MUHLENBERG COLLEGE

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2018

MUHLENBERG COLLEGE

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CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2018, and the related statements of activities and changes in unrestricted net assets, changes in net assets 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, 2018, 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 2017 financial statements, and our report dated October 23, 2017, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
October 19, 2018

MUHLENBERG COLLEGE

STATEMENT OF FINANCIAL POSITION

June 30, 2018 With Summarized Information For 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL 2018	TOTAL 2017
ASSETS					
Cash and cash equivalents	$ 21,331,362	$ 8,620,998	$ -	$ 29,952,360	$ 25,705,127
Short-term investments *(Note 2)*	5,054,267	2,016,441	-	7,070,708	6,974,754
Accounts receivable	1,122,546	975	-	1,123,521	1,748,109
Contributions receivable – current *(Note 4)*	-	59,617	677,044	736,661	1,019,266
Inventories and prepaid expenses	1,754,316	-	-	1,754,316	1,254,724
Cash held for long-term investment	5,150,723	2,054,925	-	7,205,648	9,261,879
Long-term investments *(Note 2)*	161,976,212	64,621,744	68,593,147	295,191,103	280,422,751
Contributions receivable *(Note 4)*	-	1,112,695	2,387,218	3,499,913	4,000,247
Notes receivable	-	1,075,715	-	1,075,715	1,221,613
Land, buildings and equipment – net *(Note 5)*	164,788,464	-	3,057,217	167,845,681	170,673,593
Beneficial interest in perpetual trusts *(Note 3)*	-	-	9,000,525	9,000,525	9,014,034
Funds held by trustee and other assets	2,880,507	868,623	-	3,749,130	3,948,312
Total assets	$ 364,058,397	$ 80,431,733	$ 83,715,151	$ 528,205,281	$ 515,244,409
LIABILITIES					
Accounts payable and other accrued expenses	$ 9,503,704	$ 91,778	$ -	$ 9,595,482	$ 9,154,277
Deferred income and student credit balances	4,088,276	-	-	4,088,276	4,108,224
Other liabilities	8,858,763	633,403	-	9,492,166	12,001,641
Federal loan program advance	-	1,374,370	-	1,374,370	1,374,370
Bonds and notes payable *(Note 6)*	65,616,170	-	-	65,616,170	67,639,952
Accrued post-retirement benefit cost *(Note 7)*	3,098,349	-	-	3,098,349	3,371,365
Total liabilities	91,165,262	2,099,551	-	93,264,813	97,649,829
NET ASSETS					
Unrestricted	272,893,135	-	-	272,893,135	267,926,720
Temporarily restricted	-	78,332,182	-	78,332,182	68,142,954
Permanently restricted	-	-	83,715,151	83,715,151	81,524,906
	272,893,135	78,332,182	83,715,151	434,940,468	417,594,580
Total liabilities and net assets	$ 364,058,397	$ 80,431,733	$ 83,715,151	$ 528,205,281	$ 515,244,409

MUHLENBERG COLLEGE

STATEMENT OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS

Year Ended June 30, 2018 With Summarized Information For 2017

	Unrestricted	Designated Funds And Investment In Plant	TOTALS 2018	TOTALS 2017
Operating Revenues				
Tuition and fees	$ 112,720,602	$ -	$ 112,720,602	$ 109,320,171
Less: College funded scholarships	(47,732,670)	(51,297)	(47,783,967)	(44,297,828)
Net Tuition and Fees	64,987,932	(51,297)	64,936,635	65,022,343
Investment earnings, net of fees	7,471,689	166,494	7,638,183	6,939,496
Trust distributions	178,249	14,000	192,249	215,837
Other investment income	989,139	27,063	1,016,202	805,522
Government grants	156,424	-	156,424	148,821
Private gifts and grants	1,974,539	-	1,974,539	2,052,409
Auxiliary enterprises	24,148,929	-	24,148,929	24,260,571
Other sources	507,156	51,636	558,792	936,571
	100,414,057	207,896	100,621,953	100,381,570
Net assets released from restrictions				
Satisfaction of program requirements	4,714,632	32,345	4,746,977	5,344,553
Total Operating Revenues	105,128,689	240,241	105,368,930	105,726,123
Operating Expenses				
Educational and general				
Instruction	46,233,244	1,027,710	47,260,954	46,507,234
Research	511,587	-	511,587	725,166
Library	3,191,159	131,222	3,322,381	3,284,090
Student services	11,159,964	57,046	11,217,010	10,607,177
Student aid	429,884	-	429,884	453,297
General administration	7,168,418	207,209	7,375,627	7,169,309
General institution	7,560,436	262,816	7,823,252	7,625,754
Post-retirement benefits	125,958	-	125,958	39,449
Interest and finance costs	2,862,739	-	2,862,739	3,139,208
Depreciation	-	8,554,237	8,554,237	8,560,910
Total Education and General	79,243,389	10,240,240	89,483,629	88,111,594
Auxiliary enterprises	13,463,759	-	13,463,759	13,523,439
Total Operating Expenses	92,707,148	10,240,240	102,947,388	101,635,033

STATEMENT OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS – (Continued)

Year Ended June 30, 2018 With Summarized Information For 2017

	Unrestricted	Designated Funds And Investment In Plant	TOTALS 2018	TOTALS 2017
Non-Operating Activities				
Bequests	$ 325,172	$ -	$ 325,172	$ 675,107
Investment earnings in excess of amounts designated for current operations	-	(999,815)	(999,815)	16,774,137
Loss on disposal of fixed assets	-	-	-	(70,833)
Other unrealized losses	-	(426,738)	(426,738)	(300,485)
Other income (expenses) –				
Bond settlement amortization	-	(32,271)	(32,271)	(39,778)
Amortization of bond discount/premium	-	81,053	81,053	26,108
Actuarial losses	-	256,945	256,945	(79,045)
Interest rate swaps market value adjustment	-	2,399,204	2,399,204	4,475,213
Excess of payments to healthcare trust over related claims	-	941,323	941,323	1,753,799
Loss on early extinguishment of debt	-	-	-	(1,909,906)
Designations by the Board and Transfers				
Principal payments on debt	(1,975,000)	1,975,000	-	-
Capital expenditures	(4,502,631)	4,502,631	-	-
Designated Funds functioning as endowment	(325,172)	325,172	-	-
Designated for plant	(5,927,888)	5,927,888	-	-
	(12,405,519)	14,950,392	2,544,873	21,304,317
Increase in Unrestricted Net Assets	$ 16,022	$ 4,950,393	$ 4,966,415	$ 25,395,407

MUHLENBERG COLLEGE

STATEMENTS OF CHANGES IN NET ASSETS

Years Ended June 30, 2018 And 2017

	2018	2017
Changes in Unrestricted Net Assets		
Total unrestricted revenues and gains	$ 100,621,953	$ 100,381,570
Net assets released from restrictions	4,746,977	5,344,553
Total unrestricted operating expenses	(102,947,388)	(101,635,033)
Non-operating activities	2,544,873	21,304,317
Increase in Unrestricted Net Assets	4,966,415	25,395,407
Change in Temporarily Restricted Net Assets		
Government grants	322,386	352,406
Private gifts and grants	1,399,558	2,396,120
Endowment income		
Investment earnings designated for current operations	2,102,163	1,896,244
Investment earnings in excess of amounts designated for current operations	10,687,116	4,909,929
Trust distributions	208,145	153,415
Other unrealized gains	(133,148)	-
Other sources	349,985	464,157
Net assets released from restrictions		
Satisfaction of program requirements	(4,746,977)	(5,344,553)
Increase in Temporarily Restricted Net Assets	10,189,228	4,827,718
Change in Permanently Restricted Net Assets		
Private gifts and grants	2,046,742	3,468,012
Endowment income		
Investment earnings, net of fees	157,012	111,341
Net unrealized appreciation (depreciation) of beneficial interest in perpetual trusts	(13,509)	388,709
Increase in Permanently Restricted Net Assets	2,190,245	3,968,062
Increase in Net Assets	17,345,888	34,191,187
Net Assets		
Beginning of year	417,594,580	383,403,393
End of year	$ 434,940,468	$ 417,594,580

MUHLENBERG COLLEGE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 And 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from student tuition and fees and auxiliary enterprises	$ 89,690,204	$ 88,533,618
Cash received gifts and bequests	4,482,208	4,737,173
Government grants	478,810	501,227
Investment and perpetual trust income received, net	5,989,310	5,158,987
Miscellaneous receipts	909,950	1,471,564
Interest and finance costs paid	(2,862,739)	(3,139,208)
Cash paid to employees and suppliers	(90,774,991)	(89,119,970)
Net Cash Provided by Operating Activities	7,912,752	8,143,391
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(5,726,325)	(6,350,473)
Proceeds from sale of investments	32,950,119	80,120,467
Purchase of investments	(33,423,424)	(70,639,405)
Decrease (increase) in cash held for long-term investment	2,056,231	(5,213,982)
(Increase) decrease in short-term investments	(95,954)	113,142
Proceeds from notes receivable and Perkins loans, net	145,898	167,910
Decreased (increase) in funds held by trustee and other assets	199,182	(1,225,101)
Net Cash Used for Investing Activities	(3,894,273)	(3,027,442)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Endowment	2,046,742	3,468,012
Other financing activities		
Interest and dividends received restricted for reinvestment	157,012	111,341
Proceeds from refinancing of long-term debt	-	20,429,274
Payments on long-term debt and note payable	(1,975,000)	(20,615,000)
Net Cash Provided by Financing Activities	228,754	3,393,627
Net Increase in Cash and Cash Equivalents	4,247,233	8,509,576
CASH AND CASH EQUIVALENTS		
Beginning of year	25,705,127	17,195,551
End of year	$ 29,952,360	$ 25,705,127

MUHLENBERG COLLEGE

STATEMENTS OF CASH FLOWS – (Continued)

Years Ended June 30, 2018 And 2017

	2018	2017
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net change in net assets	$ 17,345,888	$ 34,191,187
Adjustments to reconcile the net change in net assets to net cash provided by operating activities		
Depreciation	8,554,237	8,560,910
Amortization	(48,782)	13,670
Loss on early extinguishment of debt	-	1,909,906
Net Loss on disposal of fixed assets	-	70,833
Net realized (gains) losses on long-term investments	(6,735,548)	661,159
Net unrealized gains on long-term investments	(7,559,499)	(26,825,432)
Net unrealized (depreciation) app of beneficial interest in perpetual trusts	13,509	(388,709)
Market value adjustment to swaption	(2,399,204)	(4,475,213)
Decrease (increase) in accounts receivable	624,588	(700,622)
(Increase) decrease in inventories and prepaid expenses	(499,592)	151,157
Decrease (increase) in contributions receivable	782,939	(386,463)
Increase (decrease) in accounts payable and other accrued expenses	441,205	(271,630)
Decrease in deferred income and student credit balances	(19,948)	(48,674)
Increase (decrease) in other liabilities	(110,271)	(485,861)
Decrease in accrued post-retirement benefit costs	(273,016)	(253,474)
Contributions restricted for long-term investment	(2,046,742)	(3,468,012)
Interest and dividends restricted for long-term investment	(157,012)	(111,341)
Net Cash Provided by Operating Activities	$ 7,912,752	$ 8,143,391

(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 2,200 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 unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets 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 unrestricted 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 unrestricted 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.

Temporarily Restricted Net Assets: 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 temporarily restricted to unrestricted net assets.

Permanently Restricted Net Assets: Include 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 unrestricted net assets unless the revenue is restricted by donor-implied restrictions. Expenses are reported as decreases in unrestricted net assets. 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.

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.

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, temporarily restricted net assets are classified to unrestricted net assets 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).***

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 (2015 – 2017) or expected to be taken in the College's 2018 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, 2017, from which the summarized information was derived.

RECLASSIFICATIONS

Certain reclassifications were made to the 2017 financial statements to conform to the 2018 presentation.

OTHER SIGNIFICANT ACCOUNTING POLICIES

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

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the College's financial statements, it is not expected to alter the College's reported financial position. The College will adopt the new ASU in its 2019 fiscal year.

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:

	Book Value June 30,		Market Value June 30,	
	2018	2017	2018	2017
Short-Term Investments				
Common Stocks	$ 911,419	$ 858,204	$ 847,273	$ 751,678
Mutual Funds				
Short-Term Bond Fund	5,895,436	5,784,683	5,714,639	5,720,590
Income Funds	508,796	502,486	508,796	502,486
Total Short-Term Investments	$ 7,315,651	$ 7,145,373	$ 7,070,708	$ 6,974,754

Long-Term Investments are composed of the following:

	Book Value June 30,		Market Value June 30,	
	2018	2017	2018	2017
Long-Term Investments				
United States Government and Federal Agency Bonds	$ 13,641,840	$ 9,618,215	$ 13,402,614	$ 9,760,181
Corporate Bonds, Notes and Commercial Paper	1,900,770	2,605,501	1,924,808	2,700,368
Certificates of Deposit	4,640,067	4,400,994	4,577,737	4,407,215
Mutual Funds/Investment Trusts				
Bond Funds	35,877,269	25,182,553	36,032,256	26,258,426
Equity Funds				
Domestic	66,994,191	54,532,496	78,013,680	61,772,619
International	67,920,342	74,929,062	80,374,527	88,380,309
Income Fund	355,902	355,902	369,831	377,443
Real Assets	7,996,256	9,220,778	9,963,828	10,068,270
Alternative Investments	59,385,873	70,733,278	70,531,822	76,697,920
Total Long-Term Investments	$ 258,712,510	$ 251,578,779	$ 295,191,103	$ 280,422,751

Assets applicable to permanently restricted endowment net assets, including the accumulated endowment gains carried as temporarily restricted and unrestricted funds functioning as endowment net assets 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 $50.28 and $46.65 at June 30, 2018 and 2017, respectively. The average annual income per unit, exclusive of the net gains, amounted to $0.87 and $0.74 in 2018 and 2017, respectively.

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. During 2018, the College used the current earnings (interest and dividends) of the investments plus $5,167,632 of accumulated endowment income to meet the spending policy. During 2017, the College used the current earnings (interest and dividends) of the investments plus $4,780,692 of accumulated endowment income to meet the spending policy. The remainder of the net realized gains and losses and the unrealized gains and losses are retained as part of principal and classified as unrestricted or temporarily restricted based upon the source of the funds, board designated or permanently restricted.

Commonwealth of Pennsylvania law stipulates that realized and unrealized gains in addition to investment income on restricted endowment assets may be expended for the purposes stipulated by the donors only to the extent that the total of such expenditures, do not exceed 7% of the average of the three most recent fiscal years' fair values of the restricted endowment assets. Investment earnings, which include realized and unrealized gains in excess of the authorized spending rate, are included in the statement of activities as increases in the temporarily restricted net assets. Such temporarily restricted amounts may be released to unrestricted net assets in future years based on authorization by the College only to the extent of the 7% limitation applicable to the year in which they are to be released.

Alternative Investments

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

	Fair Value		Unfunded
	2018	2017	Commitment
Hedge Funds – Long/Short	$13,115,194	$19,107,301	$ -
Hedge Funds – Multi-Strategy	27,709,390	28,616,226	-
Hedge Funds – Global Macro	3,463,708	3,146,107	-
Hedge Funds – Special Situations	2,218,764	2,223,740	-
Private Equity – International	1,664,489	1,386,529	338,000
Private Equity – Secondary	6,073,780	5,650,589	16,292,921
Private Equity – Distressed Debt	358,859	601,030	611,651
Private Equity – Diversified	8,352,604	7,348,179	2,591,666
Real Assets – Real Estate	6,017,322	6,581,501	1,884,238
Real Assets – Timber and Energy	1,557,712	2,036,718	246,573
	$70,531,822	$76,697,920	$21,965,049

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.

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.

(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.

Investments Measured Using the Net Asset Value Practical Expedient

For those investments for which fair value is measured using the net asset value practical expedient, the College uses the reported capital account or net asset value (NAV) per share to determine the fair value of investments that (a) do not have a readily determinable fair value due to a lack of market activity or transparency into the underlying investments of the fund and (b) either have the attributes of an investment company or prepare their audited financial statements consistent with the measurement principles of an investment company. Valuations of underlying assets which comprise the capital account or NAV per share are provided by the general partner or fund manager, and consider variables such as comparable sales, income streams discounted for risk levels, and other pertinent information.

The summary of inputs used to value the College's various financial instruments as of June 30, 2018 and 2017 is as follows:

	2018			
	Total	**Level 1 Quoted Prices**	**Level 2 Other Significant Observable Inputs**	**Level 3 Significant Unobservable Inputs**
ASSETS				
Investments				
Common Stock	$ 847,273	$ 847,273	$ -	$ -
Fixed Income Securities	19,905,160	4,577,737	15,327,423	-
Mutual Funds/Investment Trusts	210,977,556	210,607,725	-	369,831
	$ 231,729,989	$ 216,030,024	$ 15,327,423	$ 369,831
Alternative Investments reported at net asset value	70,531,822			
	$ 302,261,811			
Beneficial Interest in Remainder Trust (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)	$ -

	2017			
	Total	**Level 1 Quoted Prices**	**Level 2 Other Significant Observable Inputs**	**Level 3 Significant Unobservable Inputs**
ASSETS				
Investments				
Common Stock	$ 751,678	$ 751,678	$ -	$ -
Fixed Income Securities	16,867,764	4,407,215	12,460,549	-
Mutual Funds/Investment Trusts	193,080,143	192,702,700	-	377,443
	$ 210,699,585	$ 197,861,593	$ 12,460,549	$ 377,443
Alternative Investments reported at net asset value	76,697,920			
	$ 287,397,505			
Beneficial Interest in Remainder Trust (Contributions Receivable)	$ 2,755,165	$ -	$ -	$ 2,755,165
Beneficial Interest in Perpetual Trusts	$ 9,014,034	$ -	$ -	$ 9,014,034
LIABILITIES				
Interest Rate Swap-Obligation	$ (10,777,021)	$ -	$ (10,777,021)	$ -

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, 2018 and 2017 are as follows:

	2018		
	Investments	Beneficial Interest In Remainder Trust	Beneficial Interest In Perpetual Trusts
Balance, June 30, 2017	$ 377,443	$ 2,755,165	$ 9,014,034
Realized/unrealized gain (loss) – net/change in valuation	(7,612)	(139)	(13,509)
Balance, June 30, 2018	$ 369,831	$ 2,755,026	$ 9,000,525

	2017		
	Investments	Beneficial Interest In Remainder Trust	Beneficial Interest In Perpetual Trusts
Balance, June 30, 2016	$ 380,689	$ 2,602,615	$ 8,625,325
Realized/unrealized gain (loss) – net/change in valuation	(3,246)	152,550	388,709
Balance, June 30, 2017	$ 377,443	$ 2,755,165	$ 9,014,034

Beneficial Interests in Remainder Trusts and in Perpetual Trusts are measured at the fair value of the underlying investments at June 30, 2018 and 2017.

There were no transfers between Level 1 and Level 2 during the years ended June 30, 2018 and 2017.

(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, 2018 and 2017, respectively, are expected to be realized as follows:

	2018	2017
In one year or less	$ 736,661	$ 1,019,266
In one to five years	1,046,631	1,853,497
Greater than five years	2,818,834	2,778,115
	4,602,126	5,650,878
Less discount to present value (8%)	(205,859)	(379,755)
Less reserve	(159,693)	(251,610)
Net contributions receivable *	$ 4,236,574	$ 5,019,513

**** Includes $2,799,334 in 2018 and $2,755,165 in 2017 of charitable remainder trusts.***

(5) LAND, BUILDINGS AND EQUIPMENT

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

	2018		2017	
	Unrestricted	Permanently Restricted	Unrestricted	Permanently Restricted
Land and improvements	$ 2,063,047	$ 460,328	$ 2,063,047	$ 460,328
Buildings	250,986,891	50,000	248,730,922	50,000
Equipment	57,766,586	-	56,144,158	-
Library books and historical collections	5,099,477	2,597,078	4,974,221	2,597,078
Construction in process	2,159,193	-	488,522	-
	318,075,194	3,107,406	312,400,870	3,107,406
Less accumulated depreciation	153,286,730	50,189	144,784,494	50,189
	$ 164,788,464	$ 3,057,217	$ 167,616,376	$ 3,057,217

As of June 30, 2018, 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:

	2018	2017
2008 – College Revenue Bonds, Index Rate	$ 44,260,000	$ 45,800,000
2017 – College Revenue Bonds, Fixed Rate	19,925,000	20,360,000
	64,185,000	66,160,000
Bond premium (discount) and unamortized settlement costs	1,431,170	1,479,952
	$ 65,616,170	$ 67,639,952

Series of 2008

On April 4, 2008, the College borrowed $56,505,000 through the issue of tax exempt bonds ***("Series of 2008")*** through the Lehigh County General Purpose Authority, Lehigh County, Pennsylvania ***("Authority")***. Proceeds from the sale of the bonds were used to advance the refund of the Authority's College Revenue Bonds Series of 2005 and 2007, including costs of issuing the 2008 Bonds. Principal of the 2005 and 2007 Bonds in the amount of $47,975,000 and $8,000,000, respectively, was retired in connection with this Bond issuance. During 2013, the bonds were purchased from the original bondholders by U.S. Bank, N.A and the interest rate terms of the bonds were modified. The 2008 Bonds currently bear interest at the LIBOR Index Rate. In April 2019, the interest rate will be renegotiated between the College and the bank and will be effective for an agreed upon term at which the rate will be again renegotiated. Where the negotiations fail to arrive at a new rate, the bonds will be remarketed. The loan agreement places restrictions on additional indebtedness to the extent that **(a)** the College's Expendable Financial Resources are greater than 50% of all outstanding Long Term Debt; **(b)** the Maximum Annual Debt Service on all outstanding Long Term Debt does not exceed 12% of the College's Unrestricted Revenues; and **(c)** short-term indebtedness in any amount up to 25% of College's Expendable Financial Resources for the preceding Fiscal Year, less any short-term debt outstanding, provided, however, that during each Fiscal year there shall be a period of thirty (30) consecutive days during which there shall not be outstanding any Short Term Debt. The series of 2008 bonds are also subject to covenants relating to debt service coverage, liquidity and bond rating.

Interest expense on the 2008 Bonds amounted to $802,142 and $548,773 for the fiscal years ending June 30, 2018 and 2017, respectively.

Mandatory redemption payments under the 2008 Bonds commenced on November 1, 2008 and are scheduled to occur thereafter on November 1st of each year through November 1, 2037 with a final payment of $2,825,000.

In connection with the formerly outstanding 2005 bonds, the College has outstanding interest rate swap agreement in the notional amounts of $23,925,000 with a bank at June 30, 2018 and $23,925,000 and $13,375,000 at June 30, 2017. Under these agreements, the College pays a fixed rate of interest of 4.28% on the notional value of $23,925,000 and 3.802% on the notional value of $13,375,000. In return, the bank pays the College a variable interest rate of interest based upon 67% of the one-month LIBOR (notional value of $23,925,000) and the SIFMA Municipal SWAP Index (notional value of $13,375,000). Interest expense on these interest rate swaps amounted to $895,824 and $1,336,521 for the years ending June 30, 2018 and 2017, respectively. The value of these interest rate swaps was $5,863,561 and $7,702,318 in favor of the bank at June 30, 2018 and 2017, respectively, and is recorded in other liabilities on the statement of financial position.

In connection with the formerly outstanding 2007 bonds, the College has an outstanding interest rate swap agreement in the notional value of $8,000,000 with a bank at June 30, 2018 and 2017. Under this agreement, the College pays a fixed interest rate of 4.459% and in return, the bank pays a variable rate based upon the SIFMA Municipal SWAP index. Interest expense on this interest rate swap was $265,982 and $302,105 for the years ending June 30, 2018 and 2017, respectively. The value of the interest rate swap was $2,514,256 and $3,074,703 in favor of the bank at June 30, 2018 and 2017, respectively, and is recorded 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.

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 $871,297 and 359,691 for the years ended June 30, 2018 and 2017, 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 and Notes Payable and related maturity dates at June 30, 2018 is as follows:

Fiscal Year	2008 Bonds	2017 Bonds	Total
2018-19	$ 1,595,000	$ 460,000	$ 2,055,000
2019-20	1,650,000	480,000	2,130,000
2020-21	1,730,000	490,000	2,220,000
2021-22	1,785,000	500,000	2,285,000
2022-23	1,845,000	510,000	2,355,000
Thereafter	35,655,000	17,485,000	53,140,000
	$ 44,260,000	$ 19,925,000	$ 64,185,000

(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 $3,241,080 and $3,155,000 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 was $2,825,152 and $3,093,311, respectively.

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

(8) NET ASSETS

Unrestricted net assets at June 30, 2018 and 2017 are for the following purposes:

	2018	2017
Operating	$ 228,649	$ 228,649
Designated		
Special programs	5,228,012	12,996,630
Funds functioning as endowment	143,089,300	143,750,394
Plant Fund	34,024,320	21,481,083
Interest rate swap	(8,377,817)	(10,777,021)
Net investment in buildings and equipment	98,700,671	100,246,985
	$ 272,893,135	$ 267,926,720

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

	2018	2017
Instruction and research	$ 6,448,063	$ 6,559,558
Student services	308,998	389,914
Scholarships	1,674,234	1,953,308
Institutional support	1,593,806	1,648,984
Investment in plant	1,189,767	1,202,803
Use in future periods – pledges and other charitable gifts	2,040,935	1,999,899
Accumulated endowment income (including realized and unrealized gains)	63,994,077	53,385,623
Term endowment	1,082,302	1,002,865
	$ 78,332,182	$ 68,142,954

Permanently restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

	2018	2017
Endowments		
Income unrestricted		
Operations	$ 7,182,660	$ 7,160,610
Income restricted		
Scholarships	60,612,845	57,598,525
Other student programs	797,644	797,644
Use in future periods – pledges and other charitable gifts	3,064,261	3,896,877
Beneficial interests in perpetual trusts	9,000,525	9,014,034
	80,657,935	78,467,690
Plant		
Conrad W. Raker Biological Field Station	$ 110,000	$ 110,000
Lee and Virginia Graver Arboretum	350,138	350,138
Sheet music collection	2,597,078	2,597,078
	3,057,216	3,057,216
	$ 83,715,151	$ 81,524,906

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, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes for program or time as follows:

	2018	2017
Program Restrictions:		
Instruction and research	$ 1,571,687	$ 1,873,086
Student services	256,194	279,268
Scholarships	1,916,281	2,262,899
Institutional support	838,432	780,996
Investment in plant	164,383	148,304
	$ 4,746,977	$ 5,344,553

Endowment net asset composition by type of fund as of June 30, 2018 and 2017:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 65,076,379	$ 80,657,935	$ 145,734,314
Funds functioning as endowment funds	143,089,300	-	-	143,089,300
	$ 143,089,300	$ 65,076,379	$ 80,657,935	$ 288,823,614

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 54,388,488	$ 78,467,690	$ 132,856,178
Funds functioning as endowment funds	143,750,394	-	-	143,750,394
	$ 143,750,394	$ 54,388,488	$ 78,467,690	$ 276,606,572

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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Income earned on such gifts is classified as temporarily restricted 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.

Changes in endowment net assets for the years ended June 30, 2018 and 2017:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 143,750,394	$ 54,388,488	$ 78,467,690	$ 276,606,572
Investment return	4,477,292	15,163,352	-	19,640,644
Contributions	-	775	1,979,755	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	(5,416,735)	(4,476,236)	-	(9,892,971)
	$ 143,089,300	$ 65,076,379	$ 80,657,935	$ 288,823,614

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 126,300,249	$ 49,374,100	$ 74,499,628	$ 250,173,977
Investment return	21,741,756	9,047,471	-	30,789,227
Contributions	-	450	3,468,012	3,468,462
Reinvested income	-	-	111,341	111,341
Change in value of beneficial interest in perpetual trust	-	-	388,709	388,709
Transfers*	616,194	-	-	616,194
Endowment income designated for current operations	(4,907,805)	(4,033,533)	-	(8,941,338)
	$ 143,750,394	$ 54,388,488	$ 78,467,690	$ 276,606,572

**** Represents transfers from operations and other designated funds.***

Endowment net assets consist of the following at June 30, 2018 and 2017:

	2018	2017
Investments	$ 276,758,827	$ 263,695,661
Beneficial in interest in perpetual trusts	9,000,525	9,014,034
Pledges and other charitable gifts	3,064,262	3,896,877
	$ 288,823,614	$ 276,606,572

(9) 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.

(10) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date the financial statements were available for issuance, October 19, 2018, have been evaluated in the preparation of the financial statements.