

MUHLENBERG COLLEGE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2019 (with comparative financial information for June 30, 2018)

MUHLENBERG COLLEGE

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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
Muhlenberg College
Allentown, Pennsylvania**

We have audited the accompanying financial statements of Muhlenberg College (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muhlenberg College as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Board of Trustees
Muhlenberg College
Allentown, Pennsylvania**

Report on Summarized Comparative Information

We have previously audited Muhlenberg College's 2018 financial statements, and our report dated October 19, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
October 16, 2019**

MUHLENBERG COLLEGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 With Summarized Information For 2018

	Without Donor Restrictions	With Donor Restrictions	TOTAL	
			2019	2018
ASSETS				
Cash and cash equivalents	\$ 22,170,944	\$ 9,336,156	\$ 31,507,100	\$ 29,952,360
Short-term investments <i>(Note 2)</i>	5,304,970	2,144,483	7,449,453	7,070,708
Accounts receivable	768,873	974	769,847	1,123,521
Contributions receivable – current <i>(Note 4)</i>	-	670,554	670,554	736,661
Inventories and prepaid expenses	1,768,452	-	1,768,452	1,754,316
Cash held for long-term investment	986,203	398,663	1,384,866	7,205,648
Long-term investments <i>(Note 2)</i>	167,614,820	139,132,313	306,747,133	295,191,103
Contributions receivable <i>(Note 4)</i>	-	4,230,661	4,230,661	3,499,913
Notes receivable	-	829,848	829,848	1,075,715
Land, buildings and equipment – net <i>(Note 5)</i>	162,305,057	3,057,217	165,362,274	167,845,681
Beneficial interest in perpetual trusts <i>(Note 3)</i>	-	8,985,767	8,985,767	9,000,525
Funds held by trustee and other assets	<u>2,612,789</u>	<u>875,656</u>	<u>3,488,445</u>	<u>3,749,130</u>
Total assets	<u>\$ 363,532,108</u>	<u>\$ 169,662,292</u>	<u>\$ 533,194,400</u>	<u>\$ 528,205,281</u>
LIABILITIES				
Accounts payable and other accrued expenses	\$ 8,385,147	\$ 30,670	\$ 8,415,817	\$ 9,595,482
Deferred income and student credit balances	4,686,175	-	4,686,175	4,088,276
Other liabilities	11,111,616	657,360	11,768,976	9,492,166
Federal loan program advance	-	1,374,370	1,374,370	1,374,370
Bonds and notes payable <i>(Note 6)</i>	63,607,913	-	63,607,913	65,616,170
Accrued post-retirement benefit cost <i>(Note 7)</i>	<u>2,981,908</u>	<u>-</u>	<u>2,981,908</u>	<u>3,098,349</u>
Total liabilities	<u>90,772,759</u>	<u>2,062,400</u>	<u>92,835,159</u>	<u>93,264,813</u>
NET ASSETS				
Without donor restrictions	272,759,349	-	272,759,349	272,893,135
With donor restrictions	<u>-</u>	<u>167,599,892</u>	<u>167,599,892</u>	<u>162,047,333</u>
	<u>272,759,349</u>	<u>167,599,892</u>	<u>440,359,241</u>	<u>434,940,468</u>
Total liabilities and net assets	<u>\$ 363,532,108</u>	<u>\$ 169,662,292</u>	<u>\$ 533,194,400</u>	<u>\$ 528,205,281</u>

MUHLENBERG COLLEGE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2019 With Summarized Information For 2018

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>TOTALS</u>	
			<u>2019</u>	<u>2018</u>
Operating Revenues				
Tuition and fees	\$ 114,827,705	\$ -	\$ 114,827,705	\$ 112,720,602
Less: College funded scholarships	<u>(51,412,915)</u>	<u>-</u>	<u>(51,412,915)</u>	<u>(47,783,967)</u>
Net Tuition and Fees	63,414,790	-	63,414,790	64,936,635
Investment earnings designated for current operations	8,451,660	-	8,451,660	7,638,183
Trust distributions	189,728	-	189,728	192,249
Other investment income	1,581,278	-	1,581,278	1,016,202
Government grants	184,306	-	184,306	156,424
Private gifts and grants	1,888,506	-	1,888,506	1,974,539
Auxiliary enterprises	24,282,812	-	24,282,812	24,148,929
Other sources	<u>642,239</u>	<u>-</u>	<u>642,239</u>	<u>558,792</u>
	100,635,319		100,635,319	100,621,953
Net assets released from restrictions				
Satisfaction of program requirements	<u>5,312,074</u>	<u>-</u>	<u>5,312,074</u>	<u>4,746,977</u>
Total Operating Revenues	<u>105,947,393</u>	<u>-</u>	<u>105,947,393</u>	<u>105,368,930</u>
Operating Expenses				
Instruction	52,468,859	-	52,468,859	51,622,740
Academic support	5,053,419	-	5,053,419	4,478,832
Student services	11,240,046	-	11,240,046	11,451,568
Institutional support	17,361,912	-	17,361,912	16,705,582
Auxiliary	<u>18,214,911</u>	<u>-</u>	<u>18,214,911</u>	<u>18,688,666</u>
Total Operating Expenses	<u>104,339,147</u>	<u>-</u>	<u>104,339,147</u>	<u>102,947,388</u>
Increase in net assets from operations	<u>1,608,246</u>	<u>-</u>	<u>1,608,246</u>	<u>2,421,542</u>

MUHLENBERG COLLEGE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS – (Continued)

Year Ended June 30, 2019 With Summarized Information For 2018

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>TOTALS</u>	
			<u>2019</u>	<u>2018</u>
Non-Operating Activities				
Bequests	\$ 166,186	\$ -	\$ 166,186	\$ 325,172
Private gifts and grants	-	5,770,360	5,770,360	3,446,300
Government grants	-	515,979	515,979	322,386
Net assets released from restrictions	-	(5,312,074)	(5,312,074)	(4,746,977)
Investment earnings designated for current operations	-	2,544,410	2,544,410	2,102,163
Investment earnings in excess of amounts designated for current operations	260,658	412,670	673,328	9,844,313
Trust distributions	-	330,645	330,645	208,145
Other unrealized gains (losses)	1,008,944	484,222	1,493,166	(559,886)
Other income	61,392	938,228	999,620	1,597,035
Interest rate swaps market value adjustment	(2,252,053)	-	(2,252,053)	2,399,204
Net unrealized depreciation of beneficial interest in perpetual trusts		(14,758)	(14,758)	(13,509)
Other non-operating expenses	(1,104,282)	-	(1,104,282)	-
Capital gifts released from restrictions	<u>117,123</u>	<u>(117,123)</u>	<u>-</u>	<u>-</u>
Total non-operating activities	<u>(1,742,032)</u>	<u>5,552,559</u>	<u>3,810,527</u>	<u>14,924,346</u>
Total change in net assets	(133,786)	5,552,559	5,418,773	17,345,888
Beginning net assets	<u>272,893,135</u>	<u>162,047,333</u>	<u>434,940,468</u>	<u>417,594,580</u>
Ending net assets	<u>\$ 272,759,349</u>	<u>\$ 167,599,892</u>	<u>\$ 440,359,241</u>	<u>\$ 434,940,468</u>

MUHLENBERG COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES

Years Ended June 30, 2019 With Summarized Information For 2018

	2019							2018
	Program Activities			Supporting Activities				
	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary	Plant Operation	Total Expense	
Salaries and Benefits	\$ 30,054,276	\$ 2,168,578	\$ 6,473,495	\$ 10,767,098	\$ 2,019,197	\$ 5,964,767	\$ 57,447,411	\$ 56,557,185
Other Operating Expenses	10,283,088	1,278,804	4,044,149	4,049,232	10,549,996	5,215,526	35,420,795	34,973,227
Depreciation	3,313,185	452,835	215,167	722,268	3,968,807	-	8,672,262	8,554,237
Interest	<u>1,069,218</u>	<u>146,137</u>	<u>69,438</u>	<u>233,088</u>	<u>1,280,798</u>	<u>-</u>	<u>2,798,679</u>	<u>2,862,739</u>
	44,719,767	4,046,354	10,802,249	15,771,686	17,818,798	11,180,293	104,339,147	102,947,388
Plant Operation and Maintenance	<u>7,749,092</u>	<u>1,007,065</u>	<u>437,797</u>	<u>1,590,226</u>	<u>396,113</u>	<u>(11,180,293)</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 52,468,859</u>	<u>\$ 5,053,419</u>	<u>\$ 11,240,046</u>	<u>\$ 17,361,912</u>	<u>\$ 18,214,911</u>	<u>\$ -</u>	<u>\$ 104,339,147</u>	<u>\$ 102,947,388</u>

The College incurred fundraising expenses, which are included in Institutional Support, of approximately \$4,700,000 and \$4,600,000 for the years ending June 30, 2019 and 2018, respectively.

MUHLENBERG COLLEGE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 And 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from student tuition and fees and auxiliary enterprises	\$ 88,649,175	\$ 89,690,204
Cash received gifts and bequests	4,591,850	4,482,208
Federal government grants	700,285	478,810
Investment and perpetual trust income received, net	6,118,393	5,989,310
Miscellaneous receipts	1,641,859	909,950
Interest and finance costs paid	(2,842,407)	(2,862,739)
Cash paid to employees and suppliers	<u>(95,243,837)</u>	<u>(90,774,991)</u>
Net Cash Provided by Operating Activities	<u>3,615,318</u>	<u>7,912,752</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(6,188,855)	(5,726,325)
Proceeds from sale of investments	85,424,910	32,950,119
Purchase of investments	(88,001,657)	(33,423,424)
Decrease in cash held for long-term investment	5,820,782	2,056,231
Increase in short-term investments	(378,745)	(95,954)
Proceeds from notes receivable and Perkins loans, net	245,867	145,898
Decreased (increase) in funds held by trustee and other assets	<u>260,685</u>	<u>199,182</u>
Net Cash Used for Investing Activities	<u>(2,817,013)</u>	<u>(3,894,273)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Endowment	2,554,425	2,046,742
Other financing activities		
Interest and dividends received restricted for reinvestment	166,539	157,012
Proceeds from refinancing of long-term debt, net	42,755,471	-
Payments on long-term debt and note payable	<u>(44,720,000)</u>	<u>(1,975,000)</u>
Net Cash Provided by Financing Activities	<u>756,435</u>	<u>228,754</u>
Net Increase in Cash and Cash Equivalents	1,554,740	4,247,233
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>29,952,360</u>	<u>25,705,127</u>
End of year	<u>\$ 31,507,100</u>	<u>\$ 29,952,360</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Founded in 1848, Muhlenberg is a highly selective, private, four-year residential, liberal arts college located in Allentown, Pa., approximately 90 miles west of New York City. With an undergraduate enrollment of approximately 2,100 students, Muhlenberg College is dedicated to shaping creative, compassionate, collaborative leaders through rigorous academic programs in the arts, humanities, natural sciences and social sciences as well as selected pre-professional programs, including accounting, business, education and public health. A member of the Centennial Conference, Muhlenberg competes in 22 varsity sports. Muhlenberg is affiliated with the Evangelical Lutheran Church in America.

BASIS OF PRESENTATION

The College's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The principles require that net assets, revenues, gains, expenses and losses be classified as without donor restriction or with donor restriction based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions: Net assets that are not subject to donor-imposed stipulations. Net assets without restriction of the College include the following:

Operating and Special Programs: Include the revenues and expenses associated with the principal educational mission of the College.

Funds Functioning as Endowment: Include without donor restricted bequests and Board of Trustee designations to funds functioning as endowment and realized gains and reinvested income (income earned in excess of the spending rule) on without donor restricted and quasi-endowment funds.

Unexpended Plant: Unexpended plant net assets include gifts and income earned on unexpended balances for capital projects which are currently under construction. The College follows the policy of lifting the restrictions on contributions of cash received for the acquisition of plant assets when the plant assets begin construction or are acquired.

Investment in Plant: Represents the net book value of the plant assets funded by the College.

Net Assets With Donor Restrictions: Net assets whose use by the College is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. Expiration of the restriction is reported by reclassification from net assets with donor restriction by time/purpose to net assets without donor restrictions. Net assets with donor restrictions also includes gifts, trusts and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions and beneficial interest in perpetual trusts, which are held by third parties for the benefit of the College.

Revenues and net gains are reported as increases in net assets without donor restrictions unless the revenue is restricted by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Periodically donor restrictions related to net assets may be clarified or changed; such changes are reflected as fund transfers in the period in which they are identified.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

ACCOUNTING ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

The College occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (“ASC”) 825, “*Financial Instruments*”, identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions used by the College.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes money market funds.

CAPITALIZED ASSETS

All capital expenditures for land, buildings and equipment are recorded at cost at date of acquisition or at fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of building (50-70 years), renovations (25-50 years), and equipment (3-20 years).

INVESTMENTS

The College records its investments in securities at fair value with the resulting gains and losses reported in the statement of activities. The fair value of investments traded on a securities exchange is determined based on quoted market prices.

Investments also include alternative investment of limited partnership interests in publicly-traded securities, private equity, energy and real estate partnerships, and other funds whose underlying investments are comprised of other funds, partnerships and trusts. These funds invest in securities and other investments that include both publicly traded investments as well as other investments that do not have readily ascertainable market values. These investments include arbitrage, distressed companies, energy and real estate. Certain of these investments also are subject to withdrawal restrictions. The general partners of these limited partnerships and other funds that hold investments which do not have readily ascertainable market values provide valuations based on a variety of factors including comparable investments in transactions and operating performance of the underlying companies. The limited partnerships that invest in these other funds use the prices provided by these general managers. The College’s management may consider other factors in assessing fair value of these investments.

Due to the level of risk associated with certain of these investments, it is possible that changes in the values of investment securities could occur in the near term and that such changes could affect the investment balances.

SELF INSURANCE TRUST

The College has established a program to self-insure a portion of the health benefits provided to its employees. Benefits paid to employees in excess of certain limits are provided by a commercial insurance carrier, thus limiting the College’s exposure under the program.

The College estimates a liability for claims incurred but not reported (IBNR) based on an actuarial calculation using statistical analysis and historical experience. The College deposits funds into an insurance trust for the estimated amount of claims to be incurred.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

DEFERRED INCOME

The College defers all tuition and room fees received prior to the year end for summer sessions. This income is recognized in the following year end.

CONTRIBUTIONS

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statement of activities as ***“net assets released from restrictions”***. In addition, the College records as contributions receivable deferred gifts held by others (*See Notes 3 and 4*).

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation, interest and facility costs are allocated among the functional categories based upon the usage of facility space, and benefits are distributed based on salaries charged.

INCOME TAXES

Under provisions of the Internal Revenue Code and the applicable income tax regulations of Pennsylvania, the College is exempt from taxes on income other than unrelated business income. Since the College had no material unrelated business income during the years ended June 30, 2018 and 2017, no provision for income taxes has been made.

Management has reviewed the tax positions for each of the open tax years (2016 – 2018) or expected to be taken in the College’s 2019 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College’s audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Other significant accounting policies are set in the following notes to the financial statements.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The main provisions of this guidance include the presentation of two classes of net assets versus the previously required three. This guidance also enhances disclosures for board designated amounts, under water endowment funds, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. This ASU was adopted by the College for the year ended June 30, 2019 and did not have a material effect on the statement of financial position or results of operations.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 are as follows:

<u>Net Asset Classifications</u>	<u>Balance At June 30, 2018 As Previously Reported</u>	<u>Adjustments From ASU 2016-14</u>	<u>Balance At July 1, 2018 As Adjusted</u>
Unrestricted Net Assets	\$272,893,135	\$(272,893,135)	\$ -
Temporarily Restricted	78,332,182	(78,332,182)	-
Permanently Restricted	83,715,151	(83,715,151)	-
Without Donor Restriction	-	272,893,135	272,893,135
With Donor Restriction	<u>-</u>	<u>162,047,333</u>	<u>162,047,333</u>
Net assets previously presented	<u>\$434,940,468</u>	<u>\$ -</u>	<u>\$434,940,468</u>

RECLASSIFICATIONS

Certain account balances in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. The ASU should be applied using a modified prospective basis. The College plans to adopt the new ASU at the required implementation date.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied retrospectively in the year the ASU is first applied. The College plans to adopt the new ASU at the required implementation date.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

In 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. The College plans to adopt the new ASU at the required implementation date.

(2) INVESTMENTS

The composition and related cost and market values of investments are as follows:

	<u>Book Value</u>		<u>Market Value</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Short-Term Investments				
Common Stocks	\$ 1,016,377	\$ 911,419	\$ 911,765	\$ 847,273
Mutual Funds				
Short-Term Bond Fund	6,035,140	5,895,436	6,017,700	5,714,639
Income Funds	<u>519,988</u>	<u>508,796</u>	<u>519,988</u>	<u>508,796</u>
Total Short-Term Investments	<u>\$ 7,571,505</u>	<u>\$ 7,315,651</u>	<u>\$ 7,449,453</u>	<u>\$ 7,070,708</u>

Long-Term Investments are composed of the following:

	<u>Book Value</u>		<u>Market Value</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Long-Term Investments				
United States Government and				
Federal Agency Bonds	\$ 14,863,217	\$ 13,641,840	\$ 15,708,562	\$ 13,402,614
Corporate Bonds, Notes and				
Commercial Paper	888,838	1,900,770	912,457	1,924,808
Certificates of Deposit	5,640,047	4,640,067	5,668,179	4,577,737
Mutual Funds/Investment Trusts				
Bond Funds	70,601,020	35,877,269	74,327,628	36,032,256
Equity Funds				
Domestic	82,345,945	66,994,191	93,302,437	78,013,680
International	48,587,753	67,920,342	54,153,416	80,374,527
Income Fund	355,902	355,902	383,168	369,831
Real Assets	-	7,996,256	-	9,963,828
Alternative Investments	<u>52,132,905</u>	<u>59,385,873</u>	<u>62,291,286</u>	<u>70,531,822</u>
Total Long-Term Investments	<u>\$ 275,415,627</u>	<u>\$ 258,712,510</u>	<u>\$ 306,747,133</u>	<u>\$ 295,191,103</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

The components of total investment return are reflected below. Investment earnings at both June 30, 2019 and 2018 are net of investment expenses.

	<u>2019</u> <u>Total</u>	<u>2018</u> <u>Total</u>
Endowment:		
Interest and dividends (net of expenses of \$875,485 and \$881,742, respectively)	\$ 4,200,220	\$ 4,714,617
Net realized and unrealized gains	<u>7,469,178</u>	<u>14,870,042</u>
Return on endowment investments	<u>11,669,398</u>	<u>19,584,659</u>
Non-endowment:		
Interest and dividends	1,547,978	1,042,977
Net realized and unrealized gains (losses)	<u>1,526,466</u>	<u>(586,661)</u>
Return on non-endowment investments	<u>3,074,444</u>	<u>456,316</u>
Total investment return	<u>\$ 14,743,842</u>	<u>\$ 20,040,975</u>

Investment return, as reflected in the statement of activities, consists of the following components:

Operating:		
Investment earnings designated for current operations	8,451,660	7,638,183
Other investment income	<u>1,581,278</u>	<u>1,016,202</u>
Total operating	<u>10,032,938</u>	<u>8,654,385</u>
Non-operating:		
Investment earnings designated for current operations	2,544,410	2,102,163
Investment earnings in excess of amounts designated for current operations	673,328	9,844,313
Other unrealized gains (losses)	<u>1,493,166</u>	<u>(559,886)</u>
Total non-operating	<u>4,710,904</u>	<u>11,386,590</u>
	<u>\$ 14,743,842</u>	<u>\$ 20,040,975</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

Endowment

Assets applicable to endowment net assets, including the accumulated endowment gains carried as net assets with restriction and funds functioning as endowment net assets without restriction, are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the beginning of the fiscal year within which the transaction takes place.

The units of these pooled investments had a market value of \$50.32 and \$50.28 at June 30, 2019 and 2018, respectively. The average annual income per unit, exclusive of the net gains, amounted to \$0.76 and \$0.87 in 2019 and 2018, respectively.

The Board of Trustees of the College has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as net assets with donor restrictions (a) the original value of restricted gifts donated to the endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Income earned on such gifts is classified as net assets with donor restrictions until it is expended in accordance with State law and/or donor restrictions.

The College's investment policy for endowment funds is to earn a return that meets the endowment spending rate with minimum investment risk.

The Prudent Investor Rule of the Commonwealth of Pennsylvania views investment prudence on the part of the fiduciary from the standpoint of the total portfolio. Therefore, any reasonable investment may be considered for endowment pool assets as long as the risk and return tradeoff of the entire portfolio is prudent. The College's investment policy includes a target asset allocation, well diversified among suitable asset classes that is expected to generate, on average, the level of expected return necessary to meet endowment objectives at a responsible level of volatility consistent with achieving that return. To monitor the effectiveness of the investment strategy of the endowment pool, performance goals are established to exceed the expected real rate of return, established benchmark indices, and the median return of comparable endowment funds.

Commonwealth of Pennsylvania law permits the College to allocate to operating income a minimum of 2% and a maximum of 7% of a three-year moving average of the market value of the endowed assets. Unless the terms of the gift instrument state otherwise, accumulated endowment gains may be spent over time by the College. Therefore, in accordance with Commonwealth of Pennsylvania law regarding the investment of trust funds, gains on restricted funds are classified as restricted until appropriated under the spending policy. Net gains in excess of the spending policy are reflected as nonoperating investment return activity.

The College applies a spending rate of 5% of the trailing 20 quarter average of the endowment investment's market value. The determination of the endowment draw is based on several factors including past performance and future expected performance of the investments and the College's financial needs. If the endowment draw amount exceeds the actual earnings of the pooled investment funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, and, conversely, any undistributed income after the allocation of the spending rate amount is added back to the accumulated excess earnings in the appropriate net asset category.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

Endowment net asset composition by type of fund as of June 30, 2019 and 2018:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
Original gift amount	\$ -	\$ 84,993,724	\$ 84,993,724
Accumulated earnings	-	64,322,138	64,322,138
Funds functioning as endowment	<u>143,030,704</u>	<u>-</u>	<u>143,030,704</u>
Total funds	<u>\$ 143,030,704</u>	<u>\$ 149,315,862</u>	<u>\$ 292,346,566</u>

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
Original gift amount	\$ -	\$ 81,740,237	\$ 81,740,237
Accumulated earnings	-	63,994,077	63,994,077
Funds functioning as endowment	<u>143,089,300</u>	<u>-</u>	<u>143,089,300</u>
Total funds	<u>\$ 143,089,300</u>	<u>\$ 145,734,314</u>	<u>\$ 288,823,614</u>

Changes in endowment net assets for the years ended June 30, 2019 and 2018:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 143,089,300	\$ 145,734,314	\$ 288,823,614
Investment return	6,008,944	5,660,851	11,669,795
Contribution	88,551	3,185,555	3,274,106
Reinvested income	-	77,990	77,990
Change in value of beneficial interest in perpetual trust	-	(14,758)	(14,758)
Transfers*	(325,172)	4,000	(321,172)
Endowment income designated for current operations	<u>(5,830,919)</u>	<u>(5,332,090)</u>	<u>(11,163,009)</u>
Endowment net assets, June 30, 2019	<u>\$ 143,030,704</u>	<u>\$ 149,315,862</u>	<u>\$ 292,346,566</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

	<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ 143,750,394	\$ 132,856,178	\$ 276,606,572
Total investment return	4,477,292	15,163,352	19,640,644
Contributions	-	1,980,530	1,980,530
Reinvested income	-	157,012	157,012
Change in value of beneficial interest in perpetual trust	-	(13,509)	(13,509)
Transfers*	278,349	66,987	345,336
Endowment income designated for current operations	<u>(5,416,735)</u>	<u>(4,476,236)</u>	<u>(9,892,971)</u>
Endowment net assets, June 30, 2018	\$ 143,089,300	\$ 145,734,314	\$ 288,823,614

* Represents transfers from operations and other designated funds.

Endowment net assets consist of the following at June 30, 2019 and 2018:

	2019	2018
Investments	\$ 279,820,571	\$ 276,758,827
Beneficial in interest in perpetual trusts	8,985,767	9,000,525
Pledges and other charitable gifts	<u>3,540,228</u>	<u>3,064,262</u>
	<u>\$ 292,346,566</u>	<u>\$ 288,823,614</u>

(3) FAIR VALUE OF FINANCIAL INSTRUMENTS

The College utilized various methods to measure the fair value at its investments on recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the College has the ability to access.
- Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an active market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.
- Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the College's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Beneficial Interests in Perpetual Trusts are measured at the fair value of the underlying investments at June 30, 2019 and 2018. Because the assets held in trust will not be distributed to the College, they are classified as Level 3.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

Beneficial Interest in Remainder Trusts are measured using Level 3 inputs as the residual gift is generally based on the present value of expected future cash flows including payments to beneficiaries and investment return and Level 3 inputs include the life expectancy of the donor and other beneficiaries as well as financial assumptions.

The fair value of the College's interest rate swap obligations is based on valuations provided by an independent party, taking into account current interest rates and the current creditworthiness of the swap counterparties, which are considered Level 2 inputs to fair value.

Investments Measured Using the Net Asset Value Practical Expedient

Estimated fair value of alternative investments that are not readily marketable is recorded at the NAV as provided by the external investment managers as a practical expedient for fair value. The College reviews and evaluates the values provided by external investment managers and agrees with the valuation methods and assumptions used in determining the NAV of those investments. These investments have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The summary of inputs used to value the College's various financial instruments as of June 30, 2019 and 2018 is as follows:

	2019			
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
ASSETS				
Investments				
Common Stock	\$ 911,765	\$ 911,765	\$ -	\$ -
Fixed Income Securities	22,289,198	5,668,178	16,621,020	-
Mutual Funds/Investment Trusts	<u>228,704,337</u>	<u>228,321,169</u>	<u>-</u>	<u>383,168</u>
	\$ 251,905,300	<u>\$ 234,901,112</u>	<u>\$ 16,621,020</u>	<u>\$ 383,168</u>
Alternative Investments reported at net asset value	<u>62,291,286</u>			
	<u>\$ 314,196,586</u>			
Beneficial Interest in Remainder Trusts (Contributions Receivable)	<u>\$ 2,699,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,699,517</u>
Beneficial Interest in Perpetual Trusts	<u>\$ 8,985,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,985,767</u>
LIABILITIES				
Interest Rate Swap-Obligation	<u>\$ (10,629,870)</u>	<u>\$ -</u>	<u>\$ (10,629,870)</u>	<u>\$ -</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

	2018			
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
ASSETS				
Investments				
Common Stock	\$ 847,273	\$ 847,273	\$ -	\$ -
Fixed Income Securities	19,905,160	4,577,737	15,327,423	-
Mutual Funds/Investment Trusts	<u>210,977,556</u>	<u>210,607,725</u>	<u>-</u>	<u>369,831</u>
	\$ 231,729,989	\$ 216,032,735	\$ 15,327,423	\$ 369,831
Alternative Investments reported at net asset value	<u>70,531,822</u>			
	<u>\$ 302,261,811</u>			
Beneficial Interest in Remainder Trusts (Contributions Receivable)	\$ 2,799,334	\$ -	\$ -	\$ 2,799,334
Beneficial Interest in Perpetual Trusts	\$ 9,000,525	\$ -	\$ -	\$ 9,000,525
LIABILITIES				
Interest Rate Swap-Obligation	\$ (8,377,817)	\$ -	\$ (8,377,817)	\$ -

The changes in the financial instruments measured at fair value for which the College used Level 3 inputs to determine fair value for the years ended June 30, 2019 and 2018 are as follows:

	2019		
	<u>Investments</u>	<u>Beneficial Interest In Remainder Trust</u>	<u>Beneficial Interest In Perpetual Trusts</u>
Balance, June 30, 2018	\$ 369,831	\$ 2,799,334	\$ 9,000,525
Realized/unrealized gain (loss) – net/change in valuation	<u>13,337</u>	<u>(99,817)</u>	<u>(14,758)</u>
Balance, June 30, 2019	<u>\$ 383,168</u>	<u>\$ 2,699,517</u>	<u>\$ 8,985,767</u>
	2018		
	<u>Investments</u>	<u>Beneficial Interest In Remainder Trust</u>	<u>Beneficial Interest In Perpetual Trusts</u>
Balance, June 30, 2017	\$ 377,443	\$ 2,755,165	\$ 9,014,034
Realized/unrealized gain (loss) – net/change in valuation	<u>(7,612)</u>	<u>44,169</u>	<u>(13,509)</u>
Balance, June 30, 2018	<u>\$ 369,831</u>	<u>\$ 2,799,334</u>	<u>\$ 9,000,525</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

Alternative Investments

Alternative investments values, unfunded commitments and the objective of each holding are as follows:

	<u>Fair Value</u>		<u>Unfunded Commitment</u>
	<u>2019</u>	<u>2018</u>	
Hedge Funds – Long/Short	\$13,038,791	\$13,115,194	\$ -
Hedge Funds – Multi-Strategy	23,273,850	27,709,390	-
Hedge Funds – Global Macro	6,323	3,463,708	-
Hedge Funds – Special Situations	2,060,537	2,218,764	-
Private Equity – International	1,446,305	1,664,489	233,000
Private Equity – Secondary	7,750,897	6,073,780	356,000
Private Equity – Distressed Debt	267,741	358,859	625,742
Private Equity – Diversified	6,905,626	8,352,604	-
Real Assets – Real Estate	6,830,914	6,017,322	-
Real Assets – Timber and Energy	<u>710,302</u>	<u>1,557,712</u>	<u>-</u>
	<u>\$62,291,286</u>	<u>\$70,531,822</u>	<u>\$1,214,742</u>

The following describes the investment objectives and withdrawal restrictions of the College's alternative investments:

Hedge Funds – Long/Short

The fund is a long/short equity fund that seeks to generate superior, long-term return with less risk than the market. The primary objectives include the preservation of capital and superior performance in down equity market environments. Redemptions vary among the various investments with certain investments permitting quarterly withdrawals and others restricting withdrawals due to "lock-down periods" or to less frequent intervals.

Hedge Funds – Multi-Strategy

The funds are multi-strategy funds with varied objectives including substantial capital appreciation as well as stable, long-term, non-market directional returns. All funds in this category strive for relatively low volatility. Redemptions vary among the various investments with certain investments permitting quarterly withdrawals and other investments restricting withdrawals due to "lock-down periods," generally for one to two years, and, in one investment, due to the investment being in liquidation.

Hedge Funds – Global Macro

Strategies encompass a variety of investment approaches predicated upon a macro analysis of global economies and the impact that the underlying economic variables are expected to have on equity, fixed income, FX and commodity markets. Withdrawals are restricted due to a "lock-down period" of two years and subject to an overall redemption amount from the investment.

Hedge Funds – Special Situations

Managers rely on many of the same tools as long/short managers but are capital structure agnostic seeking the most attractive risk/reward be it equity or credit. Withdrawals are restricted to every two years and percentage of holdings.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

Private Equity – International

The fund invests primarily in other limited partnerships formed for the purpose of making international private equity investments. The fund seeks to provide a lower-cost means, particularly for smaller investors, of accessing quality partnerships in developed, foreign countries. Redemptions do not apply to these partnerships since they are closed vehicles and withdrawals will be generally upon the termination and liquidation of the partnerships.

Private Equity – Secondary

The funds invest primarily in established private equity fund interests. The underlying interests are invested in various sectors including leveraged buyouts, venture capital, mezzanine and growth equity. Redemptions do not apply to these partnerships since they are closed vehicles and withdrawals will be generally upon the termination and liquidation of the partnerships.

Private Equity – Distressed Debt

The fund is a fund-of-funds which invests primarily in distressed debt and equity investments. The goal of the fund is to generate attractive returns through the construction of a portfolio of distressed investment fund investments as well as direct co-investments alongside underlying funds. Redemptions do not apply to these partnerships since they are closed vehicles and withdrawals will be generally upon the termination and liquidation of the partnerships.

Private Equity – Diversified

These investments are fund-of-funds invested in diversified portfolios of private equity partnerships. Funds are diversified by strategy, vintage year and manager. Redemptions do not apply to these partnerships since they are closed vehicles and withdrawals will be generally upon the termination and liquidation of the partnerships.

Real Assets – Real Estate

Each of these funds focuses on particular sectors real estate markets. Included is an open-ended private REIT that invests in a portfolio of value added real estate investments, a fund that is focused on the real estate securitization market, a fund that is focused on the acquisition, development, redevelopment, operation and management of commercial real estate properties, and an actively managed, open-end fund invested primarily in well-leased, income producing properties. REIT fund withdrawals are not permitted except for the redemptions at quarter-end.

Real Assets – Timber and Energy

Funds in this group focus on various sectors of energy and natural resource markets. Included are a fund focused on North American based partnerships that pursue energy production-oriented acquisition and exploitation strategies, a fund focused on a diversified portfolio of timberland properties, and a commingled fund managed to the S&P Natural Resources Index. Withdrawals except for the fund managed by the S&P Natural Resources Index, which permit daily withdrawals, are restricted for all investments.

The alternative investments consist of various investment funds which may consist of investments that are not listed on a securities exchange or illiquid securities. The investments are valued by the various investment fund managers based on valuation methodologies such as operating cash flow models, financial performance of investments related to budgets and projections, trends within sectors and/or regions and any recent market information. In addition, these investments may trade various financial instruments and enter into various investment activities with off-balance sheet risk. These include, but are not limited to, short selling activities writing option contracts, equity swaps and other derivative investments. The College's risk of loss in these investments is limited to the value of these investments as reported by the College.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

(4) CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable of the appropriate net asset category. Pledges are recorded after discounting to the present value of the future cash flows.

Unconditional promises to give at June 30, 2019 and 2018, respectively, are expected to be realized as follows:

	<u>2019</u>	<u>2018</u>
In one year or less	\$ 1,083,269	\$ 736,661
In one to five years	1,204,509	1,046,631
Greater than five years	<u>3,789,303</u>	<u>2,818,834</u>
	6,077,081	4,602,126
Less discount to present value (8%)	(931,233)	(205,859)
Less reserve	<u>(244,633)</u>	<u>(159,693)</u>
Net contributions receivable *	<u>\$ 4,901,215</u>	<u>\$ 4,236,574</u>

* Includes \$2,699,517 in 2019 and \$2,799,334 in 2018 of charitable remainder trusts.

(5) LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30:

	<u>2019</u>		<u>2018</u>	
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions - Perpetuity</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions - Perpetuity</u>
Land and improvements	\$ 2,063,047	\$ 460,328	\$ 2,063,047	\$ 460,328
Buildings	252,359,090	50,000	250,986,891	50,000
Equipment	64,590,124	-	57,766,586	-
Library books and historical collections	5,215,817	2,597,078	5,099,477	2,597,078
Construction in process	<u>-</u>	<u>-</u>	<u>2,159,193</u>	<u>-</u>
	324,228,078	3,107,406	318,075,194	3,107,406
Less accumulated depreciation	<u>161,923,021</u>	<u>50,189</u>	<u>153,286,730</u>	<u>50,189</u>
	<u>\$ 162,305,057</u>	<u>\$ 3,057,217</u>	<u>\$ 164,788,464</u>	<u>\$ 3,057,217</u>

As of June 30, 2019, the College was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation asset retirement of obligations (“*AROs*”). These conditional AROs are primarily related to the asbestos that the College would remediate only if it performed major renovations of certain existing buildings. Because these conditional obligations have indeterminate settlement dates, the College could not develop a reasonable estimate of their fair values. The College will continue to assess its ability to estimate fair values at each future reporting date. The related liability will be recognized once sufficient additional information becomes available.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

(6) BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
2019 – College Revenue Bonds, Index Rate	\$ 43,130,000	\$ -
2017 – College Revenue Bonds, Fixed Rate	19,465,000	19,925,000
2008 – College Revenue Bonds, Index Rate	<u>-</u>	<u>44,260,000</u>
	62,595,000	64,185,000
Bond premium net of unamortized settlement costs	<u>1,012,913</u>	<u>1,431,170</u>
	<u>\$ 63,607,913</u>	<u>\$ 65,616,170</u>

Series of 2019 and 2008

On February 1, 2019, the College borrowed \$43,130,000 through the issue of tax-exempt bonds (“**Series of 2019 Bonds**”) through the Lehigh County General Purpose Authority, Lehigh County, Pennsylvania. Proceeds from the sale of the bonds were used to refinance the College’s Series of 2008 Bonds.

Interest for the Series of 2019 Bonds is based off of the fixed rates paid on the College’s swap agreements outstanding, totaling \$31,925,000 in notional amount as of June 30, 2019 and 2018, plus the current SIFMA Municipal SWAP Index Spread of 0.58%, and excludes the basis exposure between the variable rates received on the swap agreements and the variable rate index on the underlying Series of 2019 Bonds.

The College has a \$23,925,000 interest rate swap agreement with a bank in which the College pays a fixed rate of interest of 4.28% and in return, the bank pays the College a variable interest rate based upon 67% of the one-month LIBOR. The College also has an \$8,000,000 interest rate swap agreement with a bank in which the College pays a fixed rate of 4.459% and in return, the bank pays the College a variable rate based upon the SIFMA Municipal SWAP index. Interest paid with respect to \$11,205,000 in principal amount of the Series of 2019 Bonds does not correspond to the notional amount of the swap agreements. The value of the interest rate swap agreements as of June 30, 2019 and 2018 were \$10,629,870 and \$8,377,817 in favor of the bank, respectively, and are included in other liabilities on the statement of financial position. The College has the right to terminate these outstanding interest rate swaps and settle the difference with the bank.

Interest expense amounted to \$1,905,479 and \$2,023,241 for the years ended June 30, 2019 and 2018.

Deferred loan costs in the amount of \$224,025 were incurred in connection with the issuance of the 2019 Bonds and are being amortized on a straight-line basis over the life of the Bonds.

Mandatory redemption payments under the 2019 Bonds commenced on November 1, 2019 and are scheduled to occur thereafter on November 1st of each year through November 1, 2038.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

Series of 2017

On February 1, 2017, the College borrowed \$20,360,000 through the issue of tax-exempt bonds (**“Series of 2017 Bonds”**) through the Lehigh County General Purpose Authority, Lehigh County, Pennsylvania. Proceeds from the sale of the bonds were used to refinance the College’s Series of 2009 Bonds. The 2017 Bonds bear interest ranging from 2.0% to 5.0% depending upon maturity. The bonds were issued at a premium in the amount of \$1,857,720 which is being amortized on a straight-line basis over the life of the bonds.

Interest expense on the 2017 Bonds amounted to \$874,883 and \$871,297 for the years ended June 30, 2019 and 2018, respectively.

Deferred loan costs in the amount of \$243,625 were incurred in connection with the issuance of the 2017 Bonds and are being amortized on a straight-line basis over the life of the Bonds.

Mandatory redemption payments under the 2017 Bonds commenced February 1, 2018 and are scheduled to occur thereafter on February 1st of each year through February 1, 2032, and then a final balloon payment of \$11,835,000 on February 1, 2039.

A summary of Bonds Payable and related maturity dates at June 30, 2019 is as follows:

<u>Fiscal Year</u>	<u>2019 Bonds</u>	<u>2017 Bonds</u>	<u>Total</u>
2019-20	\$ 1,775,000	\$ 480,000	\$ 2,255,000
2020-21	1,805,000	490,000	2,295,000
2021-22	1,855,000	500,000	2,355,000
2022-23	1,915,000	510,000	2,425,000
2023-24	1,990,000	525,000	2,515,000
Thereafter	<u>33,790,000</u>	<u>16,960,000</u>	<u>50,750,000</u>
	<u>\$ 43,130,000</u>	<u>\$ 19,465,000</u>	<u>\$ 62,595,000</u>

(7) RETIREMENT AND OTHER PLANS

The College participates in the Teachers Insurance and Annuity Association (**“TIAA”**) and College Retirement Equity Fund (**“CREF”**) contributory retirement plans for faculty and administrative employees. The aggregate costs for the plans, funded currently, were approximately \$3,446,378 and \$3,241,080 for the years ended June 30, 2019 and 2018, respectively. There are no unfunded past service pension costs under the plans.

In addition to pension benefits, the College provides certain health care benefits, which consist of reimbursement for health insurance premiums, for eligible retired employees and their spouses. Employees become eligible for these benefits if they retire after the age of 60 and have completed 10 years of full-time service. Effective July 1, 1994, the plan was discontinued and employees employed on or prior to the date of discontinuance were grandfathered in the plan. Reimbursements are made on a quarterly basis and cannot exceed \$50 per month per person. The College accounts for its post-retirement benefit plan in accordance with ASC 715, **“Compensation – Retirement Benefits”**. The expected cost of these benefits is charged to expense during the years that the employees render service. The accumulated benefit obligation at June 30, 2019 and 2018 was \$2,690,602 and \$2,825,152, respectively.

The College has another retirement plan for which the cost is amortized over the service period of the employees.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

(8) NET ASSETS

Net assets without donor restrictions at June 30, 2019 and 2018 are for the following purposes:

	<u>2019</u>	<u>2018</u>
Operating	\$ 228,649	\$ 228,649
Designated		
Special programs	9,034,492	5,228,012
Funds functioning as endowment	143,030,704	143,089,300
Plant Fund	33,331,939	34,024,320
Interest rate swap	(10,629,870)	(8,377,817)
Net investment in buildings and equipment	<u>97,763,435</u>	<u>98,700,671</u>
	<u>\$ 272,759,349</u>	<u>\$ 272,893,135</u>

Net assets with donor restrictions are available for the following purposes at June 30 as follows:

	<u>2019</u>	<u>2018</u>
Instruction and research	\$ 7,046,036	\$ 6,448,063
Student services	331,368	308,998
Scholarships	2,048,953	1,674,234
Institutional support	2,425,403	1,593,806
Investment in plant	1,138,411	1,189,767
Use in future periods – pledges and other charitable gifts	2,236,643	2,040,935
Accumulated endowment income	64,322,138	63,994,077
Term endowment	<u>1,083,796</u>	<u>1,082,302</u>
	<u>80,632,748</u>	<u>78,332,182</u>
Plant		
Conrad W. Raker Biological Field Station	110,000	110,000
Lee and Virginia Graver Arboretum	350,138	350,138
Sheet music collection	<u>2,597,078</u>	<u>2,597,078</u>
	<u>3,057,216</u>	<u>3,057,216</u>
	<u>\$ 83,689,964</u>	<u>\$ 81,389,398</u>
Endowments – Required to be held in perpetuity		
Income without restriction		
Operations	7,359,582	7,182,660
Income restricted		
Scholarships	63,226,707	60,612,845
Other student programs	797,644	797,644
Use in future periods – pledges and other charitable gifts	3,540,228	3,064,261
Beneficial interests in perpetual trusts	<u>8,985,767</u>	<u>9,000,525</u>
	<u>83,909,228</u>	<u>80,657,935</u>
Total Net Assets with donor restrictions	<u>\$ 167,599,892</u>	<u>\$ 162,047,333</u>

The beneficial interests in perpetual trusts include the College's respective share of the fair value of the total funds held in trust by others for which the College is the recipient of all or a percentage of the income.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

During the years ended June 30, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes for program or time as follows:

	<u>2019</u>	<u>2018</u>
Program Restrictions:		
Instruction and research	\$ 2,713,830	\$ 2,250,762
Student services	158,139	256,194
Scholarships	2,217,926	1,916,281
Institutional support	119,797	159,357
Investment in plant	<u>102,382</u>	<u>164,383</u>
	<u>\$ 5,312,074</u>	<u>\$ 4,746,977</u>

(9) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects the College's financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions.

Financial Assets	
Cash and cash equivalents	\$ 31,507,100
Investments	315,581,452
Accounts Receivable	769,847
Contributions receivable	<u>4,901,215</u>
Total financial assets	352,759,614
2020 Endowment income designated for operations	13,023,505
Assets restricted as to use:	
Board-designated quasi and true endowment funds, net of beneficial interest in perpetual trusts	(283,360,799)
Other board designated funds	(42,366,431)
Other net assets with donor restrictions	<u>(18,284,030)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 21,771,859</u>

As part of the College's liquidity management, it has a practice to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The College has quasi-endowment funds as well as other board designated funds which can be made available, if necessary, with Board approval.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019

(10) CONTINGENCIES

The College is involved, from time to time, in litigation in the ordinary course of business. While any litigation has an element of uncertainty, after reviewing these actions, management is of the opinion that the resolution of currently pending matters will not have a material adverse effect on the financial position or results of its operations.

(11) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date the financial statements were available for issuance, October 16, 2019, have been evaluated in the preparation of the financial statements.

MUHLENBERG COLLEGE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020 (with comparative financial information for June 30, 2019)

MUHLENBERG COLLEGE

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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
Muhlenberg College
Allentown, Pennsylvania**

We have audited the accompanying financial statements of Muhlenberg College (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muhlenberg College as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Board of Trustees
Muhlenberg College
Allentown, Pennsylvania**

Report on Summarized Comparative Information

We have previously audited Muhlenberg College's 2019 financial statements, and our report dated October 16, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
November 3, 2020**

MUHLENBERG COLLEGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 With Summarized Information For 2019

	Without Donor Restrictions	With Donor Restrictions	TOTAL	
			2020	2019
ASSETS				
Cash and cash equivalents	\$ 24,772,152	\$ 7,607,975	\$ 32,380,127	\$ 31,507,100
Short-term investments <i>(Note 2)</i>	5,976,224	1,866,761	7,842,985	7,449,453
Accounts receivable	1,103,181	14,984	1,118,165	769,847
Government grant receivable	809,953	-	809,953	-
Contributions receivable – current <i>(Note 4)</i>	-	522,160	522,160	670,554
Inventories and prepaid expenses	1,169,185	-	1,169,185	1,768,452
Cash held for long-term investment	2,094,775	956,697	3,051,472	1,384,866
Long-term investments <i>(Note 2)</i>	157,932,302	142,700,140	300,632,442	306,747,133
Contributions receivable <i>(Note 4)</i>	-	4,929,232	4,929,232	4,230,661
Notes receivable	-	603,536	603,536	829,848
Land, buildings and equipment – net <i>(Note 5)</i>	159,223,187	3,057,406	162,280,593	165,362,274
Beneficial interest in perpetual trusts <i>(Note 3)</i>	-	8,814,034	8,814,034	8,985,767
Funds held by trustee and other assets	<u>2,892,240</u>	<u>931,606</u>	<u>3,823,846</u>	<u>3,488,445</u>
Total assets	\$ 355,973,199	\$ 172,004,531	\$ 527,977,730	\$ 533,194,400
LIABILITIES				
Accounts payable and other accrued expenses	\$ 9,607,508	\$ 71,050	\$ 9,678,558	\$ 8,415,817
Deferred income and student credit balances	2,513,313	-	2,513,313	4,686,175
Other liabilities	14,931,044	526,108	15,457,152	11,768,976
Federal loan program advance	-	1,374,370	1,374,370	1,374,370
Bonds and notes payable <i>(Note 6)</i>	61,302,646	-	61,302,646	63,607,913
Accrued post-retirement benefit cost <i>(Note 7)</i>	<u>3,163,908</u>	<u>-</u>	<u>3,163,908</u>	<u>2,981,908</u>
Total liabilities	<u>91,518,419</u>	<u>1,971,528</u>	<u>93,489,947</u>	<u>92,835,159</u>
NET ASSETS				
Without donor restrictions	264,454,780	-	264,454,780	272,759,349
With donor restrictions	<u>-</u>	<u>170,033,003</u>	<u>170,033,003</u>	<u>167,599,892</u>
	<u>264,454,780</u>	<u>170,033,003</u>	<u>434,487,783</u>	<u>440,359,241</u>
Total liabilities and net assets	\$ 355,973,199	\$ 172,004,531	\$ 527,977,730	\$ 533,194,400

MUHLENBERG COLLEGE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2020 With Summarized Information For 2019

	Without Donor Restrictions	With Donor Restrictions	TOTALS	
			2020	2019
Operating Revenues				
Tuition and fees	\$ 116,560,261	\$ -	\$ 116,560,261	\$ 114,827,705
Less: College funded scholarships	<u>(56,862,201)</u>	<u>-</u>	<u>(56,862,201)</u>	<u>(51,412,915)</u>
Net Tuition and Fees	59,698,060	-	59,698,060	63,414,790
Investment earnings designated for				
current operations	9,484,606	-	9,484,606	8,451,660
Trust distributions	246,773	-	246,773	189,728
Other investment income	1,276,426	-	1,276,426	1,581,278
Government grants	208,604	-	208,604	184,306
Private gifts and grants	2,196,115	-	2,196,115	1,888,506
Auxiliary enterprises	21,638,690	-	21,638,690	24,282,812
Other sources	<u>1,454,786</u>	<u>-</u>	<u>1,454,786</u>	<u>642,239</u>
	96,204,060	-	96,204,060	100,635,319
Board designated transfers	2,906,687	-	2,906,687	2,380,444
Net assets released from restrictions				
Satisfaction of program requirements	<u>6,214,667</u>	<u>-</u>	<u>6,214,667</u>	<u>5,312,074</u>
Total Operating Revenues	<u>105,325,414</u>	<u>-</u>	<u>105,325,414</u>	<u>108,327,837</u>
Operating Expenses				
Instruction	50,431,380	-	50,431,380	52,468,859
Academic support	4,895,407	-	4,895,407	5,053,419
Student services	12,994,203	-	12,994,203	11,921,566
Institutional support	19,052,359	-	19,052,359	17,784,674
Auxiliary	<u>17,159,460</u>	<u>-</u>	<u>17,159,460</u>	<u>18,214,911</u>
Total Operating Expenses	<u>104,532,809</u>	<u>-</u>	<u>104,532,809</u>	<u>105,443,429</u>
Change in net assets from operations	<u>792,605</u>	<u>-</u>	<u>792,605</u>	<u>2,884,408</u>
Non-Operating Activities				
Bequests	89,163	-	89,163	166,186
Private gifts and grants	-	5,344,633	5,344,633	5,770,360
Government grants	-	1,542,903	1,542,903	515,979
Net assets released from restrictions	-	(6,214,667)	(6,214,667)	(5,312,074)
Investment earnings designated for				
current operations	-	3,013,149	3,013,149	2,544,410
Investment earnings in excess of amounts				
designated for current operations	(2,934,561)	(1,602,310)	(4,536,871)	673,328
Trust distributions	-	167,453	167,453	330,645
Other unrealized gains	130,492	153,954	284,446	1,493,166
Other income	225,380	199,729	425,109	999,620
Interest rate swaps market value adjustment	(3,700,961)	-	(3,700,961)	(2,252,053)
Net unrealized depreciation of beneficial				
interest in perpetual trusts	-	(171,733)	(171,733)	(14,758)
Board designated transfers	<u>(2,906,687)</u>	<u>-</u>	<u>(2,906,687)</u>	<u>(2,380,444)</u>
Total non-operating activities	<u>(9,097,174)</u>	<u>2,433,111</u>	<u>(6,664,063)</u>	<u>2,534,365</u>
Total change in net assets	(8,304,569)	2,433,111	(5,871,458)	5,418,773
Beginning net assets	<u>272,759,349</u>	<u>167,599,892</u>	<u>440,359,241</u>	<u>434,940,468</u>
Ending net assets	<u>\$ 264,454,780</u>	<u>\$ 170,033,003</u>	<u>\$ 434,487,783</u>	<u>\$ 440,359,241</u>

See accompanying notes to financial statements.

MUHLENBERG COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES

Years Ended June 30, 2020 With Summarized Information For 2019

	2020							
	Program Activities			Supporting Activities				
	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary	Plant Operation	Total Expense	2019
Salaries and Benefits	\$ 31,225,567	\$ 2,935,595	\$ 6,320,711	\$ 10,912,160	\$ 1,797,294	\$ 5,658,087	\$ 58,849,414	\$ 57,850,370
Other Operating Expenses	7,854,153	455,230	5,236,675	5,754,859	9,593,777	4,601,858	33,496,552	36,122,118
Grants to students	-	-	758,610	-	-	-	758,610	-
Depreciation	3,350,445	457,928	217,587	730,391	4,013,440	-	8,769,791	8,672,262
Interest	<u>1,015,641</u>	<u>138,815</u>	<u>65,959</u>	<u>221,408</u>	<u>1,216,619</u>	<u>-</u>	<u>2,658,442</u>	<u>2,798,679</u>
	43,445,806	3,987,568	12,599,542	17,618,818	16,621,130	10,259,945	104,532,809	105,443,429
Plant Operation and Maintenance	<u>6,985,574</u>	<u>907,839</u>	<u>394,661</u>	<u>1,433,541</u>	<u>538,330</u>	<u>(10,259,945)</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 50,431,380</u>	<u>\$ 4,895,407</u>	<u>\$ 12,994,203</u>	<u>\$ 19,052,359</u>	<u>\$ 17,159,460</u>	<u>\$ -</u>	<u>\$ 104,532,809</u>	<u>\$ 105,443,429</u>

The College incurred fundraising expenses, which are included in Institutional Support, of approximately \$4,700,000 for each of the years ending June 30, 2020 and 2019, respectively.

MUHLENBERG COLLEGE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 And 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from student tuition and fees and auxiliary enterprises	\$ 78,005,617	\$ 88,649,175
Cash received gifts and bequests	5,009,706	4,591,850
Federal government grants	1,751,507	700,285
Investment and perpetual trust income received, net	4,822,134	6,118,393
Miscellaneous receipts	1,879,895	1,641,859
Interest and finance costs paid	(2,708,709)	(2,842,407)
Cash paid to employees and suppliers	<u>(91,073,354)</u>	<u>(95,243,837)</u>
Net Cash Provided by (Used for) Operating Activities	<u>(2,313,204)</u>	<u>3,615,318</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(5,688,109)	(6,188,855)
Proceeds from sale of investments	46,701,558	85,424,910
Purchase of investments	(35,608,768)	(88,001,657)
Decrease in cash held for long-term investment	(1,666,606)	5,820,782
Increase in short-term investments	(393,532)	(378,745)
Proceeds from notes receivable and Perkins loans, net	226,312	245,867
Decreased (increase) in funds held by trustee and other assets	<u>(335,401)</u>	<u>260,685</u>
Net Cash Provided by (Used for) Investing Activities	<u>3,235,454</u>	<u>(2,817,013)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Endowment	2,070,028	2,554,425
Other financing activities		
Interest and dividends received restricted for reinvestment	135,749	166,539
Proceeds from refinancing of long-term debt, net	-	42,755,471
Payments on long-term debt and note payable	<u>(2,255,000)</u>	<u>(44,720,000)</u>
Net Cash Provided by (Used for) Financing Activities	<u>(49,223)</u>	<u>756,435</u>
Net Increase in Cash and Cash Equivalents	873,027	1,554,740
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>31,507,100</u>	<u>29,952,360</u>
End of year	<u>\$ 32,380,127</u>	<u>\$ 31,507,100</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Founded in 1848, Muhlenberg is a highly selective, private, four-year residential, liberal arts college located in Allentown, Pa., approximately 90 miles west of New York City. With an undergraduate enrollment of approximately 2,100 students, Muhlenberg College is dedicated to shaping creative, compassionate, collaborative leaders through rigorous academic programs in the arts, humanities, natural sciences and social sciences as well as selected pre-professional programs, including accounting, business, education and public health. A member of the Centennial Conference, Muhlenberg competes in 22 varsity sports. Muhlenberg is affiliated with the Evangelical Lutheran Church in America.

BASIS OF PRESENTATION

The College's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The principles require that net assets, revenues, gains, expenses and losses be classified as without donor restriction or with donor restriction based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions: Net assets that are not subject to donor-imposed stipulations. Net assets without restriction of the College include the following:

Operating and Special Programs: Include the revenues and expenses associated with the principal educational mission of the College.

Funds Functioning as Endowment: Include without donor restricted bequests and Board of Trustee designations to funds functioning as endowment and realized gains and reinvested income (income earned in excess of the spending rule) on without donor restricted and quasi-endowment funds.

Unexpended Plant: Unexpended plant net assets include gifts and income earned on unexpended balances for capital projects which are currently under construction. The College follows the policy of lifting the restrictions on contributions of cash received for the acquisition of plant assets when the plant assets begin construction or are acquired.

Investment in Plant: Represents the net book value of the plant assets funded by the College.

Net Assets With Donor Restrictions: Net assets whose use by the College is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. Expiration of the restriction is reported by reclassification from net assets with donor restriction by time/purpose to net assets without donor restrictions. Net assets with donor restrictions also includes gifts, trusts and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions and beneficial interest in perpetual trusts, which are held by third parties for the benefit of the College.

Measure of Operations: The College's operating activities include all operating revenues and expenses that are an integral part of its programs and supporting activities. Operating activities also include expenses incurred on board designated projects, and transfers from non-operating activities from board designated net assets to fund such expenses.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

Nonoperating activities reflect transactions of a long-term investment or capital nature, including contributions restricted for acquisitions of facilities and equipment, contributions restricted with donor-imposed stipulations, changes in the value of interest rate swaps, gains and losses on investments net of the College's spending policy, changes to postretirement benefits obligations and to the College's interest in perpetual trusts, and transfers from board designated funds to operations.

ACCOUNTING ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

The College occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification ("**ASC**") 825, "**Financial Instruments**", identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions used by the College.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include money market funds.

CAPITALIZED ASSETS

All capital expenditures for land, buildings and equipment are recorded at cost at date of acquisition or at fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of building (50-70 years), renovations (25-50 years), and equipment (3-20 years).

INVESTMENTS

The College records its investments in securities at fair value with the resulting gains and losses reported in the statement of activities. The fair value of investments traded on a securities exchange is determined based on quoted market prices.

Investments also include alternative investment of limited partnership interests in publicly traded securities, private equity, energy and real estate partnerships, and other funds whose underlying investments are comprised of other funds, partnerships and trusts. These funds invest in securities and other investments that include both publicly traded investments as well as other investments that do not have readily ascertainable market values. These investments include arbitrage, distressed companies, energy and real estate. Certain of these investments also are subject to withdrawal restrictions. The general partners of these limited partnerships and other funds that hold investments which do not have readily ascertainable market values provide valuations based on a variety of factors including comparable investments in transactions and operating performance of the underlying companies. The limited partnerships that invest in these other funds use the prices provided by these general managers. The College's management may consider other factors in assessing fair value of these investments.

Due to the level of risk associated with certain of these investments, it is possible that changes in the values of investment securities could occur in the near term and that such changes could affect the investment balances.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

SELF INSURANCE TRUST

The College has established a program to self-insure a portion of the health benefits provided to its employees. Benefits paid to employees in excess of certain limits are provided by a commercial insurance carrier, thus limiting the College's exposure under the program.

The College estimates a liability for claims incurred but not reported (IBNR) based on an actuarial calculation using statistical analysis and historical experience. The College deposits funds into an insurance trust for the estimated amount of claims to be incurred.

DEFERRED INCOME

The College defers all tuition and room fees received prior to the year end for summer sessions. This income is recognized in the following year end.

REVENUE RECOGNITION

Revenue from student tuition and fees are recognized into revenue in the fiscal year for which educational services are provided. Tuition discounts in the form of scholarships and financial aid grants are reported as a reduction of revenues. Room and board revenue are recognized over the period it is earned as housing services and food services are provided.

CONTRIBUTIONS

The College recognizes contributions when cash, securities or other assets, and unconditional promise to give, or a notification of a beneficial interest is received. Conditional contributions include donor-imposed conditions with one or more barriers that must be overcome before the College is entitled to the assets transferred or promised and there is a right of return to the contributor for assets transferred or a right of release of the promisor from its obligation to transfer assets. The College recognizes the contribution when the conditions are substantially met or explicitly waived. Unconditional contributions are classified as without donor restrictions unless there are donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are then classified to net assets without donor restrictions and reported in the statement of activities as "***net assets released from restrictions***."

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation, interest and facility costs are allocated among the functional categories based upon the usage of facility space, and benefits are distributed based on salaries charged.

INCOME TAXES

Under provisions of the Internal Revenue Code and the applicable income tax regulations of Pennsylvania, the College is exempt from taxes on income other than unrelated business income. Since the College had no material unrelated business income during the years ended June 30, 2018 and 2017, no provision for income taxes has been made.

Management has reviewed the tax positions for each of the open tax years (2017 – 2019) or expected to be taken in the College's 2020 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Other significant accounting policies are set in the following notes to the financial statements.

RECLASSIFICATIONS

Certain account balances in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

(2) INVESTMENTS

The composition and related cost and market values of investments are as follows:

	<u>Book Value</u> <u>June 30,</u>		<u>Market Value</u> <u>June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Short-Term Investments				
Common Stocks	\$ 966,311	\$ 1,016,377	\$ 898,662	\$ 911,765
Mutual Funds				
Short-Term Bond Fund	6,204,779	6,035,140	6,368,977	6,017,700
Income Funds	527,240	519,988	527,240	519,988
Equity and Real Estate	51,659	-	48,106	-
Total Short-Term Investments	<u>\$ 7,749,989</u>	<u>\$ 7,571,505</u>	<u>\$ 7,842,985</u>	<u>\$ 7,449,453</u>

Long-Term Investments are comprised of the following:

	<u>Book Value</u> <u>June 30,</u>		<u>Market Value</u> <u>June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Long-Term Investments				
United States Government and				
Federal Agency Bonds	\$ 13,747,150	\$ 14,863,217	\$ 14,718,665	\$ 15,708,562
Corporate Bonds, Notes and				
Commercial Paper	750,000	888,838	779,555	912,457
Certificates of Deposit	4,551,043	5,640,047	4,601,299	5,668,179
Mutual Funds/Investment Trusts				
Bond Funds	81,510,511	70,601,020	82,777,120	74,327,628
Equity Funds				
Domestic	98,003,498	82,345,945	107,719,769	93,302,437
International	43,754,491	48,587,753	44,658,422	54,153,416
Income Fund	355,902	355,902	394,881	383,168
Alternative Investments	41,299,320	52,132,905	44,982,731	62,291,286
Total Long-Term Investments	<u>\$ 283,971,915</u>	<u>\$ 275,415,627</u>	<u>\$ 300,632,442</u>	<u>\$ 306,747,133</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

The components of the investment return on the College's endowment funds for the years ending June 30, 2020 and 2019, and their classification in the statement of activities are as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividends (net of expenses of \$913,332 and \$875,485, respectively)	\$ 3,285,293	\$ 4,200,220
Net realized and unrealized gains	<u>4,675,591</u>	<u>7,469,178</u>
Return on endowment investments	<u>\$ 7,960,884</u>	<u>\$ 11,669,398</u>
Operating:		
Investment earnings designated for current operations	<u>\$ 9,484,606</u>	<u>\$ 8,451,660</u>
Non-operating:		
Investment earnings designated for current operations	3,013,149	2,544,410
Investment earnings in excess of amounts designated for current operations	<u>(4,536,871)</u>	<u>673,328</u>
Total non-operating	<u>(1,523,722)</u>	<u>3,217,738</u>
	<u>\$ 7,960,884</u>	<u>\$ 11,669,398</u>

Endowment

Assets applicable to endowment net assets, including the accumulated endowment gains carried as net assets with restriction and funds functioning as endowment net assets without restriction, are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the beginning of the fiscal year within which the transaction takes place.

The units of these pooled investments had a market value of \$49.65 and \$50.32 at June 30, 2020 and 2019, respectively. The average annual income per unit, exclusive of the net gains, amounted to \$.60 and \$.76 in 2020 and 2019, respectively.

The Board of Trustees of the College has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as net assets with donor restrictions (a) the original value of restricted gifts donated to the endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Income earned on such gifts is classified as net assets with donor restrictions until it is expended in accordance with State law and/or donor restrictions.

The College's investment policy for endowment funds is to earn a return that meets the endowment spending rate with minimum investment risk.

The Prudent Investor Rule of the Commonwealth of Pennsylvania views investment prudence on the part of the fiduciary from the standpoint of the total portfolio. Therefore, any reasonable investment may be considered for endowment pool assets as long as the risk and return tradeoff of the entire portfolio is prudent. The College's investment policy includes a target asset allocation, well diversified among suitable asset classes that is expected to generate, on average, the level of expected return necessary to meet endowment objectives at a responsible level of volatility consistent with achieving that return. To monitor the effectiveness of the investment strategy of the endowment pool, performance goals are established to exceed the expected real rate of return, established benchmark indices, and the median return of comparable endowment funds.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

Commonwealth of Pennsylvania law permits the College to allocate to operating income a minimum of 2% and a maximum of 7% of a three-year moving average of the market value of the endowed assets. Unless the terms of the gift instrument state otherwise, accumulated endowment gains may be spent over time by the College. Therefore, in accordance with Commonwealth of Pennsylvania law regarding the investment of trust funds, gains on restricted funds are classified as restricted until appropriated under the spending policy. Net gains in excess of the spending policy are reflected as nonoperating investment return activity.

The College applies a spending rate of 5% of the trailing 20 quarter average of the endowment investment's market value. The determination of the endowment draw is based on several factors including past performance and future expected performance of the investments and the College's financial needs. If the endowment draw amount exceeds the actual earnings of the pooled investment funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, and, conversely, any undistributed income after the allocation of the spending rate amount is added back to the accumulated excess earnings in the appropriate net asset category.

Endowment net asset composition by type of fund as of June 30, 2020 and 2019:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
Donor restricted endowment funds	\$ -	\$ 149,818,602	\$ 149,818,602
Funds functioning as endowment	<u>139,986,335</u>	<u>-</u>	<u>139,986,335</u>
Total funds	<u>\$ 139,986,335</u>	<u>\$ 149,818,602</u>	<u>\$ 289,804,937</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
Donor restricted endowment funds	\$ -	\$ 149,315,862	\$ 149,315,862
Funds functioning as endowment	<u>143,030,704</u>	<u>-</u>	<u>143,030,704</u>
Total funds	<u>\$ 143,030,704</u>	<u>\$ 149,315,862</u>	<u>\$ 292,346,566</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

Changes in endowment net assets for the years ended June 30, 2020 and 2019:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 143,030,704	\$ 149,315,862	\$ 292,346,566
Investment return	3,435,372	4,525,513	7,960,885
Contribution	-	2,137,552	2,137,552
Reinvested income	-	135,749	135,749
Change in value of beneficial interest in perpetual trust	-	(171,733)	(171,733)
Endowment income designated for current operations	<u>(6,479,741)</u>	<u>(6,124,341)</u>	<u>(12,604,082)</u>
Endowment net assets, June 30, 2020	<u>\$ 139,986,335</u>	<u>\$ 149,818,602</u>	<u>\$ 289,804,937</u>

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 143,089,300	\$ 145,734,314	\$ 288,823,614
Investment return	6,008,944	5,660,851	11,669,795
Contribution	88,551	3,185,555	3,274,106
Reinvested income	-	77,990	77,990
Change in value of beneficial interest in perpetual trust	-	(14,758)	(14,758)
Transfers*	(325,172)	4,000	(321,172)
Endowment income designated for current operations	<u>(5,830,919)</u>	<u>(5,332,090)</u>	<u>(11,163,009)</u>
Endowment net assets, June 30, 2019	<u>\$ 143,030,704</u>	<u>\$ 149,315,862</u>	<u>\$ 292,346,566</u>

* Represents transfers to operations and other designated funds.

Endowment net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Investments	\$ 277,383,151	\$ 279,820,571
Beneficial in interest in perpetual trusts	8,814,034	8,985,767
Pledges and other charitable gifts	<u>3,607,752</u>	<u>3,540,228</u>
	<u>\$ 289,804,937</u>	<u>\$ 292,346,566</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

(3) FAIR VALUE OF FINANCIAL INSTRUMENTS

The College utilized various methods to measure the fair value at its investments on recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the College has the ability to access.
- Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an active market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.
- Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the College's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Beneficial Interests in Perpetual Trusts are measured at the fair value of the underlying investments at June 30, 2019 and 2018. Because the assets held in trust will not be distributed to the College, they are classified as Level 3.

Beneficial Interest is Remainder Trusts are measured using Level 3 inputs as the residual gift is generally based on the present value of expected future cash flows including payments to beneficiaries and investment return and Level 3 inputs include the life expectancy of the donor and other beneficiaries as well as financial assumptions.

The fair value of the College's interest rate swap obligations is based on valuations provided by an independent party, taking into account current interest rates and the current creditworthiness of the swap counterparties, which are considered Level 2 inputs to fair value.

Investments Measured Using the Net Asset Value Practical Expedient

Estimated fair value of alternative investments that are not readily marketable is recorded at the NAV as provided by the external investment managers as a practical expedient for fair value. The College reviews and evaluates the values provided by external investment managers and agrees with the valuation methods and assumptions used in determining the NAV of those investments. These investments have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

The summary of inputs used to value the College's various financial instruments as of June 30, 2020 and 2019 is as follows:

2020				
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
ASSETS				
Investments				
Common Stock	\$ 898,662	\$ 898,662	\$ -	\$ -
Fixed Income Securities	20,099,519	-	20,099,519	-
Mutual Funds/Investment Trusts	<u>242,494,515</u>	<u>242,099,634</u>	<u>-</u>	<u>394,881</u>
	\$ 263,492,696	\$ 242,998,296	\$ 20,099,519	\$ 394,881
Alternative Investments reported at net asset value	<u>44,982,731</u>			
	<u>\$ 308,475,427</u>			
Beneficial Interest in Remainder Trusts (Contributions Receivable)	\$ 2,716,754	\$ -	\$ -	\$ 2,716,754
Beneficial Interest in Perpetual Trusts	<u>\$ 8,814,034</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,814,034</u>
LIABILITIES				
Interest Rate Swap-Obligation	<u>\$ 14,056,043</u>	<u>\$ -</u>	<u>\$ 14,056,043</u>	<u>\$ -</u>

2019				
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
ASSETS				
Investments				
Common Stock	\$ 911,765	\$ 911,765	\$ -	\$ -
Fixed Income Securities	22,289,198	-	22,289,198	-
Mutual Funds/Investment Trusts	<u>228,704,337</u>	<u>228,321,169</u>	<u>-</u>	<u>383,168</u>
	\$ 251,905,300	\$ 229,232,934	\$ 22,289,198	\$ 383,168
Alternative Investments reported at net asset value	<u>62,291,286</u>			
	<u>\$ 314,196,586</u>			
Beneficial Interest in Remainder Trusts (Contributions Receivable)	\$ 2,699,517	\$ -	\$ -	\$ 2,699,517
Beneficial Interest in Perpetual Trusts	<u>\$ 8,985,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,985,767</u>
LIABILITIES				
Interest Rate Swap-Obligation	<u>\$ 10,629,870</u>	<u>\$ -</u>	<u>\$ 10,629,870</u>	<u>\$ -</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

The changes in the financial instruments measured at fair value for which the College used Level 3 inputs to determine fair value for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>		
	<u>Investments</u>	<u>Beneficial Interest In Remainder Trust</u>	<u>Beneficial Interest In Perpetual Trusts</u>
Balance, June 30, 2019	\$ 383,168	\$ 2,699,517	\$ 8,985,767
Realized/unrealized gain (loss) – net/change in valuation	<u>11,713</u>	<u>17,237</u>	<u>(171,733)</u>
Balance, June 30, 2020	<u>\$ 394,881</u>	<u>\$ 2,716,754</u>	<u>\$ 8,814,034</u>

	<u>2019</u>		
	<u>Investments</u>	<u>Beneficial Interest In Remainder Trust</u>	<u>Beneficial Interest In Perpetual Trusts</u>
Balance, June 30, 2018	\$ 369,831	\$ 2,799,334	\$ 9,000,525
Realized/unrealized gain (loss) – net/change in valuation	<u>13,337</u>	<u>(99,817)</u>	<u>(14,758)</u>
Balance, June 30, 2019	<u>\$ 383,168</u>	<u>\$ 2,699,517</u>	<u>\$ 8,985,767</u>

Alternative Investments

Alternative investments values, unfunded commitments and the objective of each holding are as follows:

	<u>Fair Value</u>		<u>Unfunded Commitment</u>
	<u>2020</u>	<u>2019</u>	
Hedge Funds – Long/Short	\$ 5,194,938	\$ 13,038,791	\$ -
Hedge Funds – Multi-Strategy	5,609,832	23,273,850	-
Hedge Funds – Global Macro	183,485	6,323	-
Hedge Funds – Special Situations	61,192	2,060,537	-
Private Equity – International	1,280,143	1,446,305	198,000
Private Equity – Secondary	11,374,247	7,750,897	24,211,739
Private Equity – Distressed Debt	5,387,911	267,741	2,218,709
Private Equity – Diversified	9,685,406	6,905,626	7,580,235
Real Assets – Real Estate	5,819,468	6,830,914	1,141,545
Real Assets – Timber and Energy	<u>386,109</u>	<u>710,302</u>	<u>116,717</u>
	<u>\$44,982,731</u>	<u>\$62,291,286</u>	<u>\$35,466,945</u>

The following describes the investment objectives and withdrawal restrictions of the College's alternative investments:

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

Hedge Funds – Long/Short

The fund is a long/short equity fund that seeks to generate superior, long-term return with less risk than the market. The primary objectives include the preservation of capital and superior performance in down equity market environments. Redemptions vary among the various investments with certain investments permitting quarterly withdrawals and others restricting withdrawals due to “lock-down periods” or to less frequent intervals.

Hedge Funds – Multi-Strategy

The funds are multi-strategy funds with varied objectives including substantial capital appreciation as well as stable, long-term, non-market directional returns. All funds in this category strive for relatively low volatility. Redemptions vary among the various investments with certain investments permitting quarterly withdrawals and other investments restricting withdrawals due to “lock-down periods,” generally for one to two years, and, in one investment, due to the investment being in liquidation.

Hedge Funds – Global Macro

Strategies encompass a variety of investment approaches predicated upon a macro analysis of global economies and the impact that the underlying economic variables are expected to have on equity, fixed income, FX and commodity markets. Withdrawals are restricted due to a “lock-down period” of two years and subject to an overall redemption amount from the investment.

Hedge Funds – Special Situations

Managers rely on many of the same tools as long/short managers but are capital structure agnostic seeking the most attractive risk/reward be it equity or credit. Withdrawals are restricted to every two years and percentage of holdings.

Private Equity – International

The fund invests primarily in other limited partnerships formed for the purpose of making international private equity investments. The fund seeks to provide a lower-cost means, particularly for smaller investors, of accessing quality partnerships in developed, foreign countries. Redemptions do not apply to these partnerships since they are closed vehicles and withdrawals will be generally upon the termination and liquidation of the partnerships.

Private Equity – Secondary

The funds invest primarily in established private equity fund interests. The underlying interests are invested in various sectors including leveraged buyouts, venture capital, mezzanine and growth equity. Redemptions do not apply to these partnerships since they are closed vehicles and withdrawals will be generally upon the termination and liquidation of the partnerships.

Private Equity – Distressed Debt

The fund is a fund-of-funds which invests primarily in distressed debt and equity investments. The goal of the fund is to generate attractive returns through the construction of a portfolio of distressed investment fund investments as well as direct co-investments alongside underlying funds. Redemptions do not apply to these partnerships since they are closed vehicles and withdrawals will be generally upon the termination and liquidation of the partnerships.

Private Equity – Diversified

These investments are fund-of-funds invested in diversified portfolios of private equity partnerships. Funds are diversified by strategy, vintage year and manager. Redemptions do not apply to these partnerships since they are closed vehicles and withdrawals will be generally upon the termination and liquidation of the partnerships.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

Real Assets – Real Estate

Each of these funds focuses on particular sectors real estate markets. Included is an open-ended private REIT that invests in a portfolio of value added real estate investments, a fund that is focused on the real estate securitization market, a fund that is focused on the acquisition, development, redevelopment, operation and management of commercial real estate properties, and an actively managed, open-end fund invested primarily in well-leased, income producing properties. REIT fund withdrawals are not permitted except for the redemptions at quarter-end.

Real Assets – Timber and Energy

Funds in this group focus on various sectors of energy and natural resource markets. Included are a fund focused on North American based partnerships that pursue energy production-oriented acquisition and exploitation strategies, a fund focused on a diversified portfolio of timberland properties, and a commingled fund managed to the S&P Natural Resources Index. Withdrawals except for the fund managed by the S&P Natural Resources Index, which permit daily withdrawals, are restricted for all investments.

The alternative investments consist of various investment funds which may consist of investments that are not listed on a securities exchange or illiquid securities. The investments are valued by the various investment fund managers based on valuation methodologies such as operating cash flow models, financial performance of investments related to budgets and projections, trends within sectors and/or regions and any recent market information. In addition, these investments may trade various financial instruments and enter into various investment activities with off-balance sheet risk. These include, but are not limited to, short selling activities writing option contracts, equity swaps and other derivative investments. The College's risk of loss in these investments is limited to the value of these investments as reported by the College.

(4) CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable of the appropriate net asset category. Pledges are recorded after discounting to the present value of the future cash flows.

Unconditional promises to give at June 30, 2020 and 2019, respectively, are expected to be realized as follows:

	<u>2020</u>	<u>2019</u>
In one year or less	\$ 947,490	\$ 1,083,269
In one to five years	1,618,349	1,204,509
Greater than five years	<u>4,407,674</u>	<u>3,789,303</u>
	6,973,513	6,077,081
Less discount to present value (4%)	(1,218,272)	(931,233)
Less reserve	<u>(303,849)</u>	<u>(244,633)</u>
Net contributions receivable *	<u>\$ 5,451,392</u>	<u>\$ 4,901,215</u>

* Includes \$2,716,754 in 2020 and \$2,699,517 in 2019 of charitable remainder trusts.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

(5) LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30:

	<u>2020</u>		<u>2019</u>	
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions - Perpetuity</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions - Perpetuity</u>
Land and improvements	\$ 2,063,047	\$ 460,328	\$ 2,063,047	\$ 460,328
Buildings	253,999,775	50,000	252,359,090	50,000
Equipment	67,186,763	-	64,590,124	-
Library books and historical collections	5,327,581	2,597,078	5,215,817	2,597,078
Construction in process	<u>1,339,022</u>	<u>-</u>	<u>-</u>	<u>-</u>
	329,916,188	3,107,406	324,228,078	3,107,406
Less accumulated depreciation	<u>170,693,001</u>	<u>50,000</u>	<u>161,923,210</u>	<u>50,000</u>
	<u>\$ 159,223,187</u>	<u>\$ 3,057,406</u>	<u>\$ 162,304,868</u>	<u>\$ 3,057,406</u>

As of June 30, 2020, the College was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation asset retirement of obligations (“**AROs**”). These conditional AROs are primarily related to the asbestos that the College would remediate only if it performed major renovations of certain existing buildings. Because these conditional obligations have indeterminate settlement dates, the College could not develop a reasonable estimate of their fair values. The College will continue to assess its ability to estimate fair values at each future reporting date. The related liability will be recognized once sufficient additional information becomes available.

(6) BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
2019 – College Revenue Bonds, Index Rate	\$ 41,355,000	\$ 43,130,000
2017 – College Revenue Bonds, Fixed Rate	<u>18,985,000</u>	<u>19,465,000</u>
	60,340,000	62,595,000
Bond premium net of unamortized settlement costs	<u>962,646</u>	<u>1,012,913</u>
	<u>\$ 61,302,646</u>	<u>\$ 63,607,913</u>

Series of 2019

On February 1, 2019, the College borrowed \$43,130,000 through the issue of tax-exempt bonds (“**Series of 2019 Bonds**”) through the Lehigh County General Purpose Authority, Lehigh County, Pennsylvania. Proceeds from the sale of the bonds were used to refinance the College’s Series of 2008 Bonds.

Interest for the Series of 2019 Bonds is based off of the fixed rates paid on the College’s swap agreements outstanding, totaling \$31,925,000 in notional amount as of June 30, 2020 and 2019, plus the current SIFMA Municipal SWAP Index Spread of 0.58%, and excludes the basis exposure between the variable rates received on the swap agreements and the variable rate index on the underlying Series of 2019 Bonds.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

The College has a \$23,925,000 interest rate swap agreement with a bank, which terminates on November 1, 2034, in which the College pays a fixed rate of interest of 4.28% and in return, the bank pays the College a variable interest rate based upon 67% of the one-month LIBOR. The College also has an \$8,000,000 interest rate swap agreement with a bank, which terminates on November 1, 2037 in which the College pays a fixed rate of 4.459% and in return, the bank pays the College a variable rate based upon the SIFMA Municipal SWAP index. Interest paid during the years ending June 30, 2020 and 2019 with respect to \$9,430,000 and \$11,205,000, respectively, in principal of the Series of 2019 Bonds does not correspond to the notional amount of the swap agreements. The value of the interest rate swap agreements as of June 30, 2020 and 2019 were \$14,056,043 and \$10,629,870 in favor of the bank, respectively, and are included in other liabilities on the statement of financial position. The College has the right to terminate these outstanding interest rate swaps and settle the difference with the bank.

Interest expense amounted to \$1,781,331 and \$1,905,479 for the years ended June 30, 2020 and 2019.

Deferred loan costs in the amount of \$224,025 were incurred in connection with the issuance of the 2019 Bonds and are being amortized on a straight-line basis over the life of the Bonds.

Mandatory redemption payments under the 2019 Bonds commenced on November 1, 2019 and are scheduled to occur thereafter on November 1st of each year through November 1, 2038.

Series of 2017

On February 1, 2017, the College borrowed \$20,360,000 through the issue of tax-exempt bonds (“**Series of 2017 Bonds**”) through the Lehigh County General Purpose Authority, Lehigh County, Pennsylvania. Proceeds from the sale of the bonds were used to refinance the College’s Series of 2009 Bonds. The 2017 Bonds bear interest ranging from 2.0% to 5.0% depending upon maturity. The bonds were issued at a premium in the amount of \$1,857,720 which is being amortized on a straight-line basis over the life of the bonds.

Interest expense on the 2017 Bonds amounted to \$857,210 and \$874,883 for the years ended June 30, 2020 and 2019, respectively.

Deferred loan costs in the amount of \$243,625 were incurred in connection with the issuance of the 2017 Bonds and are being amortized on a straight-line basis over the life of the Bonds.

Mandatory redemption payments under the 2017 Bonds commenced February 1, 2018 and are scheduled to occur thereafter on February 1st of each year through February 1, 2032, and then a final balloon payment of \$11,835,000 on February 1, 2039.

A summary of Bonds Payable and related maturity dates at June 30, 2020 is as follows:

<u>Fiscal Year</u>	<u>2019 Bonds</u>	<u>2017 Bonds</u>	<u>Total</u>
2020-21	\$ 1,805,000	\$ 490,000	\$ 2,295,000
2021-22	1,855,000	500,000	2,355,000
2022-23	1,915,000	510,000	2,425,000
2023-24	1,990,000	525,000	2,515,000
2024-25	2,040,000	540,000	2,580,000
Thereafter	<u>31,750,000</u>	<u>16,420,000</u>	<u>48,170,000</u>
	<u>\$ 41,355,000</u>	<u>\$ 18,985,000</u>	<u>\$ 60,340,000</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

(7) RETIREMENT AND OTHER PLANS

The College participates in the Teachers Insurance and Annuity Association (“**TIAA**”) and College Retirement Equity Fund (“**CREF**”) contributory retirement plans for faculty and administrative employees. The aggregate costs for the plans, funded currently, were approximately \$3,410,000 and \$3,450,000 for the years ended June 30, 2020 and 2019, respectively. There are no unfunded past service pension costs under the plans.

In addition to pension benefits, the College provides certain health care benefits, which consist of reimbursement for health insurance premiums, for eligible retired employees and their spouses. Employees become eligible for these benefits if they retire after the age of 60 and have completed 10 years of full-time service. Effective July 1, 1994, the plan was discontinued and employees employed on or prior to the date of discontinuance were grandfathered in the plan. Reimbursements are made on a quarterly basis and cannot exceed \$50 per month per person. The College accounts for its post-retirement benefit plan in accordance with ASC 715, “**Compensation – Retirement Benefits**”. The expected cost of these benefits is charged to expense during the years that the employees render service. The accumulated benefit obligation at June 30, 2020 and 2019 was \$2,965,391 and \$2,690,602, respectively.

The College has another retirement plan for which the cost is amortized over the service period of the employees.

(8) NET ASSETS

Net assets without donor restrictions at June 30, 2020 and 2019 are for the following purposes:

	<u>2020</u>	<u>2019</u>
Operating	\$ 228,649	\$ 228,649
Designated		
Special programs	9,244,682	9,034,492
Funds functioning as endowment	139,986,335	143,030,704
Plant Fund	25,172,291	33,331,939
Interest rate swap	(14,056,043)	(10,629,870)
Net investment in buildings and equipment	<u>103,878,866</u>	<u>97,763,435</u>
	<u>\$ 264,454,780</u>	<u>\$ 272,759,349</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

Net assets with donor restrictions are available for the following purposes at June 30 as follows:

	<u>2020</u>	<u>2019</u>
Instruction and research	\$ 8,551,934	\$ 7,046,036
Student services	656,122	331,368
Scholarships	2,492,108	2,048,763
Institutional support	1,572,935	2,425,403
Investment in plant	1,273,876	1,138,411
Use in future periods – pledges and other charitable gifts	2,775,246	2,236,643
Accumulated endowment income	62,646,498	64,322,138
Term endowment	<u>1,070,310</u>	<u>1,083,796</u>
	<u>81,039,029</u>	<u>80,632,558</u>
Plant		
Conrad W. Raker Biological Field Station	110,000	110,000
Lee and Virginia Graver Arboretum	350,328	350,328
Sheet music collection	<u>2,597,078</u>	<u>2,597,078</u>
	<u>3,057,406</u>	<u>3,057,406</u>
	<u>84,096,435</u>	<u>83,689,964</u>
Endowments – Required to be held in perpetuity		
Income without restriction		
Operations	\$ 7,359,582	\$ 7,359,582
Income restricted		
Scholarships	65,357,556	63,226,707
Other student programs	797,644	797,644
Use in future periods – pledges and other charitable gifts	3,607,752	3,540,228
Beneficial interests in perpetual trusts	<u>8,814,034</u>	<u>8,985,767</u>
	<u>85,936,568</u>	<u>83,909,928</u>
Total net assets with donor restrictions	<u>\$ 170,033,003</u>	<u>\$ 167,599,892</u>

The beneficial interests in perpetual trusts include the College's respective share of the fair value of the total funds held in trust by others for which the College is the recipient of all or a percentage of the income.

During the years ended June 30, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes for program or time as follows:

	<u>2020</u>	<u>2019</u>
Program Restrictions:		
Instruction and research	\$ 2,156,661	\$ 2,713,830
Student services	1,725,116	158,139
Scholarships	2,081,463	2,217,926
Institutional support	129,422	119,797
Investment in plant	<u>122,005</u>	<u>102,382</u>
	<u>\$ 6,214,667</u>	<u>\$ 5,312,074</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020

(9) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects the College's financial assets as of June 30 that are available to meet general expenditures within one year:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 24,772,152	\$ 22,170,944
Investments	5,976,224	5,304,970
Accounts Receivable	1,103,181	768,873
Government grant receivable	<u>809,953</u>	<u>-</u>
Total financial assets	32,661,510	28,244,787
Board approved endowment distribution for current operations	<u>9,762,430</u>	<u>9,484,606</u>
Financial assets available to meet general expenditures within one year	<u>\$ 42,423,940</u>	<u>\$ 37,729,393</u>

The College's endowment funds consist of donor-restricted endowments and quasi-endowment funds. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. The College had \$139,986,335 and \$143,030,704 of quasi endowment funds as of June 30, 2020 and 2019, respectively, that are not included in the table above, but, with the approval of the Board of Trustees, could be made available. The quasi-endowment and donor restricted endowment funds, however, include investments with lock-up provisions that would reduce the total amount that could be made available (**Note 3**).

(10) CONTINGENCIES

The College is involved, from time to time, in litigation in the ordinary course of business. While any litigation has an element of uncertainty, after reviewing these actions, management is of the opinion that the resolution of currently pending matters will not have a material adverse effect on the financial position or results of its operations.

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The current operating environment is changing rapidly. The extent of impact that the COVID-19 pandemic will have on the financial performance of the College's investments and operations is not reasonably estimable at this time.

(11) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date the financial statements were available for issuance, November 3, 2020, have been evaluated in the preparation of the financial statements.