MORAVIAN COLLEGE

FINANCIAL REPORT
2018-2019

Inside Cover, Financial Report: The Moravian Book Shop

On the front cover of the Financial Report for 2018-2019 is the Moravian Book Shop. Founded in 1745, the Moravian Book Shop is the oldest bookstore in America, the oldest continuously operating bookstore in the world, and home to the Moravian College student bookstore.

In June 2018, the Book Shop changed hands from the Moravian Church Northern Province to Moravian College. The Moravian Book Shop is located in the heart of historic Downtown Bethlehem at 428 Main Street among the beautiful downtown shops, restaurants, and across the street from the Hotel Bethlehem; just steps away from Moravian College's Priscilla Payne Hurd (South) Campus. The Moravian College student shuttle has a routine stop right on Main Street, and parking can be found on the street or in one of the nearby parking garages on Walnut Street or North Street.

The Book Shop continues to offer its iconic book section that features indie best sellers, trade books, and select books highlighting the history of Moravians, Bethlehem, Bethlehem Steel, the Lehigh Valley and Pennsylvania. In addition, the Moravian Book Shop sells and buys back student textbooks. The Book Shop stocks Moravian College apparel and gift items, reference books, stationery and art supplies, greeting cards, candy, and health and beauty aids. The inventory also includes traditional Moravian- and Bethlehem-themed gifts and College faculty- and alumni-authored books.

Additionally, The Moravian Book Shop has partnered with two local businesses, Lost Tavern Brewing and Dave's Deli & Gelato, to offer a great selection of craft beers, sandwiches, salads, and gelato.

MORAVIAN COLLEGE

Management Discussion

In August of 2018, Moravian College welcomed 565 new students to campus, which included 442 first time freshmen, 107 transfer students and 16 international students. The size of this incoming class, combined with the retention of existing students translated to the largest student body in the history of the College. In the fall the College had enrolled 1858 FTE, marking the fifth consecutive year of undergraduate enrollment growth. Importantly, the academic quality of the incoming class continues to improve. The average GPA constantly moved upward, continuing the trend within the last decade.

The College also continues to invest in and expand its graduate programs. In June of 2019, the first cohorts of students were enrolled in the Masters of Occupational Therapy and Masters of Speech Language Pathology programs. These programs join the Masters and Doctorate of Athletic Training programs in the recently renovated Sports Medicine and Rehabilitation Center (SMRC) located on the western edge of campus. This 43,000+ square foot building will also soon be home to the Doctorate of Physical Therapy program. Beyond the physical classroom, in January, Moravian College launched its first online graduate program, the Masters of Science in Predictive Analytics.

In 2018-2019, the campus also benefited from a number of capital investments. The dining experience for the students was dramatically improved with substantial renovations in both dining venues in the Haupert Union Building and the Clewell Dining Hall on Hurd Campus. In addition, the College completed renovations to the Moravian Book Shop, which is not only the oldest bookstore in America, and the oldest continually operating bookstore in the world, but also home to the bookstore of Moravian College. The Book Shop is located in the heart of the historic district of downtown Bethlehem. The College incorporated local flavor by inviting a local deli and craft brewery to operate in the space.

The College and Seminary endowment market value increased slightly during the year, ending with a market value of $118 million. Over the past 5 years the fund has received gifts of $17.2 million and has provided $31 million in support for operations and capital projects. Investment returns for the one, three, and five year periods were 5.2%, 8.6%, and 5.0%, respectively. The endowment spending rate for 2018-2019 remained a conservative 4.5% producing approximately $4.7 million, of which $1.9 million was used for College and Seminary financial aid. As of June 30, 2019, the College and Seminary endowment investment portfolio, including funds held in trust by others and long term campaign investments, consisted of 48.2% domestic and international equity, 22.8% fixed income, 1.7% real estate and natural resources, 26.6% alternative assets and 0.7% cash.

Financial Review

Statement of Financial Position

The consolidated net assets at fiscal year-end decreased by 1.6% or $3.2 million. Net assets with donor restrictions reflect net increases due to endowment gifts and realized gains. Net assets without donor restrictions dipped 6%, or 5.2 million, due, in part, to an increase in strategic operating expenses.

Statement of Activities

In consolidation, operating revenues increased by $4 million from the prior year. Growth in tuition and fees as well as investment income were contributing factors. In the current year, for non-operating activities, realized investment losses of $1.6 million and a decrease in value of the interest rate swap of $1 million were offset by unrealized gains on investments of $2.6 million. Year over year fluctuations in realized and unrealized gains and losses relate directly to portfolio strategy shifts.

Operating expenses grew $6.6 million, or 9.1%. Resident instruction totaled $3.9 million, or 59% of the overall increase. Investments in new academic programs as well as depreciation and debt service on the Sally Breidegam Miksiewicz Center for Health Sciences accounted for much of this increase. Additional student services of $1 million and institutional support of $1.5 million also attributed to the overall increase.

Statement of Cash Flows

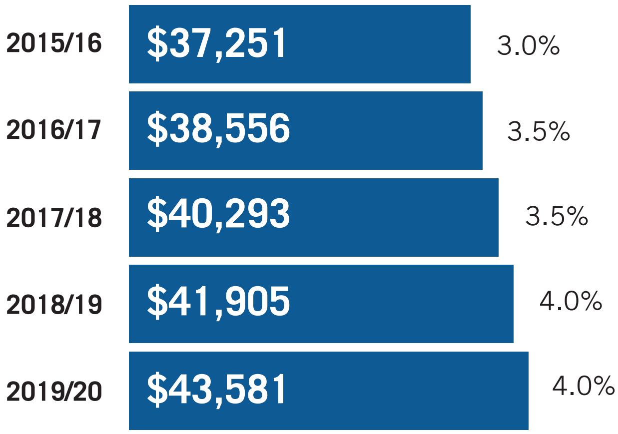
The primary purpose of the statement of cash flows is to provide relevant information about the cash receipts and cash payments of the consolidated enterprise. The information provided in the statement of cash flows, used with the related disclosures and information in the other financial statements, 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 2018/19 fiscal year, the consolidated operating activities of the College contributed $6.5 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.

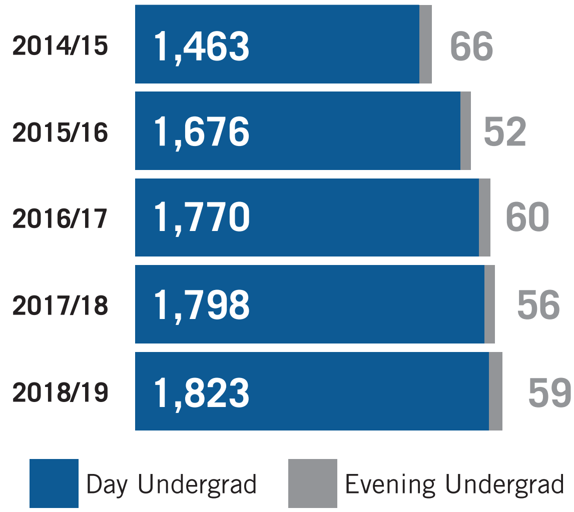
Investing activities: Net cash used by investing activities was $9.9 million and related primarily to the purchase of fixed assets.

Financing activities: Financing activities provided $4.7 million in cashflow, which was the net of $3.8 million repayment of debt, $6 million borrowed, and $2.4 million of restricted gifts and grants. The loan proceeds of $6 million were used to fund various capital projects including, renovations to the Moravian Book Shop, the venues for dining services, and certain athletic facilities.

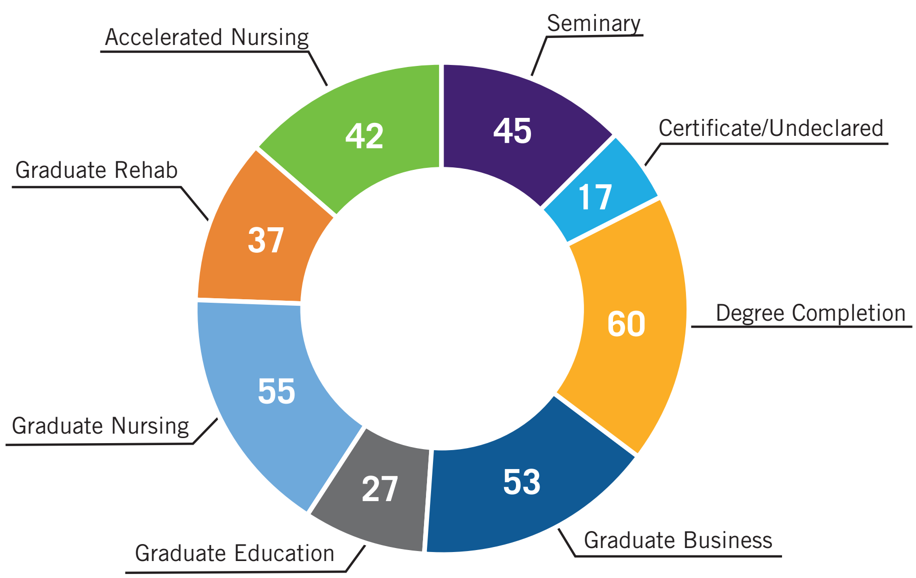
FULL-TIME TUITION RATE: COLLEGE



FTE STUDENTS: UNDERGRADUATE

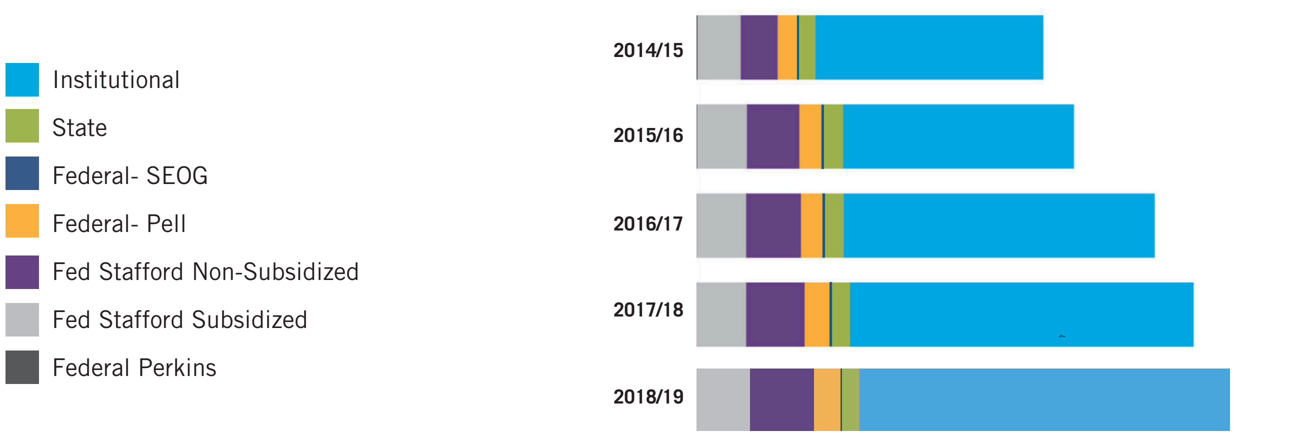


FTE STUDENTS: GRADUATE & ADULT 2018/19



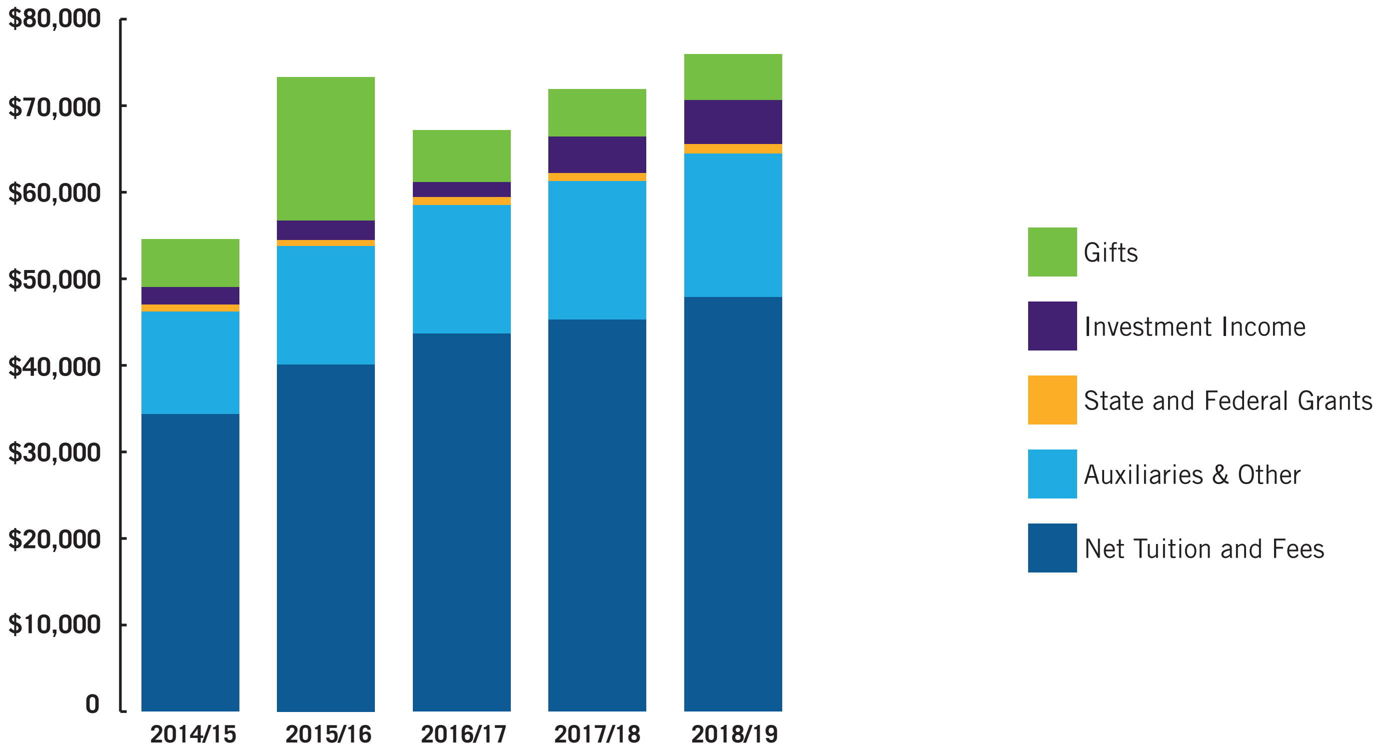
SOURCES OF FINANCIAL AID

In thousands



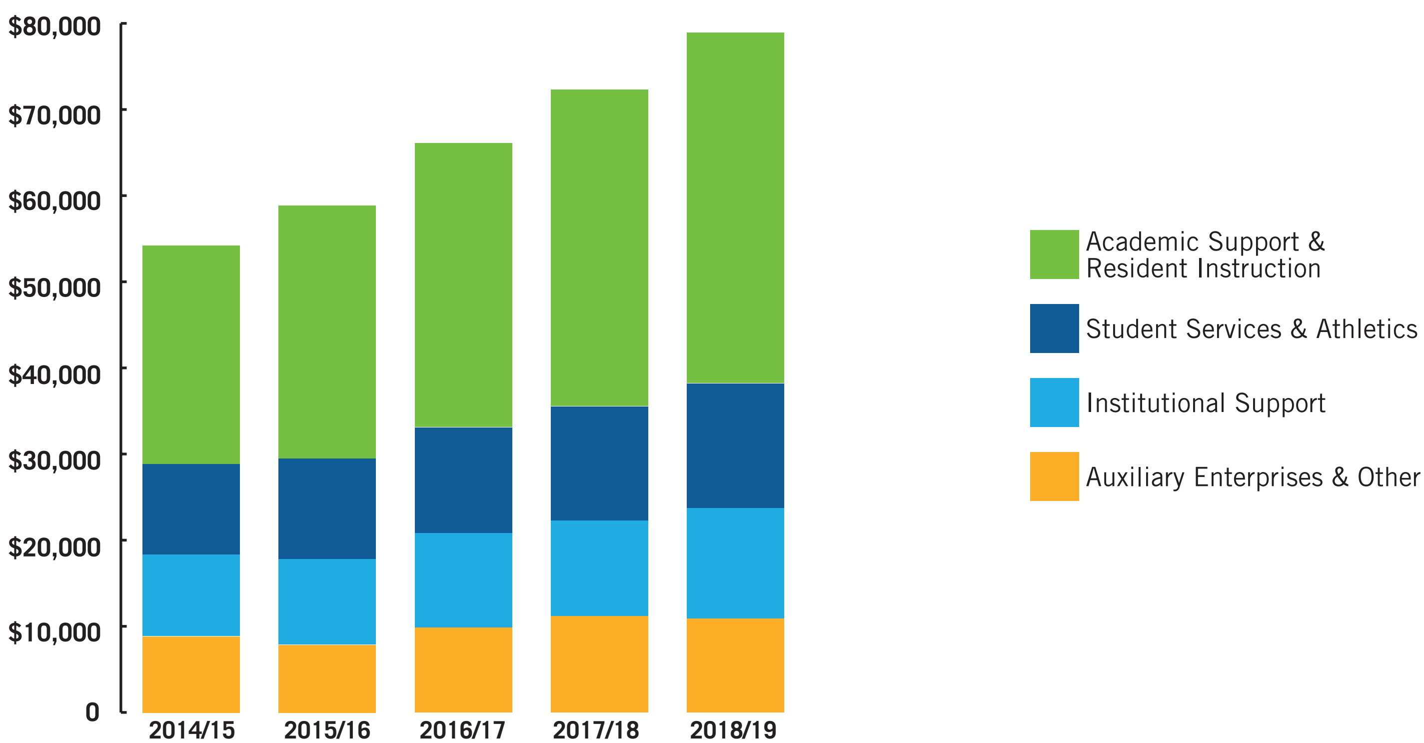
SOURCES OF REVENUE (CONSOLIDATED)

In thousands



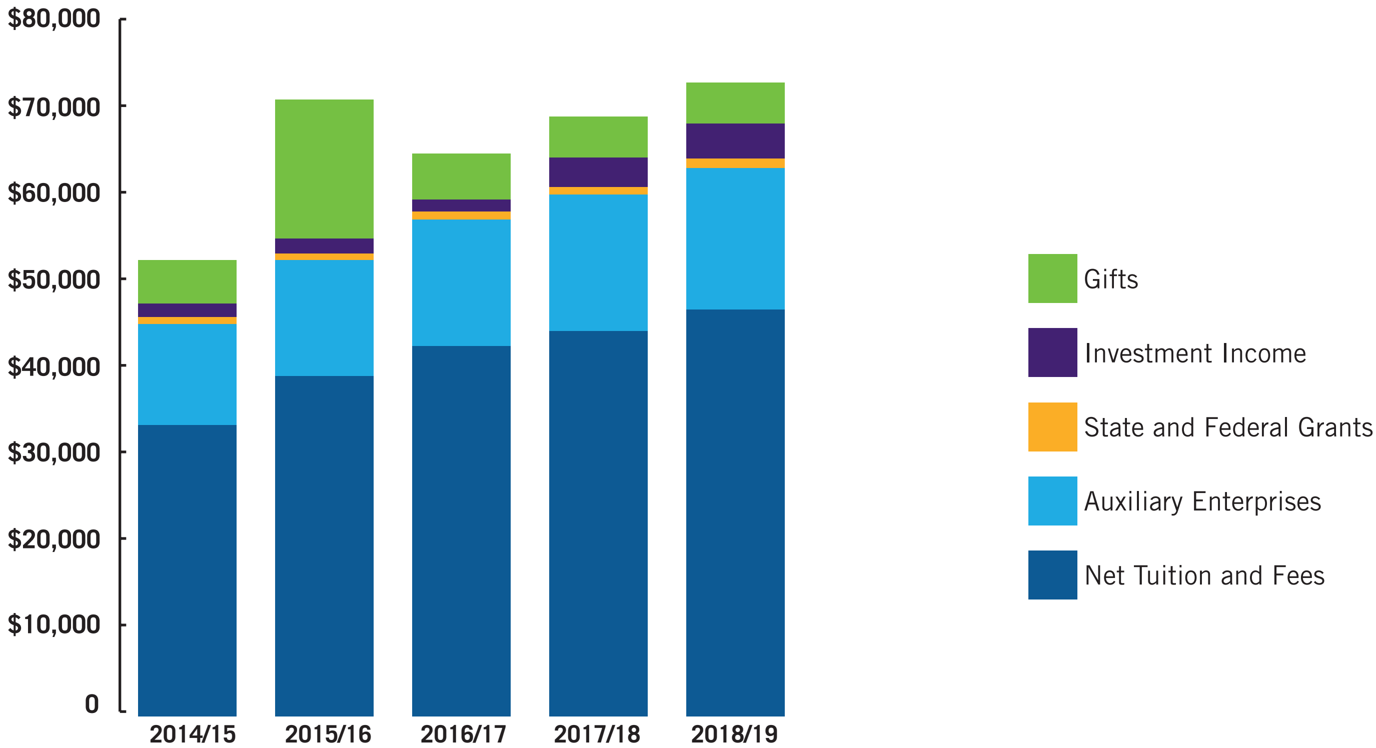
OPERATING EXPENSES (CONSOLIDATED)

In thousands



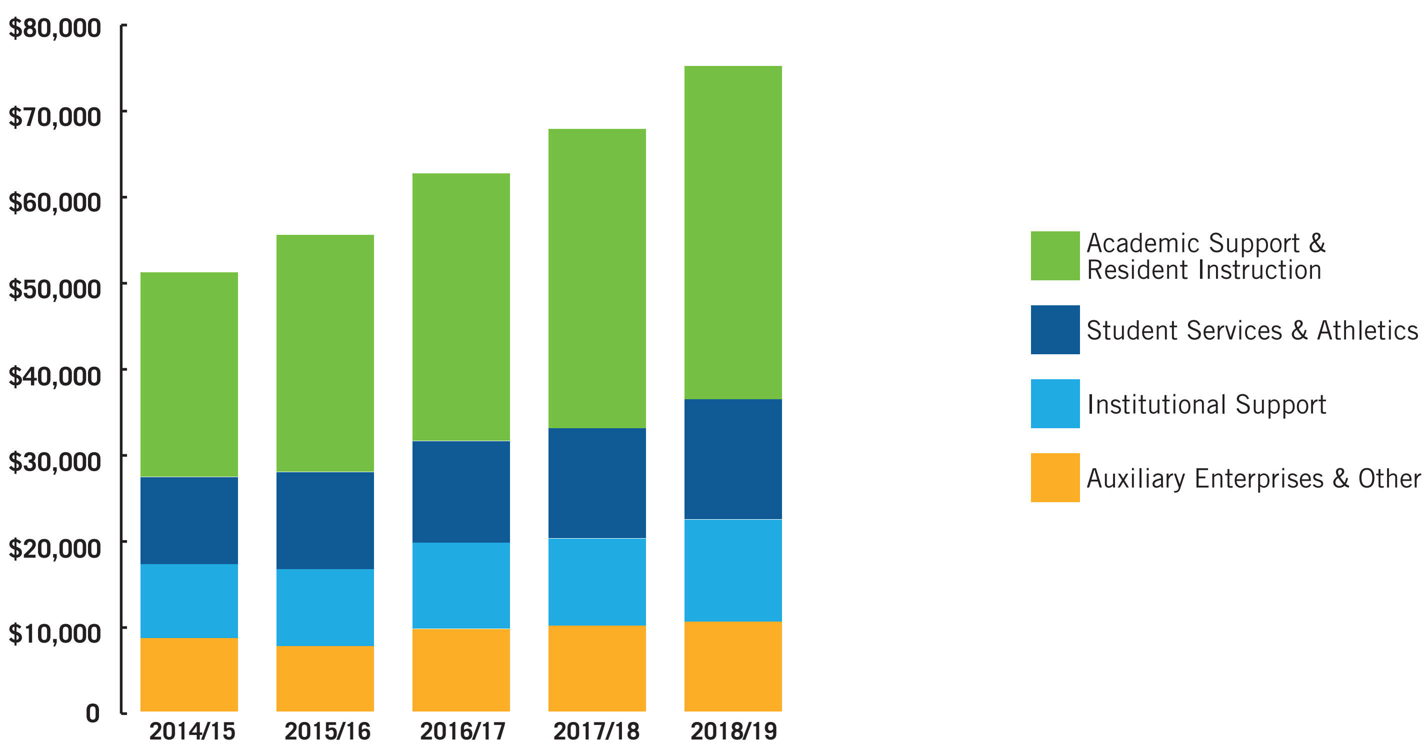
SOURCES OF REVENUE (COLLEGE)

In thousands



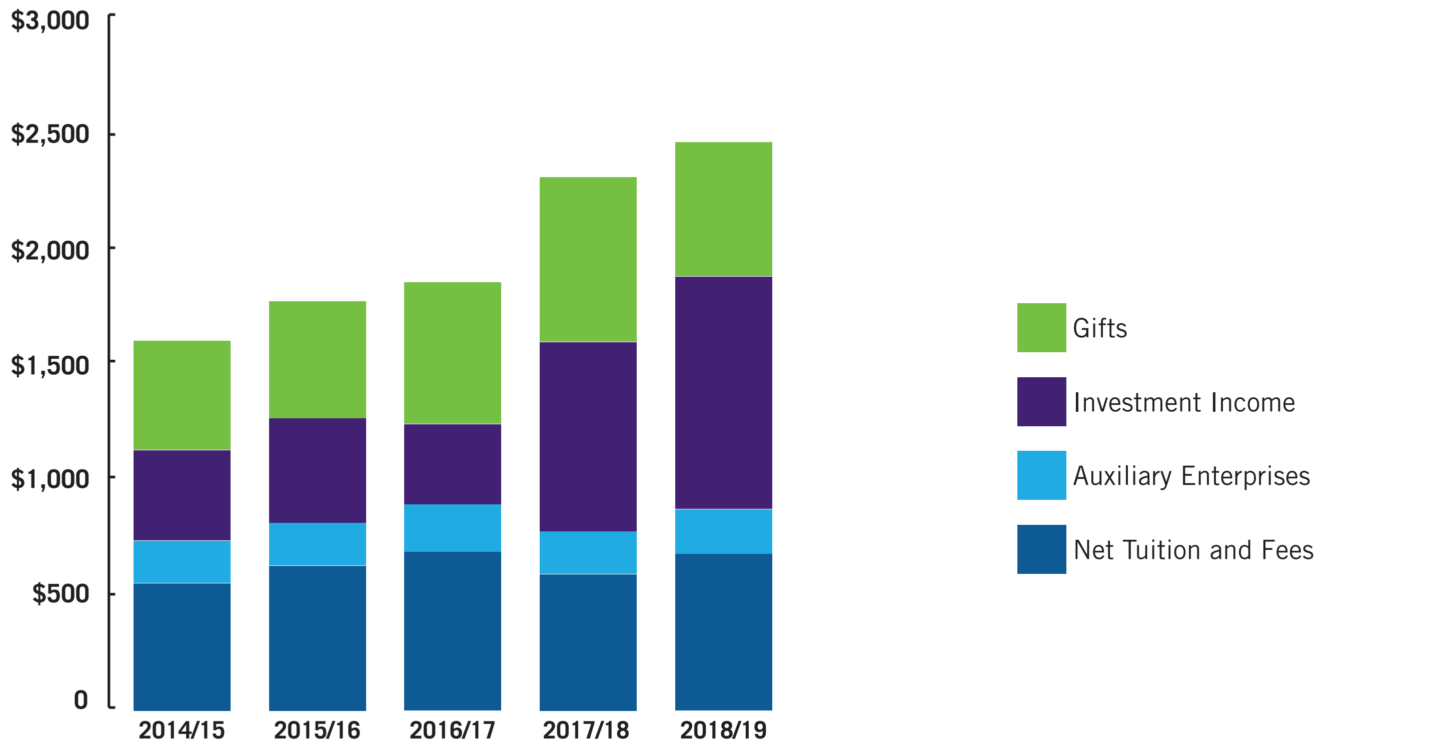
OPERATING EXPENSES (COLLEGE)

In thousands



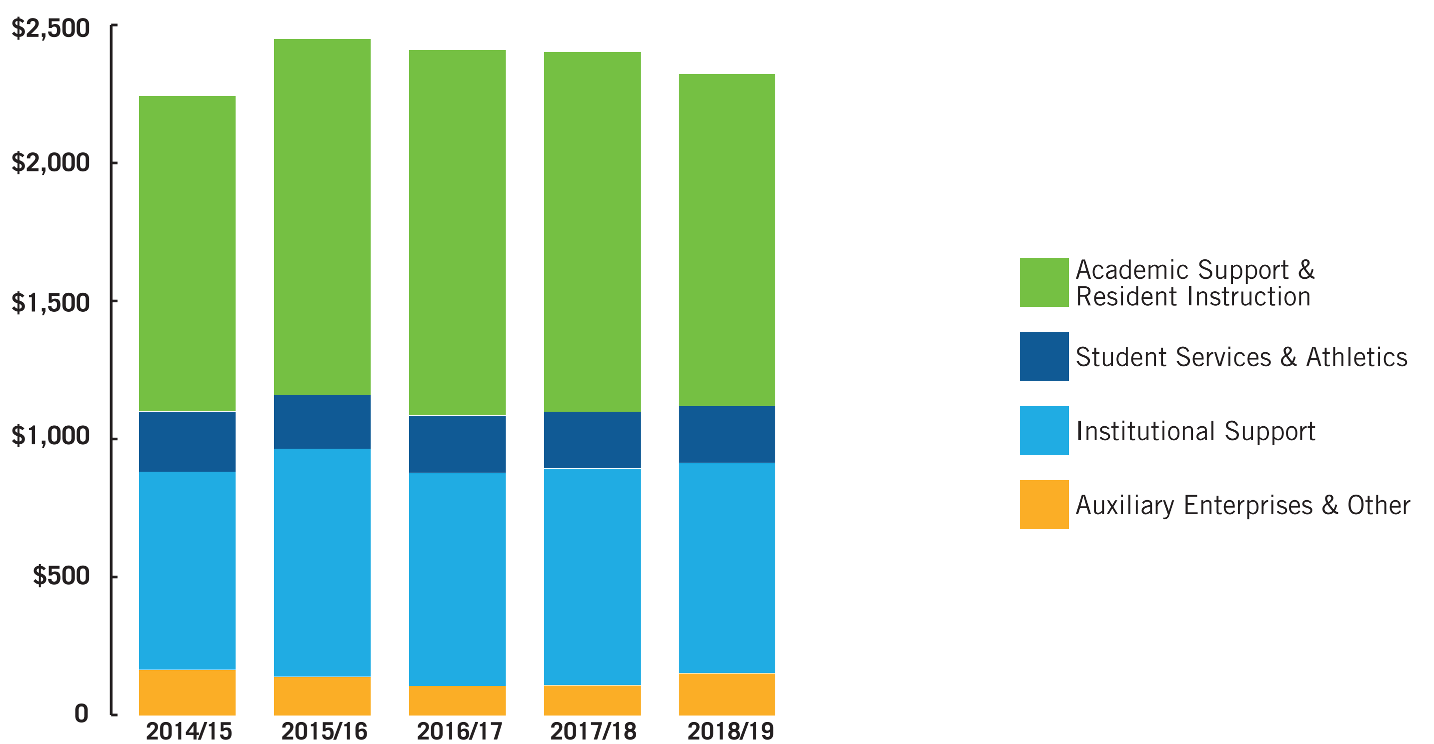
SOURCES OF REVENUE (SEMINARY)

In thousands



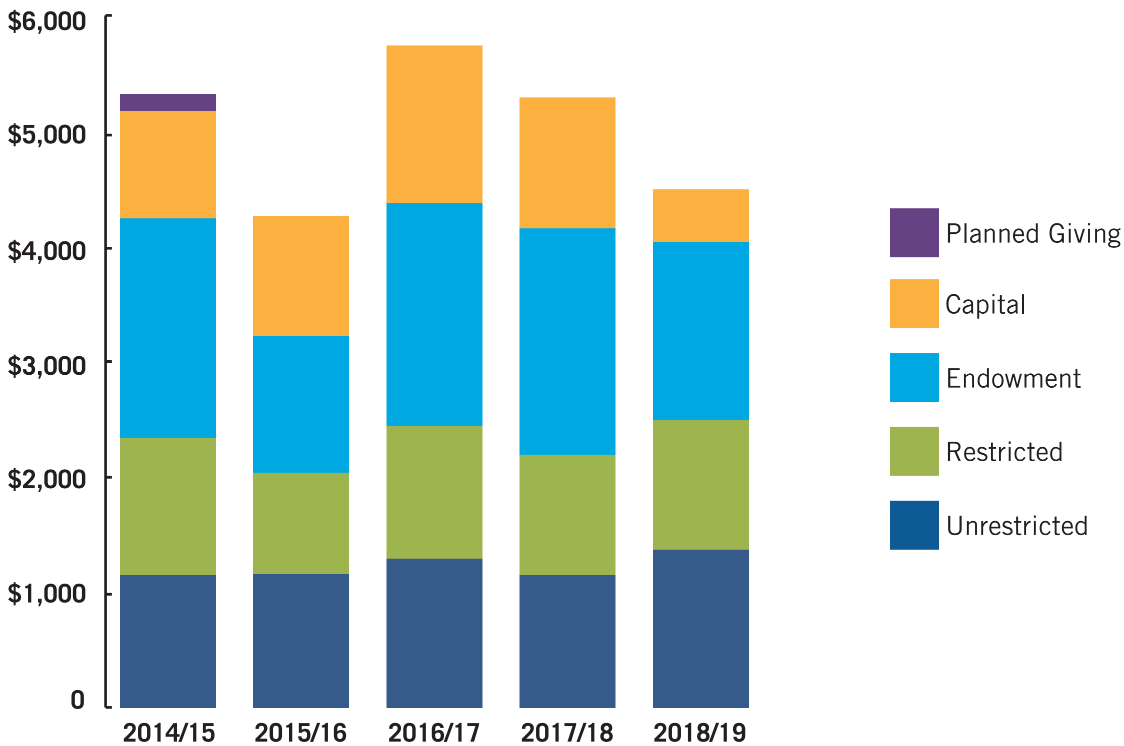
OPERATING EXPENSES (SEMINARY)

In thousands



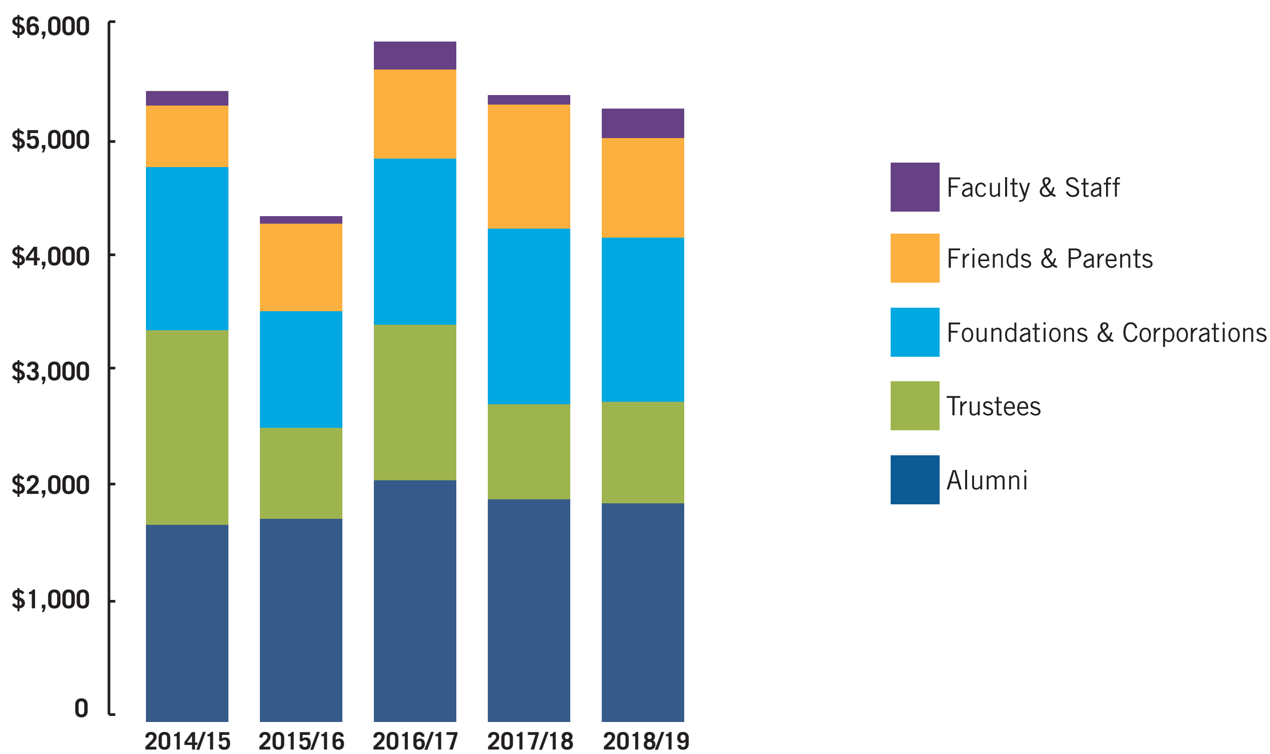
GIVING HISTORY (COLLEGE BY PURPOSE)

In thousands



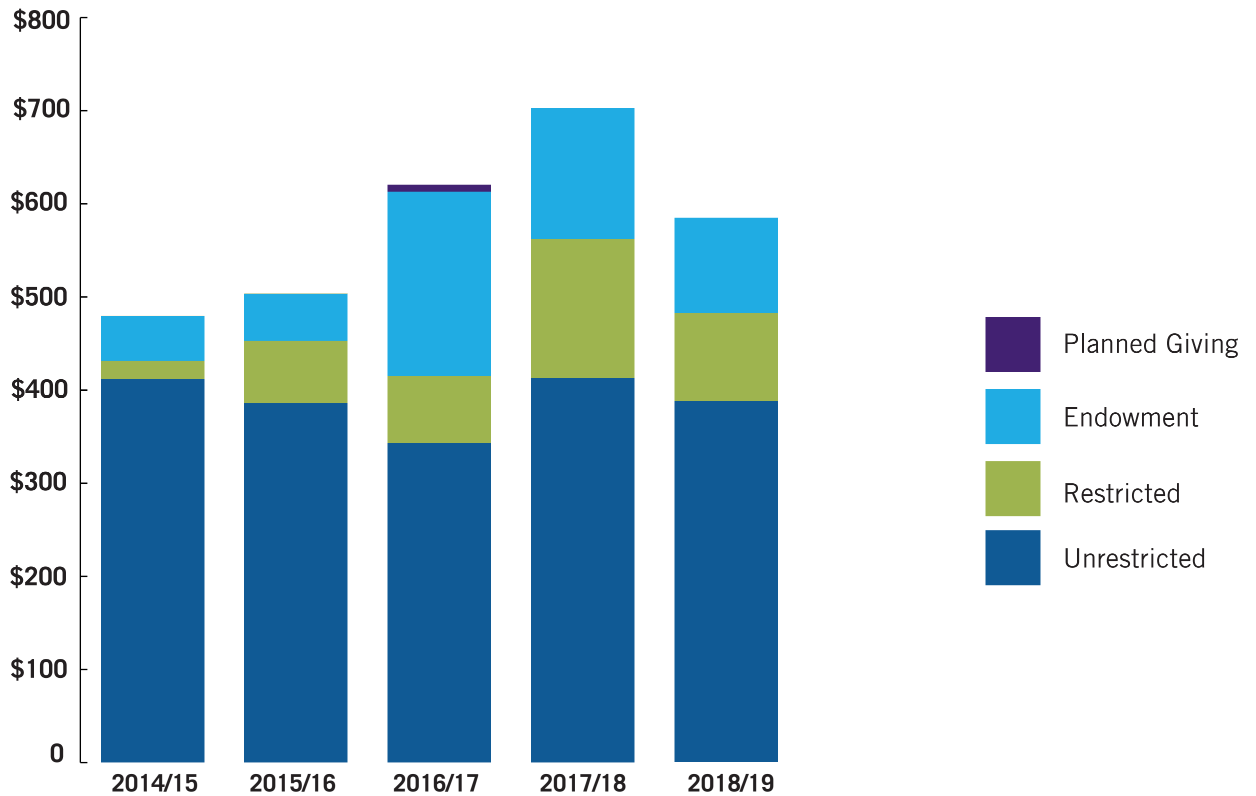
GIVING HISTORY (COLLEGE BY SOURCE)

In thousands



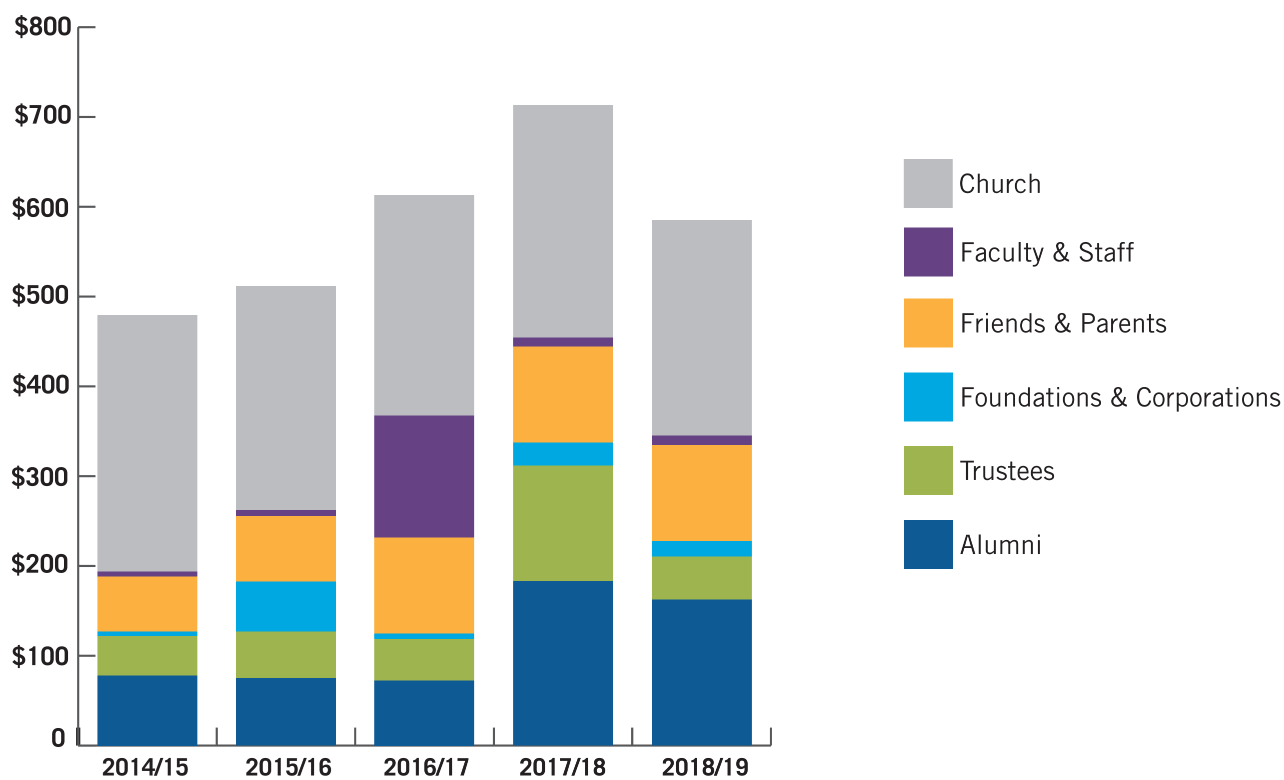
GIVING HISTORY (SEMINARY BY PURPOSE)

In thousands



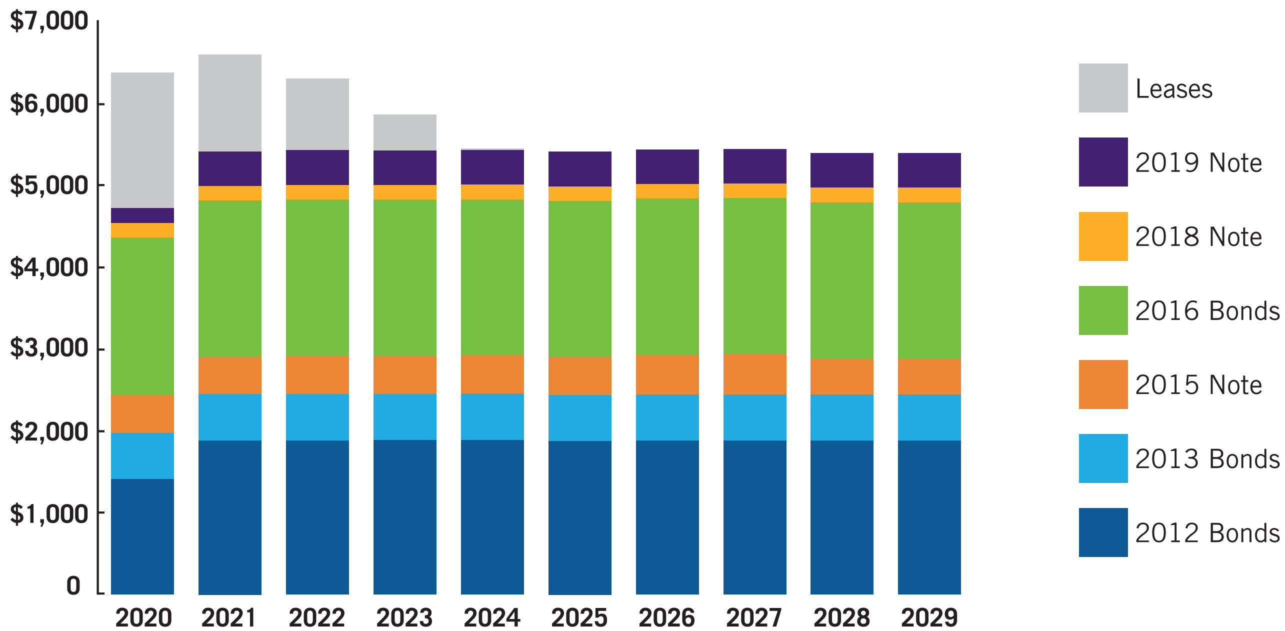
GIVING HISTORY (SEMINARY BY SOURCE)

In thousands



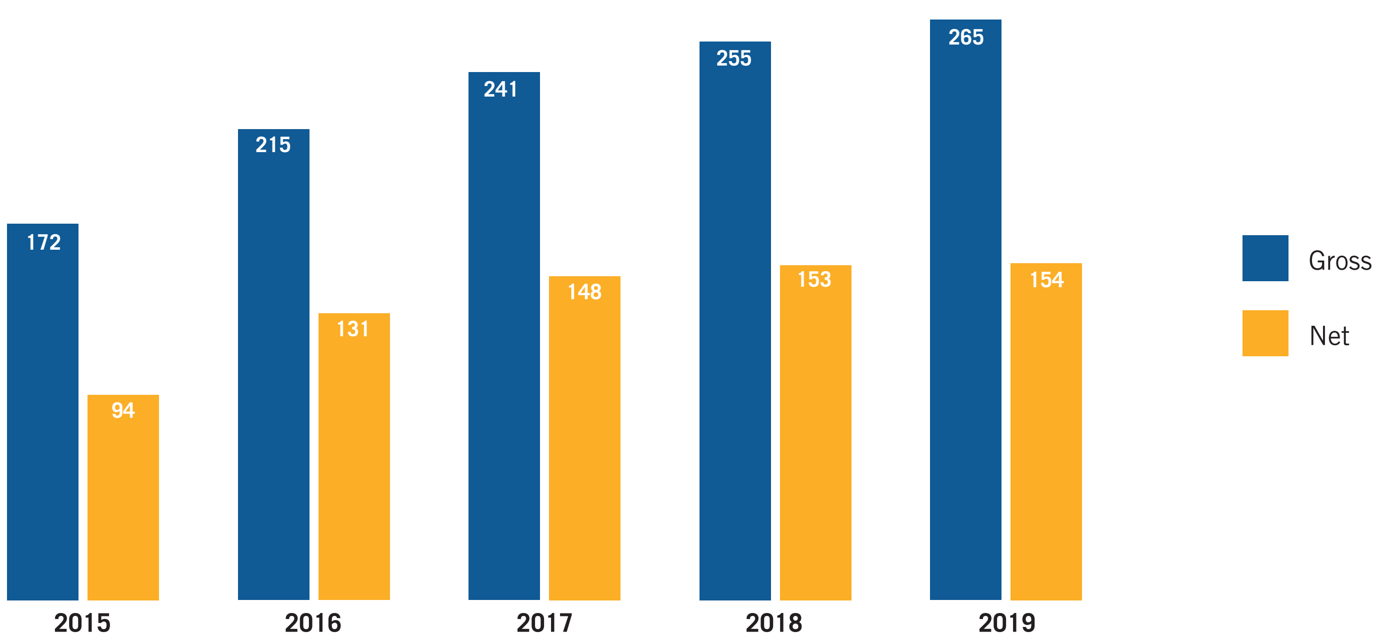
10 YEAR DEBT SERVICE SUMMARY

In thousands



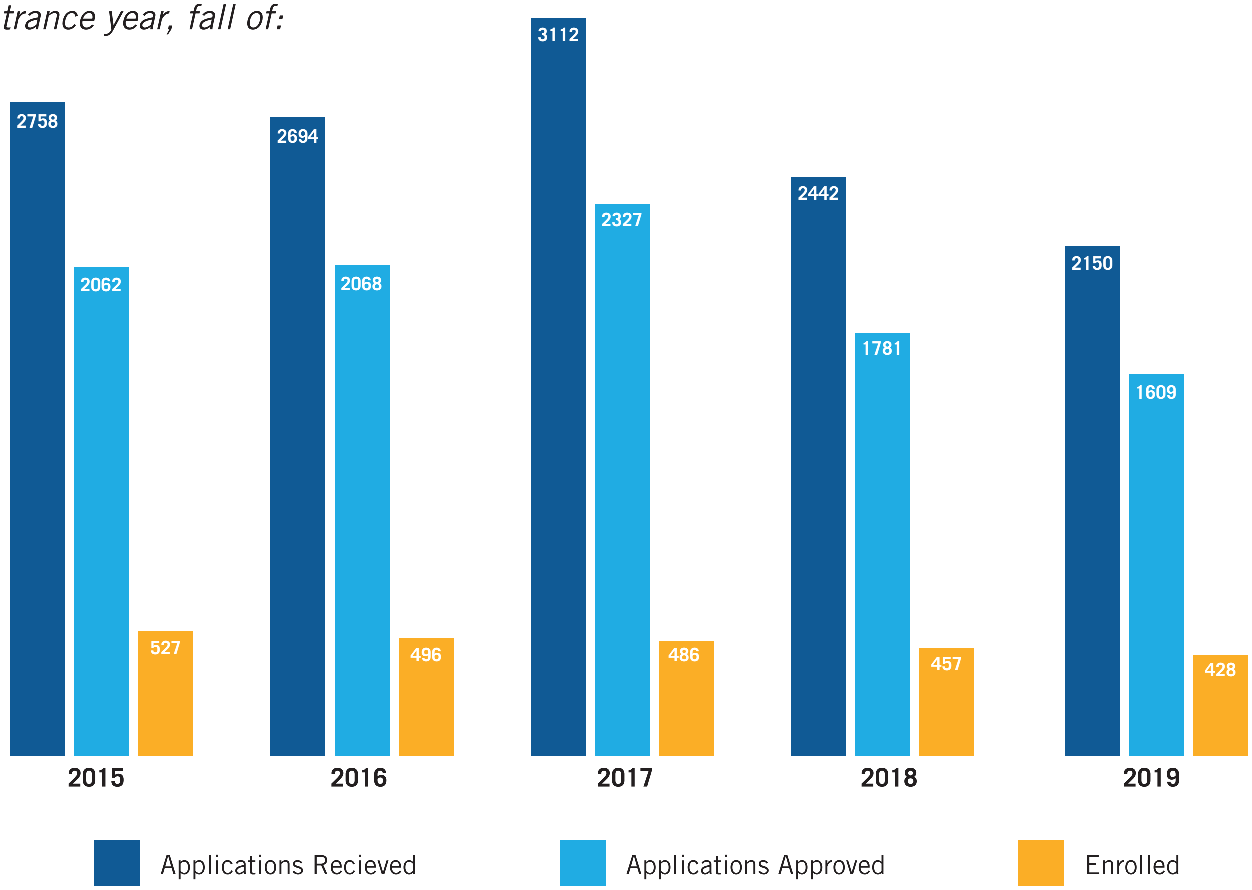
INVESTMENT IN PROPERTY, PLANT & EQUIPMENT

Gross & Net of Depreciation | $ millions



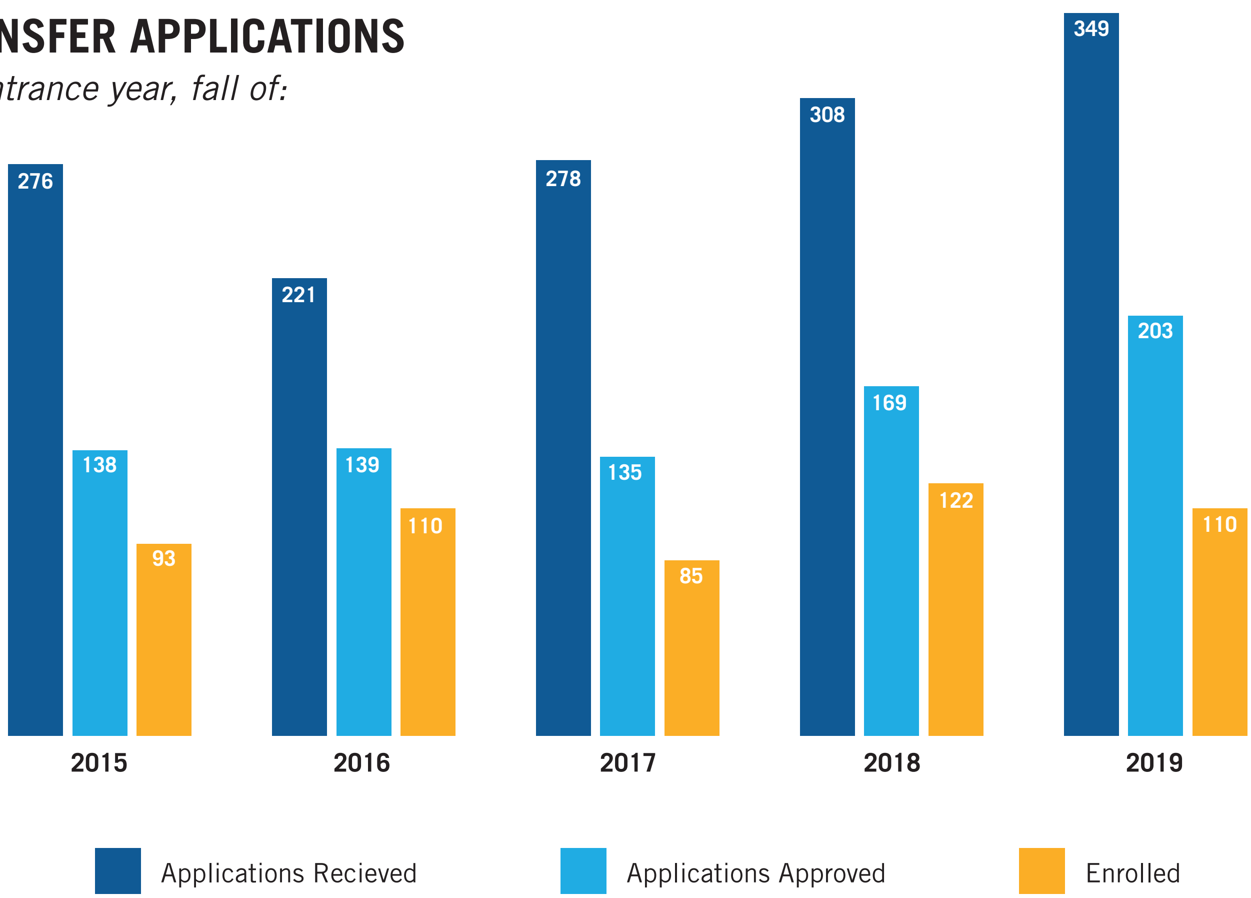
FRESHMAN APPLICATIONS

By entrance year, fall of:



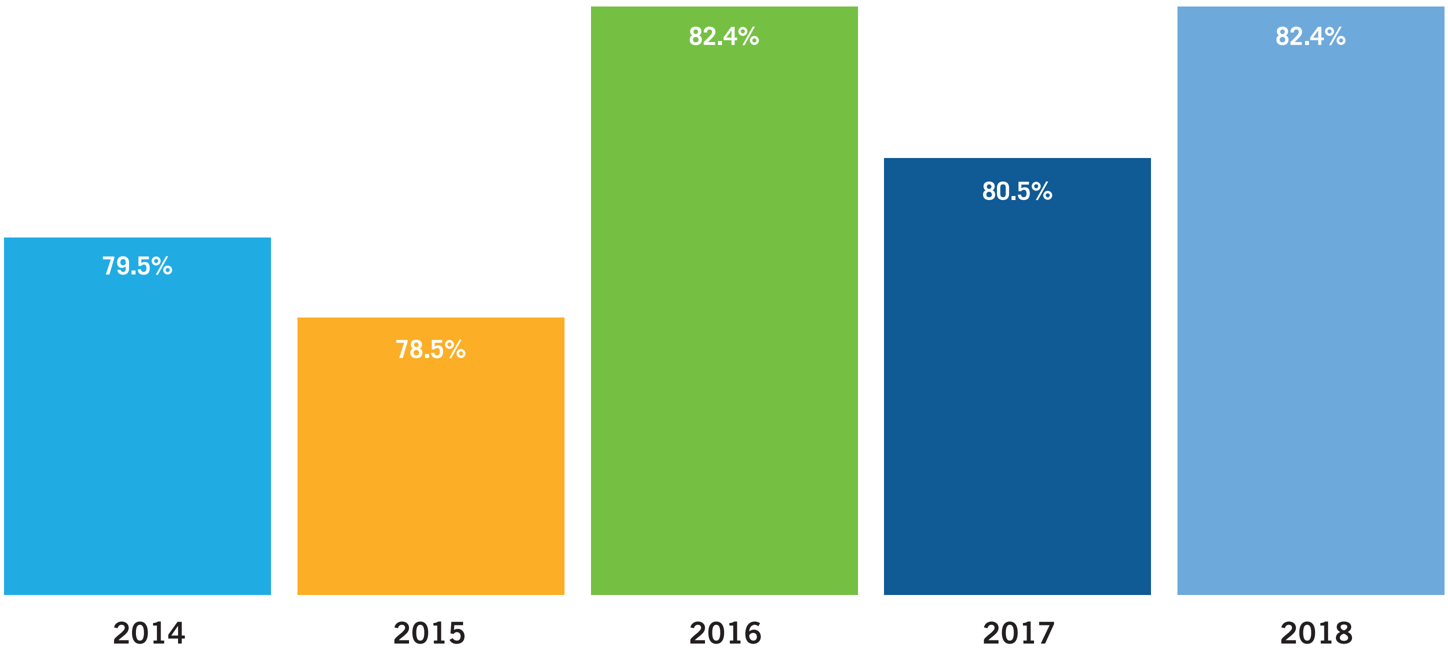
TRANSFER APPLICATIONS

By entrance year, fall of:



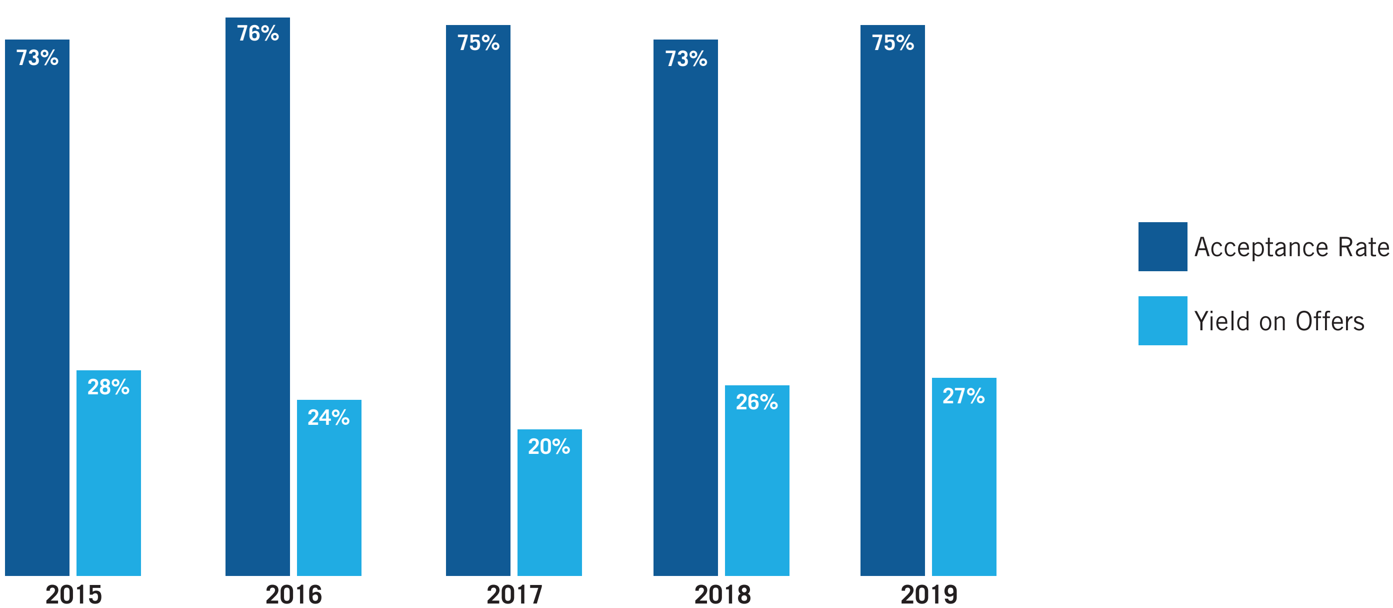
FRESHMAN TO SOPHOMORE RETENTION RATES

By entrance year, fall of:



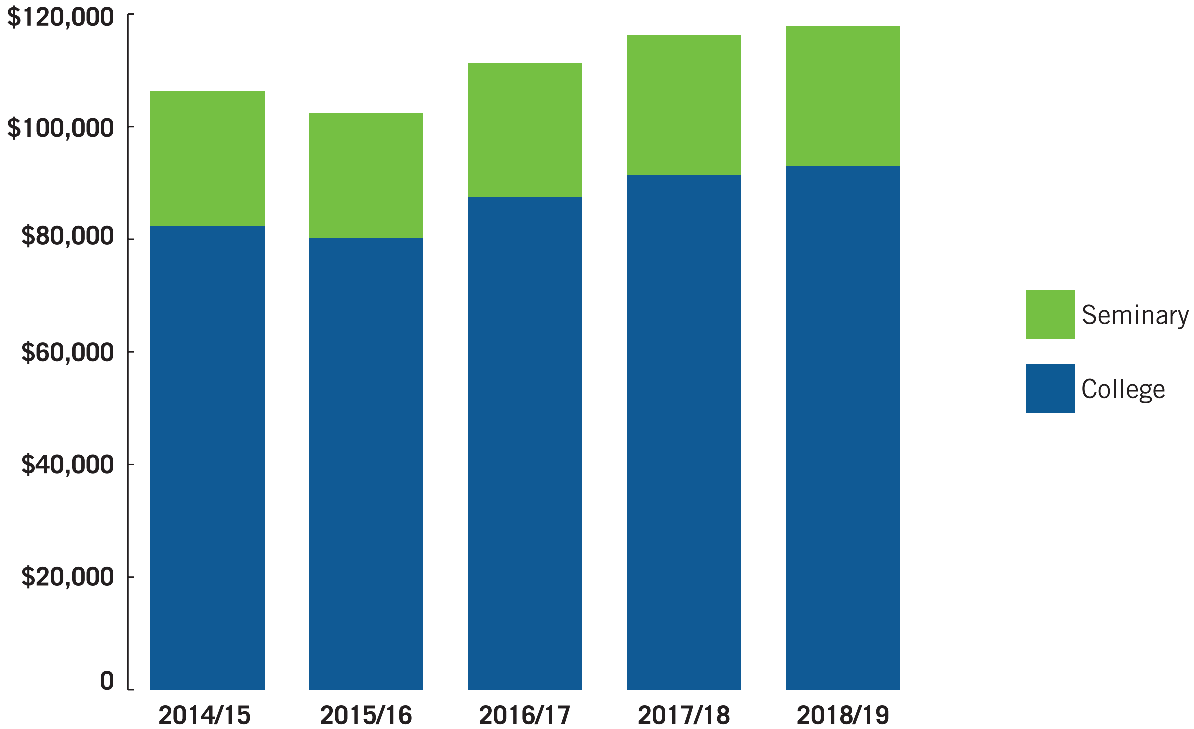
ACCEPTANCE RATE & YIELD OFFERS

By entrance year, fall of:

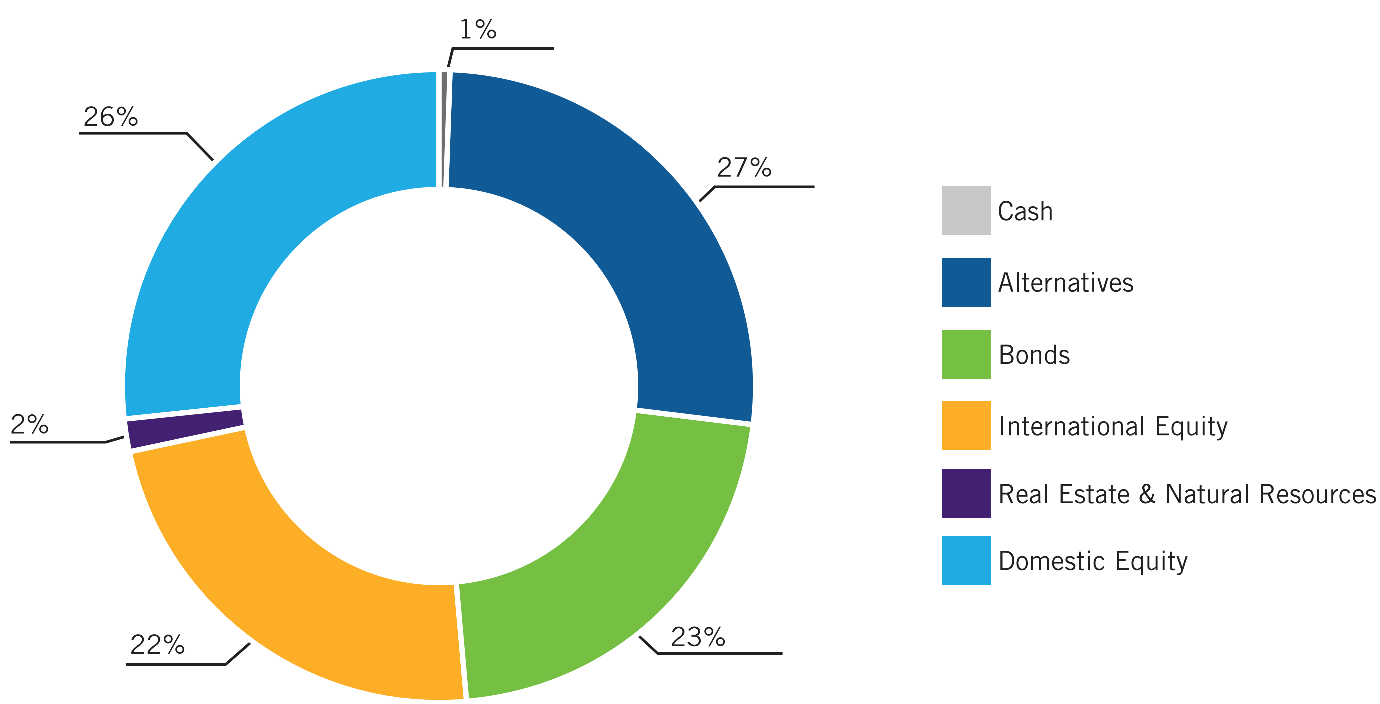


ENDOWMENT MARKET VALUES

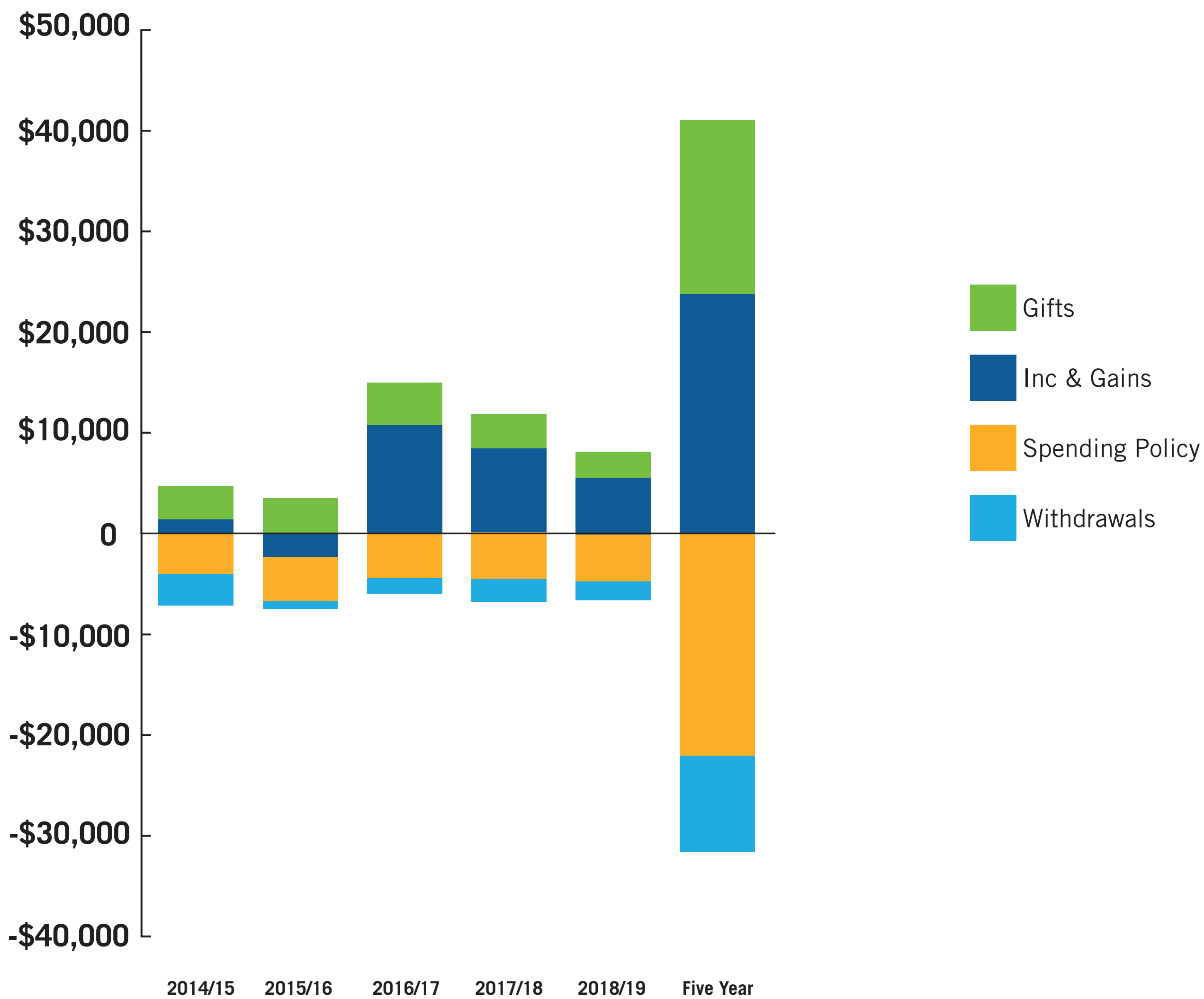
In thousands



INVESTMENT ALLOCATION for 2018/19

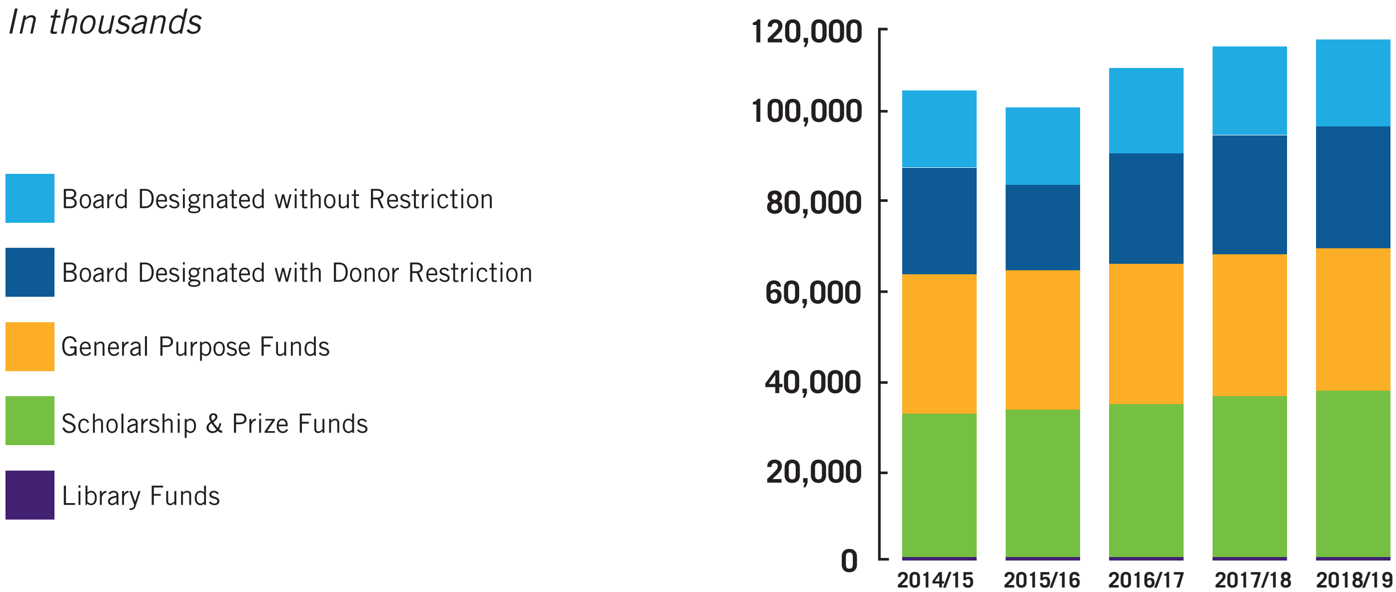


COMPONENTS OF CHANGE IN ENDOWMENT *In thousands*

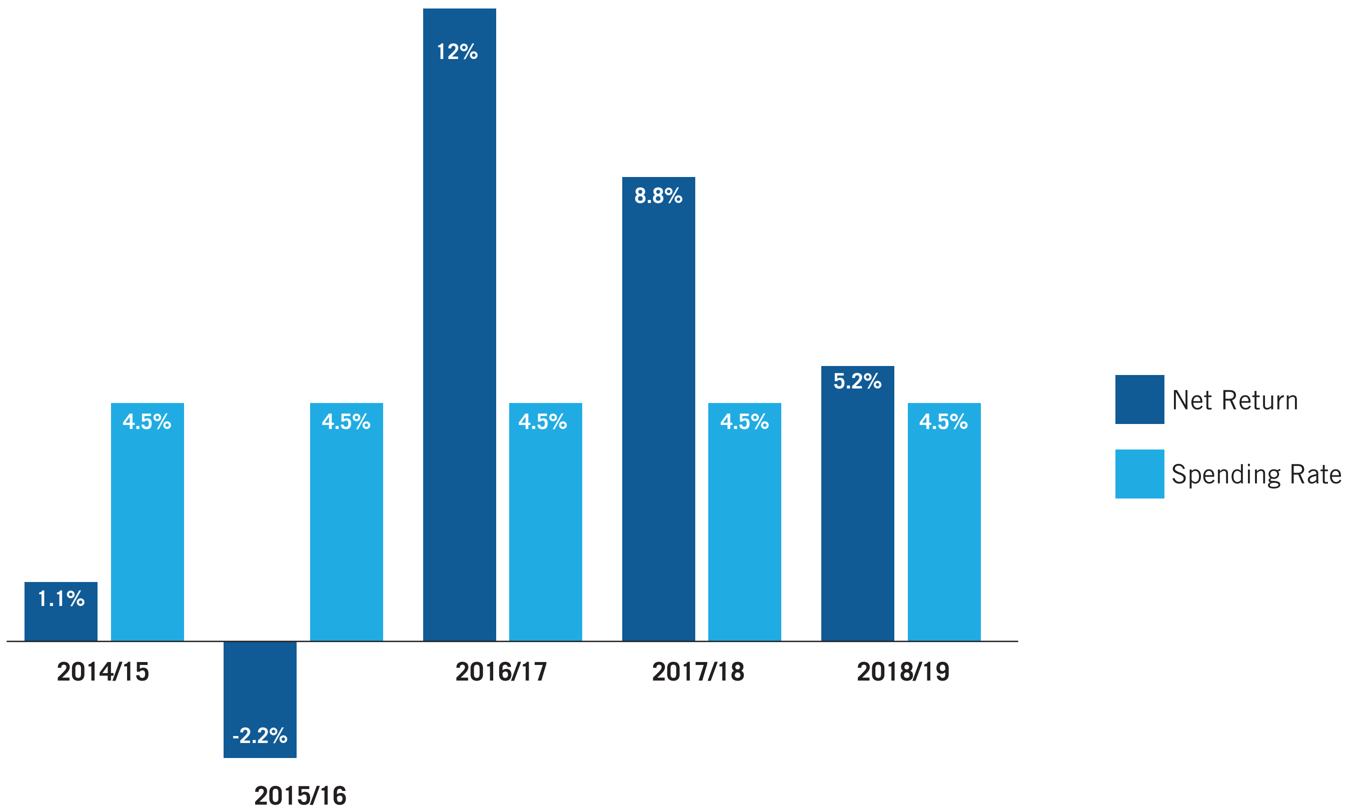


ENDOWED FUNDS BY PURPOSE

In thousands

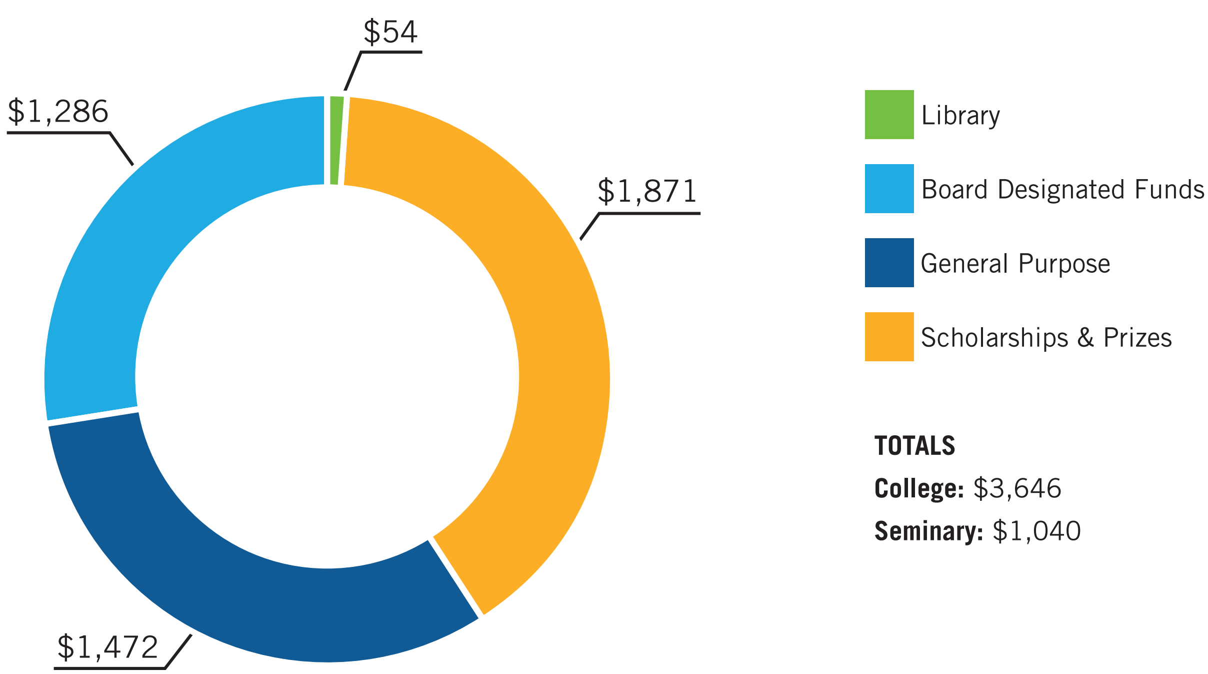


ENDOWMENT RETURNS



SPENDING POLICY DISTRIBUTION BY PURPOSE AT 4.5%

In thousands



TOTALS

College: $3,646

Seminary: $1,040

Moravian College

Consolidated Financial Statements
and Supplementary Information

June 30, 2019 and 2018

Independent Auditors' Report

To the Board of Trustees of
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 statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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 21, 2019

Moravian College and Subsidiary

Consolidated Statements of Financial Position
(In Thousands)
June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 10,743	$ 9,427
Accounts receivable, net	2,078	1,737
Investment income receivable	14	15
Contributions receivable	2,979	3,003
Prepaids and other	1,575	1,683
Deposits with trustee under debt agreement	1,031	1,013
Total current assets	18,420	16,878
Noncurrent Assets		
Contributions receivable, net	7,741	8,362
Deposits with trustee under debt agreement	2,190	2,135
Investments	117,052	117,074
Split-interest agreements	2,620	2,904
Student loans receivable, net	1,229	1,505
Other non-current assets	1,112	1,565
Land, buildings and equipment, net	154,385	152,994
Total noncurrent assets	286,329	286,539
Total assets	$ 304,749	$ 303,417
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	$ 4,134	$ 3,721
Accounts payable	1,378	2,994
Accrued interest	891	902
Accrued expenses and other liabilities	2,975	2,805
Deferred revenue and deposits	3,522	1,891
Current portion of postretirement benefit obligation	72	57
Total current liabilities	12,972	12,370
Noncurrent Liabilities		
Annuities payable	995	1,023
Long-term debt	87,104	83,880
Postretirement benefit obligation	339	338
Refundable federal grants and loan funds	1,225	1,193
Other liabilities	4,199	3,523
Total liabilities	106,834	102,327
Net Assets		
Without donor restrictions	82,067	87,272
With donor restrictions	115,848	113,818
Total net assets	197,915	201,090
Total liabilities and net assets	$ 304,749	$ 303,417

See notes to consolidated financial statements

Moravian College and Subsidiary

Consolidated Statement of Activities
(In Thousands)
Year Ended June 30, 2019
(with Comparative Totals for the Year Ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Operating Revenues and Other Additions				
Tuition and fees (net of student scholarships of $41,280 in 2019 and $37,086 in 2018)	$ 47,866	$ -	$ 47,866	$ 45,268
Private gifts and grants	2,247	3,100	5,347	5,486
Investment income, net	4,969	92	5,061	4,255
Federal grants and contracts	560	-	560	494
State grants	540	-	540	389
Auxiliary enterprises	15,681	-	15,681	15,396
Other sources	914	-	914	640
Net assets released from restrictions, satisfaction of program restrictions	1,638	(1,638)	-	-
Total operating revenues and other additions	74,415	1,554	75,969	71,928
Operating Expenses				
Instruction	35,901	-	35,901	32,027
Academics support	4,737	-	4,737	4,693
Student services	8,618	-	8,618	7,577
Athletics	5,817	-	5,817	5,661
Institutional support	10,800	-	10,800	9,300
Fund-raising	2,040	-	2,040	1,787
Auxiliary enterprises	10,915	-	10,915	10,961
Other	31	-	31	275
Total operating expenses	78,859	-	78,859	72,281
Change in net assets from operating activities	(4,444)	1,554	(2,890)	(353)
Nonoperating				
Realized net (loss) gain on investments	(282)	(1,288)	(1,570)	5,934
Unrealized net gain (loss) on investments	529	2,044	2,573	(1,364)
Gain on the sale of assets	11	-	11	1
(Loss) gain on interest rate swaps	(1,019)	-	(1,019)	939
Change in value of split-interest agreements	-	(280)	(280)	(132)
Change in net assets from nonoperating activities	(761)	476	(285)	5,378
Change in net assets	(5,205)	2,030	(3,175)	5,025
Net Assets, Beginning	87,272	113,818	201,090	196,065
Net Assets, Ending	$ 82,067	$ 115,848	$ 197,915	$ 201,090

See notes to consolidated financial statements

Moravian College and Subsidiary

Consolidated Statement of Activities
(In Thousands)
Year Ended June 30, 2018

	Without Donor Restriction	With Donor Restriction	2018 Total
Operating Revenues and Other Additions			
Tuition and fees (net of student scholarships of $37,086)	$ 45,268	$ -	$ 45,268
Private gifts and grants	1,844	3,642	5,486
Investment income	4,008	247	4,255
Federal grants and contracts	494	-	494
State grants	389	-	389
Auxiliary enterprises	15,396	-	15,396
Other sources	640	-	640
Net assets released from restrictions, satisfaction of program restrictions	3,407	(3,407)	-
Total operating revenues and other additions	71,446	482	71,928
Operating Expenses			
Instruction	32,027	-	32,027
Academics support	4,693	-	4,693
Student services	7,577	-	7,577
Athletics	5,661	-	5,661
Institutional support	9,300	-	9,300
Fund-raising	1,787	-	1,787
Auxiliary enterprises	10,961	-	10,961
Other	275	-	275
Total operating expenses	72,281	-	72,281
Change in net assets from operating activities	(835)	482	(353)
Nonoperating			
Realized net gain on investments	1,082	4,852	5,934
Unrealized net loss on investments	(331)	(1,033)	(1,364)
Gain on the sale of assets	1	-	1
Gain on interest rate swaps	939	-	939
Change in value of split-interest agreements	-	(132)	(132)
Change in net assets from nonoperating activities	1,691	3,687	5,378
Change in net assets	856	4,169	5,025
Net Assets, Beginning	86,416	109,649	196,065
Net Assets, Ending	$ 87,272	$ 113,818	$ 201,090

See notes to consolidated financial statements

Moravian College and Subsidiary

Consolidated Statements of Cash Flows
(In Thousands)
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ (3,175)	$ 5,025
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	9,894	9,169
Change in value of split-interest agreements and annuities payable	256	82
Gifts and grants restricted for long-term investments	(1,689)	(2,478)
Gain on disposal of assets	(11)	(1)
Other restricted earnings for long-term investments	(92)	(247)
Net realized and unrealized gains on investments	(1,003)	(4,570)
Change in value of interest rate swaps	1,019	(939)
(Increase) decrease in assets:		
Accounts receivable, net	(341)	392
Investment income receivable	1	(2)
Contributions receivable, net	(62)	(104)
Prepaids and other	108	(277)
Other noncurrent assets	412	(57)
Increase (decrease) in liabilities:		
Accounts payable and accrued interest payable	(336)	(160)
Accrued expenses and other liabilities	170	271
Deferred revenue and deposits	1,631	196
Accumulated postretirement benefit obligation	16	(17)
Other liabilities	(302)	43
Net cash provided by operating activities	6,496	6,326
Cash Flows from Investing Activities		
Purchase of land, building and equipment	(11,156)	(10,821)
Proceeds from sale of land, building and equipment	33	1
Purchase of investments	(32,818)	(29,119)
Proceeds from sale of investments	33,843	28,288
Change in deposits with trustee under debt agreements	(73)	1,298
Disbursement of student loans	(33)	(192)
Repayments of student loans	309	302
Net cash used in investing activities	(9,895)	(10,243)
Cash Flows from Financing Activities		
Gifts and grants restricted for long-term investments	2,396	6,210
Other restricted earnings for long-term investments	92	247
Repayment of debt	(3,750)	(2,886)
Proceeds from issuance of long-term debt	6,000	2,500
Cash paid for deferred financing costs	(55)	(22)
Repayment of refundable federal grants and loan funds	32	(6)
Net cash provided by financing activities	4,715	6,043
Net increase in cash and cash equivalents	1,316	2,126
Cash and Cash Equivalents, Beginning	9,427	7,301
Cash and Cash Equivalents, Ending	$ 10,743	$ 9,427
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	$ 3,248	$ 3,394
Supplementary Disclosure of Noncash Investing Activities		
Land, building and equipment purchases in accounts payable	$ 671	$ 1,962
Land, building and equipment purchases in equipment financing	$ 1,681	$ 1,865

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 1,813 full-time day undergraduate students, 740 men and 1073 women. The Moravian Graduate program has an enrollment of 133 full-time students and 428 part-time students. Moravian College enrolls students that come from a variety of socioeconomic, religious, racial, and ethnic backgrounds.

Moravian College Housing, Inc. ("MCHI") is a nonprofit corporation organized under the laws of the Commonwealth of Pennsylvania. The purposes of the organization is to develop and operate college student housing. MCHI is a wholly-owned subsidiary of Moravian College 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"). 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. For financial reporting purposes, the College follows the reporting requirements of GAAP, which require that resources are classified based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets; without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- *Without Donor Restrictions* - Net assets that are not subject to donor-imposed stipulations. These may be designated for specific purposes by action of the Board of Trustees.

- *With Donor Restrictions* - Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statements of activities as net assets released from restriction. Additionally, fund receive as gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity are reported as net assets with donor restrictions.

Nonoperating Activities

Nonoperating activities reflect realized and unrealized gains and losses on investments, gains and losses associated with the sale of assets, changes in value of split interest agreements (primarily annuity and trust agreements) and change in value of interest rate swaps.

Revenue Recognition

Tuition and fee revenue is recognized in the fiscal year in which the academic services are delivered. Sales and services of auxiliary enterprises revenue, which consists of room and board and related services, is recognized when the related service is provided. Tuition and fee and auxiliary enterprise contracts are considered to have a duration of less than one year. Spring and Summer I tuition and fees are recognized and rendered within the same fiscal year. Tuition and fees for Summer II are recorded in deferred revenue and recognized as revenue in the following year. A portion of Fall tuition and fees are recorded in deferred revenue and recognized in revenue in the following year. Various rehabilitation science and nursing programs are outside of the traditional semester model. Each of these programs is divided into current year and future year revenue based on the number of weeks in which the course takes place.

Tuition, fees, room, and board rates are approved by the Board of Trustees. Institutional financial aid and discounts provided by the College are reflected as a reduction of tuition and fee revenue. The College awards grants-in-aid and scholarships to individuals who meet the College's academic standards. The amounts of such awards are based upon the financial needs and/or merit of each applicant. Institutional financial aid and discounts provided to students were approximately $41,280,000 and $37,086,000 in 2019 and 2018, respectively.

Amounts are due for tuition, fees, room, and board prior to the beginning of each semester. In accordance with the College's refund policies, undergraduate students may receive a full or partial refund up to four weeks after the start of the semester; graduate students may receive a full or partial refund until the close of the first week of classes (drop/add period). Student accounts receivable includes amounts to which the College is unconditionally entitled. In connection with the adoption of the revenue recognition standard in fiscal 2019, the College considers such amounts as unconditional based on the payment due date.

Private grants and contracts are generally deemed to be exchange (reciprocal) transactions and fall under the scope of the new revenue recognition standard. The performance obligation for each grant or contract is deemed to be the research itself and revenue is recognized as the eligible grant activities are conducted. Transaction prices are based on budgets in the award agreement. Private grants and contracts are generally one year or less in duration. Exchange contracts are not significant to the College's consolidated financial statements.

Government grants and contracts are deemed to be non-exchange (nonreciprocal) transactions and fall under the contribution accounting guidance. Under this guidance, revenue related to conditional grants and contracts is recorded when the conditions are met. Most grants and contracts are on a cost reimbursement basis and require the College to incur eligible expenses prior to the release of funds. The College reports these grants and contracts as changes in net assets without donor restrictions when restrictions are met in the same period. Restricted private gifts are recorded as changes in net assets with donor restrictions. When a donor restriction expires, net assets are reclassified as net assets without donor restrictions.

Deferred Revenue and Deposits

Deferred revenue and deposits includes payments received prior to the start of the academic term.

The following table depicts activities for deferred revenue related to tuition and fees and room and board.

	Balance at June 30, 2018	Refunds Issued	Revenue Recognized Included in June 30, 2018 Balance	Cash Received in Advance of Performance	Balance at June 30, 2019
Tuition and fees, net	$ 1,418	$ -	$ 1,418	$ 3,097	$ 3,097
Room and board, net	474	105	369	425	425

Other Liabilities

Other liabilities include financial commitments by a third party vendor that is being recognized as revenue over the life of the contract.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the College considers all highly liquid investments, with a 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"). The Program expired on September 30, 2017 and after June 30, 2018 no new loans were permitted. 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 $1,125,000 and $1,094,000 at June 30, 2019 and 2018, respectively, and is recorded as a liability in the statements of financial position. As of June 30, 2019, the College continues to service the Perkins Loan 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 consolidated 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.

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 statements 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.

Realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in net assets without donor restrictions unless their use is 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 net assets with donor restrictions unless the donor has given the College the right to use the assets without restriction. If assets become available for use without donor restrictions upon termination of the agreements, appropriate amounts are reclassified from with donor restrictions to without donor restrictions.

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. The College reports expirations of donor restrictions when the donated 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 statements 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, 2019 and 2018, 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 noncurrent 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, 2019 and 2018.

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 $33,000 in 2019 and 2018. Deferred financing costs are presented as a reduction in the carrying amount of the debt liability on the statements of financial position. See Note 8.

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 nonoperating activities in the consolidated 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 $5,243,000 and $4,700,000 in 2019 and 2018, respectively.

Advertising

The College expensed advertising costs of approximately $697,000 and $422,000 during the fiscal years ended June 30, 2019 and 2018, respectively.

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, 2019 and 2018 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, 2019 and 2018.

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.

Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform with the 2019 classifications and had no effect on previously reported net assets for the year ended June 30, 2018.

Subsequent Events

Subsequent events were evaluated through October 21, 2019, the date the consolidated financial statements were issued.

Accounting Standards Adopted in the Current Year

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. There were expanded disclosures included in the consolidated financial statements as a result of adoption of ASU 2014-09.

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 consolidated financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows.

Changes to the consolidated financial statements as a result of the adoption of this ASU are:

- Unrestricted net assets were renamed net assets without donor restrictions.
- Temporarily restricted net assets and permanently restricted net assets were combined under one category of net assets named net assets with donor restrictions.
- A footnote disclosing the College's expenses by natural classification was added. See Note 17.
- A footnote discussing the College's liquidity was added. See Note 16.

In June 2018, the FASB issued ASU No. 2018-08, N*ot-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. There were no material changes to the consolidated financial statements as a result of adoption of ASU 2018-08.

New Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 was issued to increase the 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 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 November 2016, the FASB issued ASU No. 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 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. ASU 2016-18 is effective for the College in fiscal 2020. The College is assessing the impact this standard will have on its consolidated financial statements.

3. Accounts Receivable

Accounts receivable represents amounts due for tuition, fees, room and board and other charges from students and other entities. The College extends unsecured credit to students and other entities in connection with studies and various activities. Some students are no longer enrolled or have completed their degrees. Accounts receivable consists of the following at June 30 (in thousands):

	2019	2018
Accounts receivable	$ 2,771	$ 2,086
Allowance for doubtful accounts	(693)	(349)
	$ 2,078	$ 1,737

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, which approximates fair value.

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

	2019	2018
Due in one year or less	$ 2,979	$ 3,003
Due between one year and five years	8,220	8,842
Greater than five years	15	94
Contributions receivable, gross	11,214	11,939
Unamortized present value discount (rates ranging from 1.2% to 6.2%)	(494)	(574)
Contributions receivable, net	$ 10,720	$ 11,365

Management has not established an allowance for doubtful collections at June 30, 2019 and 2018 based upon information currently known. However, events impacting donors can occur in subsequent years that may cause a material change in the allowance for doubtful collections.

5. Fair Value Measurements, Investments and Other Financial Instruments

The College measures its deposits with trustees, investments, beneficial interest in perpetual trusts and split interest agreements at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the College for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

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

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

The following tables present the financial instruments measured at fair value as of June 30, 2019 and 2018 by caption on the consolidated statements of financial position by the valuation hierarchy defined above (in thousands):

	2019			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Assets reported at fair value:				
Investments:				
Cash and money market accounts	$ 796	$ -	$ -	$ 796
Domestic equity:				
Common stock	2,463	-	-	2,463
Large cap mutual funds	27,217	-	-	27,217
International equity mutual funds	25,943	-	-	25,943
Domestic fixed income:				
Taxable fixed income mutual funds	26,570	-	-	26,570
Corporate bonds and preferred stock	745	-	-	745
Total investments by valuation hierarchy	83,734	-	-	83,734
Alternative investments (measured at net asset value)				33,318
Total investments				$ 117,052
Deposits with trustee under debt agreements:				
Cash and cash equivalents	$ 1,563	$ -	$ -	$ 1,563
U.S. government securities	1,658	-	-	1,658
Total deposits with trustee under debt agreements	3,221	-	-	3,221
Beneficial interest in perpetual trusts	-	-	2,216	2,216
Split-interest agreements	-	-	404	404
Total assets	$ 86,955	$ -	$ 2,620	$ 89,575
Liabilities reported at fair value:				
Interest rate swaps	$ -	$ 978	$ -	$ 978

	2018			
	Level 1	Level 2	Level 3	Total Fair Value
Assets reported at fair value:				
Investments:				
Cash and money market accounts	$ 1,032	$ -	$ -	$ 1,032
Certificates of deposit	500	-	-	500
Domestic equity:				
Common stock	2,058	-	-	2,058
Large cap mutual funds	31,749	-	-	31,749
International equity mutual funds	20,604	-	-	20,604
Domestic fixed income:				
Taxable fixed income mutual funds	26,648	-	-	26,648
Corporate bonds and preferred stock	2,145	-	-	2,145
Total investments by valuation hierarchy	84,736	-	-	84,736
Alternative investments (measured at net asset value)				32,338
Total investments				$ 117,074
Deposits with trustee under debt agreements:				
Cash and cash equivalents	$ 1,098	$ -	$ -	$ 1,098
U.S. government securities	2,050	-	-	2,050
Total deposits with trustee under debt agreements	3,148	-	-	3,148
Interest rate swaps	-	41	-	41
Beneficial interest in perpetual trusts	-	-	2,222	2,222
Split-interest agreements	-	-	682	682
Total assets	$ 87,884	$ 41	$ 2,904	$ 90,829

The following methods and assumptions were used to estimate fair values of the College's financial instruments as of June 30, 2019 and 2018:

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 statements 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. Three of the funds in this category invest 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, 2019 and 2018 are as follows (in thousands):

	Fair Value at NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds	$ 17,520	$ -	Various	35-65 days
Private Equity Funds	14,475	8,098	Illiquid	
Real Asset Funds	1,323	451	Illiquid	
Balance at June 30, 2019	$ 33,318	$ 8,549		
Hedge Funds	$ 17,596	$ -	Various	35-65 days
Private Equity Funds	13,111	9,050	Illiquid	
Real Asset Funds	1,631	567	Illiquid	
Balance at June 30, 2018	$ 32,338	$ 9,617		

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2019 and 2018 are as follows (in thousands):

	Beneficial Interest in Perpetual Trusts	Split-Interest Agreements	Level 3 Total
Balance at June 30, 2017	$ 2,126	$ 922	$ 3,048
Unrealized gains	167	58	225
Distributions	(71)	(298)	(369)
Balance at June 30, 2018	2,222	682	2,904
Unrealized gains	83	116	199
Distributions	(89)	(394)	(483)
Balance at June 30, 2019	$ 2,216	$ 404	$ 2,620

Investments

The majority of endowment and annuity funds are combined in investment 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):

	2019	2018
Endowment funds	$ 115,306	$ 113,222
Annuity funds	943	1,020
Capital campaign funds	57	182
Other funds	746	2,650
	$ 117,052	$ 117,074

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, net consist of the following at June 30 (in thousands):

	2019	2018
Land and land improvements	$ 23,352	$ 22,420
Buildings	175,406	166,406
Equipment	48,615	47,049
Library books	9,740	9,671
Collection items	4,582	4,539
Construction in progress	3,349	5,277
	265,044	255,362
Accumulated depreciation	(110,659)	(102,368)
	$ 154,385	$ 152,994

Depreciation expense was approximately $10,133,000 and $9,419,000 in 2019 and 2018, in which MCHI depreciation expense accounted for approximately $637,000 and $626,000 of the total, 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 percent. There were no borrowings at June 30, 2019 and 2018.

8. Long-Term Debt

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

	2019	2018
College Revenue Bonds of 2012 (issued through Northampton County General Purpose Authority), with principal due annually in amounts through July 2031 plus interest payable semi-annually and rates ranging from 0.50% to 5.00% (3.0% at June 30, 2019).	$ 17,465	$ 18,080
College Revenue Bonds of 2013 (issued through Northampton County General Purpose Authority), with principal due annually in amounts through October 2042 plus interest payable semi-annually and rates ranging from 1.60% to 4.125% (2.25% at June 30, 2019).	8,680	8,910

	2019	2018
College Revenue Bonds of 2016 (issued through Northampton County General Purpose Authority), with principal due annually in amounts through October 2045 plus interest payable semi-annually and rates ranging from 2.125% to 5.00% (4.00% at June 30, 2019)	$ 27,640	$ 28,295
Note payable, due in annual principal repayments through July 2034 and interest payable semi-annually at 3.65% through July 2025, then at LIBOR plus 2.00% thereafter.	5,498	5,766
Note payable, due in monthly principal repayments through July 2040, with interest payable monthly at 4.43% through May 2028, then at LIBOR plus 1.5% thereafter and subject to a maximum rate of 8.0%.	2,435	2,500
MCHI Revenue Note of 2017 (issued through Northampton County Industrial Development Authority), with principal payments due monthly through January 2038 plus interest payable monthly at 68% of LIBOR plus 1.36% (3.02% at June 30, 2019)	17,943	18,545
Note payable (issued through the Redevelopment Authority of the City of Bethlehem) with principal due monthly starting in July 2020 through June 2039 plus interest payable monthly at 3.25% through June 2034, then variable at 79% of the sum of LIBOR plus 2.00% thereafter.	6,000	-
Equipment financing, interest ranging from 2.4% to 9.5%, due in equal installments through 2024 for technology and vehicle equipment.	4,031	3,665
	89,692	85,761
Less deferred financing costs	(646)	(624)
Less current portion	(4,134)	(3,721)
Original issue premium	2,192	2,464
Long-term debt	$ 87,104	$ 83,880

The indentures of the College Revenue Bonds of 2012, 2013, 2016, and all notes payable, with the exception of MCHI Revenue note, 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 Note of 2017 requires that MCHI maintain a capital replacement reserve account in accordance with the revenue bond document.

The HILL dormitory is the only pledged asset of the MCHI Revenue Note of 2017, 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 June 30, are as follows (in thousands):

2020	$ 4,134
2021	4,453
2022	4,311
2023	4,016
2024	3,781
Later years	68,997
	$ 89,692

Interest expense, net of amounts capitalized, related to long-term debt was approximately $3,059,000 and $3,152,000 in 2019 and 2018, respectively and included in the consolidated statements of activities. Included in the total interest expense was approximately $594,000 and $794,000 related to MCHI, in 2019 and 2018, respectively.

9. Interest Rate Swap Agreements

MCHI executed two interest rate swap agreements on May 31, 2017. The swap agreements require MCHI to make 3.26 percent fixed interest payments and receive variable interest rate payments from its counter party based on one month LIBOR plus a spread of 136 basis points. The notional amount outstanding on the combined total was $17,942,000 and $18,545,000 at June 30, 2019 and 2018, respectively. The variable rates were 68 percent of one-month LIBOR and the combined fair value of the swap instruments were approximately $(978,000) and $41,000 and included in other liabilities and other noncurrent assets at June 30, 2019 and 2018, respectively. The swap agreements terminate on April 1, 2032.

10. Employee Benefit Plan

The College participates in a defined contribution pension plan covering substantially all regular full-time employees. Pension expense was approximately $2,214,000 and $2,022,000 in 2019 and 2018, respectively.

11. 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 $73,000 in 2019 and $85,000 in 2018. 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):

	2019	2018
Projected benefit obligation, beginning	$ 395	$ 412
Service cost	15	20
Interest cost	13	14
Actuarial gain/loss	61	34
Benefits paid	(73)	(85)
Projected benefit obligation, ending	$ 411	$ 395

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

	2019	2018
Current portion of postretirement benefit obligation	$ 72	$ 57
Noncurrent portion of postretirement benefit obligation	339	338
Accrued pension liability, net	$ 411	$ 395

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

	2019	2018
Discount rate	2.5 %	3.5 %
Rate of increase in compensation levels	2.0	2.0

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

	2019	2018
Service cost	$ 15	$ 20
Interest cost	13	14
	$ 28	$ 34

The College limits the increase in its contribution to the lesser of 5 percent 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 $72,000.

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

2020	$ 72
2021	70
2022	75
2023	69
2024	51
2025 - 2029	134

12. Net Assets

Net assets without donor restrictions result from contributions and other inflows of assets whose use by the College is not limited by donor-imposed stipulations.

Net assets without donor restrictions are available for the following purposes as of June 30:

	2019	2018
Plant facilities	$ 62,964	$ 64,872
Board-designated endowment	19,652	20,042
Other	(549)	2,358
Total net assets without donor restrictions	$ 82,067	$ 87,272

Net assets with donor restrictions result from contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations. Donor-imposed stipulations may also require that assets be maintained permanently by the College.

Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Specified purposes	$ 39,634	$ 38,811
Assets held in perpetuity	73,700	72,214
Net assets held to split interest agreements	2,514	2,793
Total net assets with donor restrictions	$ 115,848	$ 113,818

13. 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 donor 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, including income and gains, 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. 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.

Net asset classification by type of endowment as of June 30, 2019 (in thousands):

	Board Designated	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 20,042	$ 92,898	$ 112,940
Investment return:			
Investment income	830	3,755	4,585
Net appreciation (realized and unrealized gains)	115	629	744
Total investment return	945	4,384	5,329
Contributions	10	1,918	1,928
Board approved appropriations	(500)	-	(500)
Appropriation of endowment assets for expenditure	(845)	(3,841)	(4,686)
Endowment net assets, end of year	$ 19,652	$ 95,359	$ 115,011

Net asset classification by type of endowment as of June 30, 2018 (in thousands):

	Board Designated	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 19,308	$ 87,400	$ 106,708
Investment return:			
Investment income	675	3,015	3,690
Net appreciation (realized and unrealized gains)	840	3,730	4,570
Total investment return	1,515	6,745	8,260
Contributions	64	2,515	2,579
Appropriation of endowment assets for expenditure	(845)	(3,762)	(4,607)
Endowment net assets, end of year	$ 20,042	$ 92,898	$ 112,940

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. There were no such deficiencies reported at June 30, 2019 or 2018.

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 percent 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 percent for both 2019 and 2018. 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 net assets with donor restriction. 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 percent 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.

14. Commitments

In connection with several ongoing projects on campus, the College has commitments to several vendors totaling approximately $2,620,000 as of June 30, 2019. The College is using proceeds from the College Revenue Note of 2019 and operating cash flow to fund these projects. See Note 8.

15. Contingency

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The College has not recognized the asset retirement obligation for asbestos removal in its 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.

16. Liquidity and Availability of Resources

The College's financial assets available within one year of the consolidated statement of financial position date for general expenditure are as follows at June 30, 2019:

Cash and cash equivalents (net of cash restricted for capital improvements)	$	5,673
Accounts receivable, net		2,078
Investment income receivable		14
Planned appropriation of endowment		4,809
Contributions receivable due within one year		2,979
Financial assets available to meet cash needs for general expenditures within one year	$	15,553

As part of the College's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In the event of an unanticipated liquidity-need, the College could draw upon $1,000,000 from an available line of credit. In addition, the College has a board-designated endowment of $19,652,000. Although the College does not intend to spend from its board-designated endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from the College board-designated endowment could be made available, if necessary. However, both the board-designated endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available.

17. Functional Classification of Expenses

The costs of providing program services and supporting services of the College have been summarized on a functional basis in the following schedule. The College allocates expenses for benefits, interest, and the physical plant based on salaries, the use of debt proceeds and square footage.

Functional expenses by natural classification consist of the following as of June 30, 2019 and 2018:

	Resident Instruction	Academics Support	Student Services	Athletics	Instructional Support	Fundraising	Auxiliary Expenses	Other	Plant Allocations	2019 Total Expenses	2018 Total Expenses
Depreciation	$ 5,212	$ 474	$ 254	$ 1,047	$ 696	$ -	$ 2,025	$ -	$ 425	$ 10,133	$ 9,419
Equipment and maintenance	665	778	395	185	1,363	37	883	-	3,156	7,462	6,287
Interest	1,844	10	87	62	248	-	808	-	-	3,059	3,152
Other	5,971	1,254	2,698	2,425	2,552	298	5,874	31	(7,169)	13,934	13,382
Professional fees	646	-	278	-	506	245	-	-	-	1,675	688
Salaries	16,462	1,717	3,788	1,623	4,161	1,117	1,115	-	2,729	32,712	30,601
Benefits	5,101	504	1,118	475	1,274	343	210	-	859	9,884	8,752
	$ 35,901	$ 4,737	$ 8,618	$ 5,817	$ 10,800	$ 2,040	$ 10,915	$ 31	$ -	$ 78,859	$ 72,281

Moravian College and Subsidiary

Consolidating Schedule of Financial Position
(In Thousands)
June 30, 2019

	Moravian College	MCHI Standalone	MCHI Purchase Accounting	MCHI Total	Eliminations	Consolidated Total
Assets						
Current Assets						
Cash and cash equivalents	$ 9,091	$ 1,652	$ -	$ 1,652	$ -	$ 10,743
Accounts receivable, net	2,074	25	-	25	(21)	2,078
Investment income receivable	668	-	-	-	(654)	14
Contributions receivable	2,979	-	-	-	-	2,979
Prepaids and other	2,547				(972)	1,575
Deposits with trustee under debt agreement	1,031	-	-	-	-	1,031
Total current assets	18,390	1,677	-	1,677	(1,647)	18,420
Noncurrent Assets						
Contributions receivables, net	7,741	-	-	-	-	7,741
Deposits with trustee under debt agreement	2,190					2,190
Note receivable, related party	1,000	-	-	-	(1,000)	-
Investments	117,052	-	-	-	-	117,052
Investment in MCHI	5,073	-	-	-	(5,073)	-
Split-interest agreements	2,620	-	-	-	-	2,620
Student loans receivable, net	1,229	-	-	-	-	1,229
Other non-current assets	1,112	-	-	-	-	1,112
Land, buildings and equipment, net	129,746	16,254	8,385	24,639	-	154,385
Total noncurrent assets	267,763	16,254	8,385	24,639	(6,073)	286,329
Total assets	$ 286,153	$ 17,931	$ 8,385	$ 26,316	$ (7,720)	$ 304,749
Liabilities and Net Assets						
Current Liabilities						
Current portion of long-term debt	$ 3,504	$ 630	$ -	$ 630	$ -	$ 4,134
Accounts payable	1,399	-	-	-	(21)	1,378
Accrued interest	803	128	-	128	(40)	891
Accrued expenses and other liabilities	2,975	-	-	-	-	2,975
Deferred revenue and deposits	3,522	972	-	972	(972)	3,522
Current portion of postretirement benefit obligation	72	-	-	-	-	72
Total current liabilities	12,275	1,730	-	1,730	(1,033)	12,972
Noncurrent Liabilities						
Annuities payable	995	-	-	-	-	995
Long-term debt	69,790	16,573	741	17,314	-	87,104
Note payable, related party	-	1,614	-	1,614	(1,614)	-
Postretirement benefit obligation	339	-	-	-	-	339
Refundable federal grants and loan funds	1,225	-	-	-	-	1,225
Other liabilities	3,221	978	-	978	-	4,199
Total liabilities	87,845	20,895	741	21,636	(2,647)	106,834
Net Assets						
Without donor restriction	82,460	(2,964)	7,644	4,680	(5,073)	82,067
With donor restriction	115,848	-	-	-	-	115,848
Total net assets	198,308	(2,964)	7,644	4,680	(5,073)	197,915
Total liabilities and net assets	$ 286,153	$ 17,931	$ 8,385	$ 26,316	$ (7,720)	$ 304,749

Moravian College and Subsidiary

Consolidating Schedule of Activities
(In Thousands)
Year Ended June 30, 2019

	Moravian College	MCHI Standalone	MCHI Purchase Accounting	MCHI Total	Eliminations	Consolidated Total
Operating Revenues and Other Additions						
Tuition and fees (net of student scholarships of $41,280 in 2019)	$ 47,866	$ -	$ -	$ -	$ -	$ 47,866
Private gifts and grants	5,347	-	-	-	-	5,347
Investment income, net	5,061	-	-	-	-	5,061
Sponsored federal government programs and grants	560	-	-	-	-	560
State grants	540	-	-	-	-	540
Auxiliary enterprises	13,769	2,027	-	2,027	(115)	15,681
Other sources	914	-	-	-	-	914
Total operating revenues and other additions	74,057	2,027	-	2,027	(115)	75,969
Operating Expenses						
Instruction	35,901	-	-	-	-	35,901
Academics support	4,737	-	-	-	-	4,737
Student services	8,618	-	-	-	-	8,618
Athletics	5,817	-	-	-	-	5,817
Institutional support	10,800	-	-	-	-	10,800
Fund-raising	2,040	-	-	-	-	2,040
Auxiliary enterprises	9,171	1,719	140	1,859	(115)	10,915
Other	31	-	-	-	-	31
Total operating expenses	77,115	1,719	140	1,859	(115)	78,859
Change in net assets from operating activities	(3,058)	308	(140)	168	-	(2,890)
Nonoperating						
Realized net loss on investments	(1,570)	-	-	-	-	(1,570)
Unrealized net gain on investments	2,573	-	-	-	-	2,573
Gain on the sale of assets	11	-	-	-	-	11
Loss on interest rate swaps	-	(1,019)	-	(1,019)	-	(1,019)
Change in value of split-interest agreements	(280)	-	-	-	-	(280)
Change in net assets from nonoperating activities	734	(1,019)	-	(1,019)	-	(285)
Change in net assets	(2,324)	(711)	(140)	(851)	-	(3,175)
Net Assets, Beginning	200,632	(2,253)	7,784	5,531	(5,073)	201,090
Net Assets, Ending	$ 198,308	$ (2,964)	$ 7,644	$ 4,680	$ (5,073)	$ 197,915