 2016 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ 17,417	$ 22,920	$ 60,606	$ 100,943
Investment income	356	1,581	-	1,937
Realized gains	267	1,216	-	1,483
Change in unrealized gains	(993)	(4,357)	-	(5,350)
Contributions	1,218	183	1,190	2,591
Appropriation for spending	(788)	(3,517)	-	(4,305)
Assets, end of year	$ 17,477	$ 18,026	$ 61,796	$ 97,299

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, 2017 or 2016.

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 7.0% 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 both 2017 and 2016. 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 7.0% 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.

15. Commitments

In connection with several ongoing projects on campus, the College has commitments to several vendors totaling approximately $5,067,000 of June 30, 2017. The College is using proceeds from the College Revenue Bonds of 2016 and operating cash flow to fund these projects. See Note 6.

16. 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 consolidated 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.

Moravian College and Subsidiary

Consolidating Schedule of Financial Position
(In Thousands)
June 30, 2017

	A Moravian College	B MCHI Standalone	C MCHI Purchase Accounting	D (B + C) MCHI Total	E Eliminations	F (A + D + E) Consolidated Total
Assets						
Current Assets						
Cash and cash equivalents	$ 5,890	$ 1,411	$ -	$ 1,411	$ -	$ 7,301
Accounts receivable, net	2,129	74	-	74	(74)	2,129
Investment income receivable	654	-	-	-	(641)	13
Contributions receivable	2,694	-	-	-	-	2,694
Prepaids and other	2,479	-	-	-	(1,073)	1,406
Deposits with trustee under debt agreement	1,015	-	-	-	-	1,015
Total current assets	14,861	1,485	-	1,485	(1,788)	14,558
Noncurrent Assets						
Contributions receivables, net	9,254	-	-	-	-	9,254
Note receivable, related party	1,368	-	-	-	(1,368)	-
Deposits with trustee under debt agreement	3,431	-	-	-	-	3,431
Investments	111,673	-	-	-	-	111,673
Investment in MCHI	5,073	-	-	-	(5,073)	-
Split-interest agreements	3,048	-	-	-	-	3,048
Student loans receivable (net of allowance of $244 in 2017)	1,615	-	-	-	-	1,615
Other non-current assets	1,467	-	-	-	-	1,467
Land, buildings and equipment, net	121,796	17,517	8,953	26,470	-	148,266
Total noncurrent assets	258,725	17,517	8,953	26,470	(6,441)	278,754
Total assets	$ 273,586	$ 19,002	$ 8,953	$ 27,955	$ (8,229)	$ 293,312
Liabilities and Net Assets						
Current Liabilities						
Current portion of long-term debt	$ 2,194	$ 575	$ -	$ 575	$ -	$ 2,769
Accounts payable	1,735	-	-	-	(74)	1,661
Accrued interest	810	124	-	124	-	934
Accrued expenses and other liabilities	2,534	-	-	-	-	2,534
Deferred revenue and deposits	1,695	1,073	-	1,073	(1,073)	1,695
Current portion of postretirement benefit obligation	60	-	-	-	-	60
Total current liabilities	9,028	1,772	-	1,772	(1,147)	9,653
Noncurrent Liabilities						
Annuities payable	1,085	-	-	-	-	1,085
Long-term debt	65,081	17,516	1,028	18,544	-	83,625
Interest rate swaps	-	898	-	898	-	898
Note payable, related party	-	2,009	-	2,009	(2,009)	-
Postretirement benefit obligation	352	-	-	-	-	352
Refundable federal grants and loan funds	1,199	-	-	-	-	1,199
Other liabilities	435	-	-	-	-	435
Total liabilities	77,180	22,195	1,028	23,223	(3,156)	97,247
Net Assets						
Unrestricted	86,757	(3,193)	7,925	4,732	(5,073)	86,416
Temporarily restricted	37,474	-	-	-	-	37,474
Permanently restricted	72,175	-	-	-	-	72,175
Total net assets	196,406	(3,193)	7,925	4,732	(5,073)	196,065
Total liabilities and net assets	$ 273,586	$ 19,002	$ 8,953	$ 27,955	$ (8,229)	$ 293,312

Moravian College and Subsidiary

Consolidating Schedule of Activities
(In Thousands)
Year Ended June 30, 2017

	A Moravian College	B MCHI Standalone	C MCHI Purchase Accounting	D (B + C) MCHI Total	E Eliminations	F (A + D + E) Consolidated Total
Operating Revenues and Other Additions						
Tuition and fees (net of student scholarships of $34,168)	$ 43,648	$ -	$ -	$ -	$ -	$ 43,648
Private gifts and grants	5,986	-	-	-	-	5,986
Investment income	1,744	-	-	-	-	1,744
Sponsored federal government programs and grants	586	-	-	-	-	586
State grants	314	-	-	-	-	314
Auxiliary enterprises	14,213	1,865	-	1,865	(75)	16,003
Other sources	674	-	-	-	-	674
Total operating revenues and other additions	67,165	1,865	-	1,865	(75)	68,955
Operating Expenses						
Resident instruction	28,655	-	-	-	-	28,655
Academics support	4,297	-	-	-	-	4,297
Student services	6,930	-	-	-	-	6,930
Athletics	5,315	-	-	-	-	5,315
Institutional support	9,390	-	-	-	-	9,390
Fund-raising	1,580	-	-	-	-	1,580
Auxiliary enterprises	9,852	1,887	141	2,028	(75)	11,805
Other	56	-	-	-	-	56
Total operating expenses	66,075	1,887	141	2,028	(75)	68,028
Change in net assets from operating activities	1,090	(22)	(141)	(163)	-	927
Nonoperating						
Realized net gain on investments	6,471	-	-	-	-	6,471
Unrealized net gain on investments	2,877	-	-	-	-	2,877
Gain on the sale of assets	21	-	-	-	-	21
Change in value of split-interest agreements	(849)	-	-	-	-	(849)
Change in net assets from nonoperating activities	8,520	-	-	-	-	8,520
Change in net assets	9,609	(22)	(141)	(163)	-	9,447
Net Assets, Beginning	186,797	(3,171)	8,065	4,894	(5,073)	186,618
Net Assets, Ending	$ 196,406	$ (3,193)	$ 7,924	$ 4,731	$ (5,073)	$ 196,065