

MUHLENBERG COLLEGE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2023 (With Comparative Financial Information For June 30, 2022)

MUHLENBERG COLLEGE

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Muhlenberg College (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Muhlenberg College and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Muhlenberg College's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Muhlenberg College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Muhlenberg College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Muhlenberg College's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
November 17, 2023**

MUHLENBERG COLLEGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2023 With Summarized Information For 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 13,962,680	\$ 34,607,423
Operating investments	40,873,491	33,254,125
Accounts receivable	1,682,086	1,796,708
Contributions receivable – net	8,807,582	10,435,346
Inventories and prepaid expenses	1,239,367	1,152,675
Endowment investments (includes \$147,338,462 and \$145,735,227 of quasi endowment at June 30, 2023 and 2022, respectively)	308,186,451	299,840,846
Planned giving agreements	2,433,876	3,283,430
Beneficial interest in perpetual trusts	8,877,109	8,668,632
Funds held by trustee and other assets	3,000,324	2,734,055
Land, buildings and equipment – net	<u>165,226,323</u>	<u>160,892,293</u>
Total assets	<u>\$ 554,289,289</u>	<u>\$ 556,665,533</u>
LIABILITIES		
Accounts payable and other accrued expenses	\$ 7,872,621	\$ 9,925,079
Deferred income and student credit balances	1,667,055	1,629,905
Other liabilities	5,451,950	7,777,260
Bonds and notes payable	66,077,348	68,552,364
Accrued post-retirement benefit cost	<u>2,816,516</u>	<u>2,934,848</u>
Total liabilities	<u>83,885,490</u>	<u>90,819,456</u>
NET ASSETS		
Without donor restrictions	266,400,540	264,350,252
With donor restrictions – time and purpose	100,596,939	100,839,920
With donor restrictions – perpetual	<u>103,406,320</u>	<u>100,655,905</u>
	<u>470,403,799</u>	<u>465,846,077</u>
Total liabilities and net assets	<u>\$ 554,289,289</u>	<u>\$ 556,665,533</u>

MUHLENBERG COLLEGE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2023 With Summarized Information For 2022

	Without Donor Restrictions	With Donor Restrictions	TOTALS	
			2023	2022
Operating Revenues				
Tuition and fees	\$ 106,576,801	\$ -	\$ 106,576,801	\$ 109,593,704
Less: Student financial aid	<u>(59,693,984)</u>	<u>(2,043,344)</u>	<u>(61,737,328)</u>	<u>(62,569,043)</u>
Net Tuition and Fees	46,882,817	(2,043,344)	44,839,473	47,024,661
Investment earnings designated for current operations	10,453,391	3,678,123	14,131,514	13,200,463
Trust distributions	308,166	182,972	491,138	364,261
Other investment income	2,011,420	-	2,011,420	706,434
Government grants	2,389,573	27,073	2,416,646	1,354,755
Private gifts and grants	2,565,260	1,423,517	3,988,777	3,974,724
Auxiliary enterprises	23,213,585	-	23,213,585	22,908,270
Other sources	<u>830,873</u>	<u>825,730</u>	<u>1,656,603</u>	<u>2,247,521</u>
	88,655,085	4,094,071	92,749,156	91,781,089
Board designated transfers and unrestricted reserve spending	2,242,080	-	2,242,080	2,547,604
Net assets released from restrictions Satisfaction of program requirements	<u>4,351,738</u>	<u>(4,351,738)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues	<u>95,248,903</u>	<u>(257,667)</u>	<u>94,991,236</u>	<u>94,328,693</u>
Operating Expenses				
Instruction	43,076,110	-	43,076,110	42,712,414
Academic support	4,882,771	-	4,882,771	4,955,678
Student services	18,733,169	-	18,733,169	18,918,176
Institutional support	13,623,361	-	13,623,361	14,542,727
Auxiliary	<u>18,395,802</u>	<u>-</u>	<u>18,395,802</u>	<u>17,327,038</u>
Total Operating Expenses	<u>98,711,213</u>	<u>-</u>	<u>98,711,213</u>	<u>98,456,033</u>
Change in net assets from operations	<u>(3,462,310)</u>	<u>(257,667)</u>	<u>(3,719,977)</u>	<u>(4,127,340)</u>
Non-Operating Activities				
Private gifts and grants	-	2,965,398	2,965,398	9,836,518
Investment earnings in excess of amounts designated for current operations	2,964,230	3,725,090	6,689,320	(34,942,773)
Trust distributions	-	25,668	25,668	22,835
Other unrealized gains (losses)	(1,342,126)	-	(1,342,126)	(3,256,218)
Other income (expenses)	51,708	(120,453)	(68,745)	1,023,400
Interest rate swaps market value adjustment	2,041,787	-	2,041,787	5,042,200
Net unrealized depreciation of beneficial interest in perpetual trusts	-	208,477	208,477	(1,825,304)
Board designated transfers and unrestricted reserve spending	(2,242,080)	-	(2,242,080)	(2,547,604)
Net assets released from restrictions and other transfers	<u>4,039,079</u>	<u>(4,039,079)</u>	<u>-</u>	<u>-</u>
Total non-operating activities	<u>5,512,598</u>	<u>2,765,101</u>	<u>8,277,699</u>	<u>(26,646,946)</u>
Total change in net assets	2,050,288	2,507,434	4,557,722	(30,774,286)
Beginning net assets	<u>264,350,252</u>	<u>201,495,825</u>	<u>465,846,077</u>	<u>496,620,363</u>
Ending net assets	<u>\$ 266,400,540</u>	<u>\$ 204,003,259</u>	<u>\$ 470,403,799</u>	<u>\$ 465,846,077</u>

See accompanying notes to financial statements.

MUHLENBERG COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES

Years Ended June 30, 2023 With Summarized Information For 2022

	2023							2022
	Program Activities			Supporting Activities				
	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary	Plant Operation	Total Expense	
Salaries and benefits	\$ 29,024,936	\$ 1,789,243	\$ 10,098,462	\$ 8,317,545	\$ 2,632,636	\$ 4,168,128	\$ 56,030,950	\$ 56,366,451
Other operating expenses	6,484,873	1,824,154	4,597,149	4,266,239	10,199,917	3,739,332	31,111,664	30,986,777
Depreciation	2,467,520	413,968	1,316,728	339,027	4,203,221	-	8,740,464	8,520,985
Interest	798,411	133,947	426,051	109,698	1,360,028	-	2,828,135	2,581,820
	38,775,740	4,161,312	16,438,390	13,032,509	18,395,802	7,907,460	98,711,213	98,456,033
Plant operation and maintenance	4,300,370	721,459	2,294,779	590,852	-	(7,907,460)	-	-
Total Expenses	<u>\$ 43,076,110</u>	<u>\$ 4,882,771</u>	<u>\$ 18,733,169</u>	<u>\$ 13,623,361</u>	<u>\$ 18,395,802</u>	<u>\$ -</u>	<u>\$ 98,711,213</u>	<u>\$ 98,456,033</u>

The College incurred fundraising expenses, which are included in Institutional Support, of approximately \$4,100,000 and \$4,000,000 during the years ending June 30, 2023, and 2022, respectively.

MUHLENBERG COLLEGE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2023 And 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from student tuition and fees and auxiliary enterprises	\$ 68,204,830	\$ 71,481,008
Cash received gifts and bequests	6,465,562	6,086,974
Federal government grants	2,416,646	1,354,755
Investment and perpetual trust income received, net	8,896,189	21,893,354
Miscellaneous receipts	1,587,858	3,270,921
Interest and finance costs paid	(2,878,151)	(2,631,836)
Cash paid to employees and suppliers	<u>(89,683,618)</u>	<u>(91,197,251)</u>
Net Cash Provided by (Used for) Operating Activities	<u>(4,990,684)</u>	<u>10,257,925</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(13,074,495)	(11,060,823)
Proceeds from sale of investments	43,391,605	91,377,901
Purchase of investments	(46,313,935)	(104,351,989)
Increase in funds held by trustee and other assets	<u>(266,269)</u>	<u>(261,309)</u>
Net Cash Used for Investing Activities	<u>(16,263,094)</u>	<u>(24,296,220)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for endowment	2,965,931	5,721,326
Interest and dividends received restricted for reinvestment	68,104	153,063
Proceeds from issuance of long-term debt	-	12,000,000
Payments on long-term debt and note payable	<u>(2,425,000)</u>	<u>(2,355,000)</u>
Net Cash Provided by Financing Activities	<u>609,035</u>	<u>15,519,389</u>
Net Change in Cash and Cash Equivalents	(20,644,743)	1,481,094
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>34,607,423</u>	<u>33,126,329</u>
End of year	<u>\$ 13,962,680</u>	<u>\$ 34,607,423</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Founded in 1848, Muhlenberg College (the “College” or “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 1,950 students, Muhlenberg 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 that are subject to donor-imposed restrictions that are either maintained in perpetuity or that will be met by actions of the College or by the passage of time. Generally, a donor-imposed restriction is a stipulation that specifies the use of contributed assets only for specific purposes. Some donor-imposed restrictions are temporary in nature, including gifts for capital projects, annuity and life income gifts and pledges. Other donor-imposed restrictions are perpetual or permanent in nature, such as donor-restricted endowment funds.

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.

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.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

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.

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, 2023

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, included in auxiliary enterprises on the statement of activities, is 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.

During the year ended June 30, 2023, the College derecognized a previously recorded salary and benefit accrual for non-faculty full-time staff of approximately \$1.6 million. This accrual was not considered material to the financial statements and as such, a one-time adjustment was reflected in the 2023 financial statements.

LEASES

Operating leases are included in other assets and other liabilities on the statement of financial position. The College determines whether an agreement is or contains a lease at inception.

Operating lease assets represent the College’s right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

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, 2023 and 2022, no provision for income taxes has been made.

Management has reviewed the tax positions for each of the open tax years (2020 – 2022) or expected to be taken in the College's 2023 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, 2022, 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 2022 financial statements have been reclassified to conform to the 2023 presentation.

(2) INVESTMENTS

The composition and market values of the College's operating and endowment investments are as follows:

	<u>Operating</u>		<u>Endowment**</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,542,719	\$ 528,322	\$ 2,342,425	\$ 3,277,143
Common stocks	221,296	838,561	-	-
United States Government and Federal Agency Bonds	12,481,527	14,072,452	-	-
Corporate Bonds, Notes and Commercial Paper	-	14,658	-	-
Certificates of Deposit	5,542,474	5,502,725	-	-
Mutual Funds/Investment Trusts				
Bond Funds*	20,569,650	10,299,426	76,701,985	77,925,865
Equity Funds				
Domestic	461,405	1,946,463	81,002,096	75,648,828
International	25,045	-	26,499,391	35,078,574
Real estate and Commodity	29,375	51,518	-	-
Alternative Investments	-	-	<u>121,640,554</u>	<u>107,910,436</u>
Total Investments	<u>\$ 40,873,491</u>	<u>\$ 33,254,125</u>	<u>\$ 308,186,451</u>	<u>\$ 299,840,846</u>

* This category includes a required collateral account on the Term Loan. See footnote 6 for additional information.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

The components of the investment return on the College's endowment funds for the years ending June 30, 2023 and 2022, and their classification in the statement of activities are as follows:

	<u>2023</u>	<u>2022</u>
Interest and dividends (net of expenses of \$917,509 and \$1,000,643, respectively)	\$ 5,404,274	\$ 4,344,876
Net realized and unrealized gains (losses)	<u>15,416,560</u>	<u>(26,087,186)</u>
Return on endowment investments	<u>\$ 20,820,834</u>	<u>\$ (21,742,310)</u>
Operating:		
Investment earnings designated for current operations	\$ 14,131,514	\$ 13,200,463
Non-operating:		
Investment earnings in excess of amounts designated for current operations	<u>6,689,320</u>	<u>(34,942,773)</u>
	<u>\$ 20,820,834</u>	<u>\$ (21,742,310)</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 \$53.88 and \$52.80 at June 30, 2023 and 2022, respectively. The average annual income per unit, exclusive of the unrealized gains and losses, amounted to \$0.96 and \$4.21 in 2023 and 2022, 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, 2023

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, 2023 and 2022:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
Donor restricted endowment funds	\$ -	\$ 175,994,721	\$ 175,994,721
Funds functioning as endowment	<u>147,338,462</u>	<u>-</u>	<u>147,338,462</u>
	<u>\$ 147,338,462</u>	<u>\$ 175,994,721</u>	<u>\$ 323,333,183</u>
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
Donor restricted endowment funds	\$ -	\$ 169,596,877	\$ 169,596,877
Funds functioning as endowment	<u>145,735,227</u>	<u>-</u>	<u>145,735,227</u>
	<u>\$ 145,735,227</u>	<u>\$ 169,596,877</u>	<u>\$ 315,332,104</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

Changes in endowment net assets for the years ended June 30, 2023 and 2022:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2022	\$ 145,735,227	\$ 169,596,877	\$ 315,332,104
Investment return	9,940,280	10,948,658	20,888,938
Gifts	-	2,417,319	2,417,319
Reinvested income	-	68,104	68,104
Change in value of beneficial interest in perpetual trust	-	208,477	208,477
Transfers*	(2,242,080)	-	(2,242,080)
Other transfers and adjustments	881,085	(21,146)	859,939
Endowment income designated for current operations	<u>(6,976,050)</u>	<u>(7,223,568)</u>	<u>(14,199,618)</u>
Endowment net assets, June 30, 2023	<u>\$ 147,338,462</u>	<u>\$ 175,994,721</u>	<u>\$ 323,333,183</u>

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2021	\$ 165,104,573	\$ 180,580,536	\$ 345,685,109
Investment return	(10,365,381)	(11,223,866)	(21,589,247)
Gifts	-	8,514,007	8,514,007
Reinvested income	-	153,063	153,063
Change in value of beneficial interest in perpetual trust	-	(1,825,304)	(1,825,304)
Transfers*	(2,247,699)	-	(2,247,699)
Other transfers and adjustments	(56,870)	52,571	(4,299)
Endowment income designated for current operations	<u>(6,699,396)</u>	<u>(6,654,130)</u>	<u>(13,353,526)</u>
Endowment net assets, June 30, 2022	<u>\$ 145,735,227</u>	<u>\$ 169,596,877</u>	<u>\$ 315,332,104</u>

* Represents transfers to operations and other designated funds.

Endowment net assets consist of the following at June 30, 2023 and 2022:

	2023	2022
Investments	\$ 308,007,131	\$ 299,665,117
Beneficial interest in perpetual trusts	8,877,109	8,668,632
Pledges and other charitable gifts	<u>6,448,943</u>	<u>6,998,355</u>
	<u>\$ 323,333,183</u>	<u>\$ 315,332,104</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

(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, 2023 and 2022. 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, 2023

The summary of inputs used to value the College's various financial instruments as of June 30, 2023 and 2022 is as follows:

	<u>2023</u>			
	<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				
Cash and Cash Equivalents	\$ 3,885,144	\$ 3,885,144	\$ -	\$ -
Common Stock	221,296	221,296	-	-
Fixed Income Securities	18,024,001	-	18,024,001	-
Mutual Funds/Investment Trusts	<u>205,288,948</u>	<u>204,937,219</u>	<u>-</u>	<u>351,729</u>
	\$227,419,389	\$209,043,659	\$18,024,001	\$ 351,729
Alternative Investments reported at net asset value	<u>121,640,554</u>			
	<u>\$349,059,943</u>			
Planned Giving Agreements	<u>\$ 2,433,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,433,876</u>
Beneficial Interest in Perpetual Trusts	<u>\$ 8,877,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,877,109</u>
LIABILITIES				
Interest Rate Swap-Obligation	<u>\$ 3,675,621</u>	<u>\$ -</u>	<u>\$ 3,675,621</u>	<u>\$ -</u>

	<u>2022</u>			
	<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				
Cash and Cash Equivalents	\$ 3,805,465	\$ 3,805,465	\$ -	\$ -
Common Stock	838,561	838,561	-	-
Fixed Income Securities	19,589,835	-	19,589,835	-
Mutual Funds/Investment Trusts	<u>200,950,673</u>	<u>200,592,952</u>	<u>-</u>	<u>357,721</u>
	\$225,184,534	\$205,236,978	\$19,589,835	\$ 357,721
Alternative Investments reported at net asset value	<u>107,910,437</u>			
	<u>\$333,094,971</u>			
Planned Giving Agreements	<u>\$ 3,283,430</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,283,430</u>
Beneficial Interest in Perpetual Trusts	<u>\$ 8,668,632</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,668,632</u>
LIABILITIES				
Interest Rate Swap-Obligation	<u>\$ 5,717,408</u>	<u>\$ -</u>	<u>\$ 5,717,408</u>	<u>\$ -</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

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, 2023 and 2022 are as follows:

	<u>2023</u>		
	<u>Investments</u>	<u>Planned Giving Agreements</u>	<u>Beneficial Interest In Perpetual Trusts</u>
Balance, June 30, 2022	\$ 357,721	\$ 3,283,430	\$ 8,668,632
Additions		9,409	
Maturity	-	(1,017,809)	-
Realized/unrealized loss – net/change in valuation	<u>(5,992)</u>	<u>158,846</u>	<u>208,477</u>
Balance, June 30, 2023	<u>\$ 351,729</u>	<u>\$ 2,433,876</u>	<u>\$ 8,877,109</u>

	<u>2022</u>		
	<u>Investments</u>	<u>Beneficial Interest In Remainder Trust</u>	<u>Beneficial Interest In Perpetual Trusts</u>
Balance, June 30, 2021	\$ 400,189	\$ 3,655,228	\$ 10,493,936
Realized/unrealized loss – net/change in valuation	<u>(42,468)</u>	<u>(371,798)</u>	<u>(1,825,304)</u>
Balance, June 30, 2022	<u>\$ 357,721</u>	<u>\$ 3,283,430</u>	<u>\$ 8,668,632</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>2023</u>	<u>2022</u>	
Hedge Funds – Long/Short	\$ 418,709	\$ 677,277	\$ -
Hedge Funds – Long-Term	51,339,237	44,063,076	-
Private Equity – International	816,274	1,180,006	143,000
Private Equity – Secondary	48,522,612	39,986,498	35,267,702
Private Equity – Distressed Debt	3,854,099	4,327,495	1,450,553
Private Equity – Diversified	11,949,838	11,800,325	3,980,911
Real Assets – Real Estate	4,513,178	5,627,147	1,141,545
Real Assets – Timber and Energy	<u>226,607</u>	<u>248,613</u>	<u>149,717</u>
	<u>\$121,640,554</u>	<u>\$107,910,437</u>	<u>\$42,133,428</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.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

Hedge Funds – Long-Term

The objective of the fund is to generate long-term growth by investing primarily in equity and equity-related securities. Redemption requests are subject to the approval of the general partner and can be made on a quarterly basis.

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.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

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 as of June 30 are expected to be realized as follows:

	<u>2023</u>	<u>2022</u>
In one year or less	\$ 3,906,129	\$ 2,980,302
In one to five years	4,252,608	7,281,676
Greater than five years	<u>3,786,464</u>	<u>3,869,466</u>
	11,945,201	14,131,444
Discount to present value (4%)	(2,158,999)	(2,536,615)
Reserve	<u>(978,620)</u>	<u>(1,159,483)</u>
Contributions receivable, net	<u>\$ 8,807,582</u>	<u>\$10,435,346</u>

(5) LAND, BUILDINGS AND EQUIPMENT

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

	<u>2023</u>		<u>2022</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	\$ 2,931,676	\$ 460,328	\$ 2,871,594	\$ 460,328
Buildings	272,664,321	50,000	256,404,129	50,000
Equipment	75,127,890	-	72,297,741	-
Library books and historical collections	5,482,303	2,597,078	5,430,227	2,597,078
Construction in process	<u>2,548,970</u>	<u>-</u>	<u>8,699,132</u>	<u>-</u>
	358,755,160	3,107,406	345,702,823	3,107,406
Less accumulated depreciation	<u>196,586,243</u>	<u>50,000</u>	<u>187,867,936</u>	<u>50,000</u>
	<u>\$162,168,917</u>	<u>\$3,057,406</u>	<u>\$157,834,887</u>	<u>\$3,057,406</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

As of June 30, 2023, 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>2023</u>	<u>2022</u>
2019 – College Revenue Bonds, Index Rate	\$ 35,780,000	\$ 37,695,000
2017 – College Revenue Bonds, Fixed Rate	17,485,000	17,995,000
Term Loan	<u>12,000,000</u>	<u>12,000,000</u>
	65,265,000	67,690,000
Bond premium, net of unamortized settlement costs	<u>812,348</u>	<u>862,364</u>
	<u>\$ 66,077,348</u>	<u>\$ 68,552,364</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, 2023 and 2022, 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, 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. The Series of 2019 Bonds have outstanding balances at June 30, 2023 and 2022 of \$3,855,000 and \$5,770,000, respectively, which are not covered by the notional amount of the swap agreements. The value of the interest rate swap agreements as of June 30, 2023 and 2022 were \$3,675,621 and \$5,717,408 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 \$1,665,009 and \$1,618,398 for the years ended June 30, 2023 and 2022.

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, 2023

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 \$826,963 and \$838,838 for the years ended June 30, 2023 and 2022, 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.

Term Loan

On September 27, 2021, the College borrowed \$12,000,000 to finance the construction of a building on its campus. The term loan will be utilized as a source of funding for a portion of the costs of the construction of the new building in anticipation of the receipt of capital gifts designated for the project. The term loan accrues interest at a rate of one-month of LIBOR rate plus 1.00%. The term loan matures, and payment is due in full on September 27, 2024. As of June 30, 2023 and 2022, \$12,000,000 was outstanding. Interest expense for the years ended June 30, 2023 and 2022 was \$318,814 and \$104,124, respectively.

The College must maintain certain financial covenants in accordance with the Term Loan agreement:

- a. Maintain at least \$100,000,000 under the custody of the lender.
- b. Maintain a collateral value of at least 1.5 times the aggregate outstanding principal amount of the Term Loan in a segregated investment account.

A summary of Bonds Payable and related maturity dates at June 30, 2023 is as follows:

<u>Fiscal Year</u>	<u>2019 Bonds</u>	<u>2017 Bonds</u>	<u>Term Loan</u>	<u>Total</u>
2023-24	\$ 1,990,000	\$ 525,000	\$ -	\$ 2,515,000
2024-25	2,040,000	540,000	12,000,000	14,580,000
2025-26	2,050,000	555,000	-	2,605,000
2026-27	2,115,000	570,000	-	2,685,000
2027-28	2,180,000	590,000	-	2,770,000
Thereafter	<u>25,405,000</u>	<u>14,705,000</u>	<u>-</u>	<u>40,110,000</u>
	<u>\$ 35,780,000</u>	<u>\$ 17,485,000</u>	<u>\$ 12,000,000</u>	<u>\$ 65,265,000</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

(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 \$1,804,000 and \$1,601,000 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022 was \$2,586,891 and \$2,728,541, respectively.

(8) LEASE COMMITMENTS

The College has operating leases for office space, storage and certain equipment. The following is quantitative data related to the College’s operating leases for the year ended June 30, 2023:

	<u>2023</u>	<u>2022</u>
Operating Lease Amounts:		
Right-of-use assets	\$ 216,552	\$ 434,627
Lease liabilities	\$ 216,552	\$ 434,627
Other Information:		
Operating outgoing cash flows for operating leases	\$ 275,693	\$ 350,418
Weighted-average remaining lease term	2.94 years	1.83 years
Weighted average discount rate	8.38%	6.24%

Lease cost information for the year ended June 30, 2023 is as follows:

Operating lease cost	<u>\$ 275,693</u>	<u>\$ 350,418</u>
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Future lease payments at June 30, 2023:

<u>Year Ending June 30</u>	
2024	\$ 135,196
2025	<u>91,267</u>
Total	226,463
Less: present value adjustment	<u>(9,911)</u>
Lease liability	<u>\$ 216,552</u>

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

(9) NET ASSETS

Net assets without donor restrictions at June 30, 2023 and 2022 are for the following purposes:

	<u>2023</u>	<u>2022</u>
Designated		
Special programs	\$ 26,738,620	\$ 30,779,640
Funds functioning as endowment	147,338,462	145,735,227
Interest rate swap	(3,675,621)	(5,717,418)
Net investment in buildings and equipment	<u>95,999,079</u>	<u>93,552,803</u>
	<u>\$ 266,400,540</u>	<u>\$ 264,350,252</u>

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

	<u>2023</u>	<u>2022</u>
Purpose restrictions	\$ 20,158,617	\$ 22,121,122
Use in future periods – pledges and other charitable gifts	4,792,514	6,720,420
Accumulated endowment income	74,481,587	70,858,269
Term endowment	<u>1,164,221</u>	<u>1,140,109</u>
	<u>100,596,939</u>	<u>100,839,920</u>
Plant – Required to be held in perpetuity		
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>2023</u>	<u>2022</u>
Endowments – Required to be held in perpetuity		
Income without restriction		
Operations	\$ 7,455,235	\$ 7,429,567
Income restricted		
Scholarships	54,531,870	52,623,454
Other purposes	23,035,757	21,878,491
Use in future periods – pledges and other charitable gifts	6,448,943	6,998,355
Beneficial interests in perpetual trusts	<u>8,877,109</u>	<u>8,668,632</u>
	<u>100,348,914</u>	<u>97,598,499</u>
Total net assets with donor restrictions	<u>\$ 204,003,259</u>	<u>\$ 201,495,825</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, 2023

During the years ended June 30, 2023 and 2022, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes for program or time as follows:

	<u>2023</u>	<u>2022</u>
Program Restrictions:		
Instruction and research	\$ 1,507,489	\$ 1,253,158
Student services	221,119	302,315
Scholarships	2,149,564	1,709,128
Institutional support	473,566	134,049
Investment in plant	<u>-</u>	<u>51,702</u>
	<u>\$ 4,351,738</u>	<u>\$ 3,450,352</u>

(10) 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>2023</u>	<u>2022</u>
Cash and investments	\$ 34,194,452	\$ 37,590,733
Accounts receivable	<u>1,682,086</u>	<u>1,763,513</u>
Total financial assets	35,876,538	39,354,246
Board approved endowment distribution for current operations	<u>10,789,000</u>	<u>10,552,643</u>
Financial assets available to meet general expenditures within one year	<u>\$ 46,665,538</u>	<u>\$ 49,906,889</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 \$147,338,462 and \$145,735,227 of quasi endowment funds as of June 30, 2023 and 2022, 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**).

(11) 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.

(12) RELATED PARTY TRANSACTIONS

The College receives from contributions from many individuals and organizations. The College recognized contributions from its trustees of approximately \$450,000 and \$490,000 in 2023 and 2022, respectively, and has pledges outstanding from trustees of approximately \$4,200,000 and \$4,100,000, as of June 30, 2023 and 2022, respectively.

MUHLENBERG COLLEGE

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023

(13) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date the financial statements were available for issuance, November 17, 2023, have been evaluated in the preparation of the financial statements.