LEHIGH UNIVERSITY

Consolidated Financial Statements

June 30, 2016
(with comparative financial information for June 30, 2015)

(With Independent Auditors' Report Thereon)

LEHIGH UNIVERSITY

Table of Contents

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
Lehigh University:

We have audited the accompanying consolidated financial statements of Lehigh University, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lehigh University as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Lehigh University's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 20, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
October 24, 2016

LEHIGH UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2016
(with comparative financial information for June 30, 2015)

(In thousands)

Assets		**2016**	**2015**
Cash and cash equivalents (note 1(c))	$	24,930	28,626
Accounts receivable, net (note 5)		12,946	15,961
Inventories		1,590	1,752
Prepaid expenses and other assets		5,584	4,438
Contributions receivable, net (note 8)		37,030	56,688
Notes receivable, net (note 6)		12,767	13,140
Investments (notes 2 and 4)		1,554,579	1,662,156
Funds held in trust by others		4,332	4,615
Land, buildings, and equipment, net (note 7)		401,190	391,763
Total assets	$	2,054,948	2,179,139
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	37,888	42,399
Deferred revenues		23,837	22,550
Annuity payment liability		19,443	18,786
Other liabilities (notes 10, 11, and 13)		55,982	47,838
Deposits held for others		1,385	1,348
Refundable federal student loan funds		2,194	2,289
Bonds, loans, and notes payable (note 10)		240,025	280,887
Total liabilities		380,754	416,097
Net assets (notes 3 and 9):			
Unrestricted		839,051	881,797
Temporarily restricted		309,160	374,325
Permanently restricted		525,983	506,920
Total net assets		1,674,194	1,763,042
Total liabilities and net assets	$	2,054,948	2,179,139

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2016
(with summarized comparative financial information for year ended June 30, 2015)

(In thousands)

		2016				
		Unrestricted	Temporarily restricted	Permanently restricted	Total	2015
Support and revenues:						
Tuition and fees, net (note 1(i))	$	185,644	—	—	185,644	180,099
Federal grants and contracts		23,597	—	—	23,597	27,085
State and local grants and contracts		6,314	—	—	6,314	7,255
Private grants and contracts		5,807	—	—	5,807	6,026
Contributions		15,090	—	—	15,090	12,141
Investment return (note 2)		82,527	—	—	82,527	77,949
Auxiliary enterprises		43,492	—	—	43,492	42,063
Independent operations (note 1(a))		11,123	—	—	11,123	10,087
Other sources		9,543	—	—	9,543	10,145
Gifts and trusts released from restrictions		3,164	(3,164)	—	—	—
Total support and revenues		386,301	(3,164)	—	383,137	372,850
Expenses:						
Instruction		144,281	—	—	144,281	141,789
Research		39,285	—	—	39,285	40,459
Public service		3,258	—	—	3,258	3,244
Academic support		32,460	—	—	32,460	32,416
Student services		36,216	—	—	36,216	36,320
Institutional support (note 16)		69,522	—	—	69,522	67,264
Auxiliary enterprises		37,757	—	—	37,757	36,039
Independent operations (note 1(a))		11,240	—	—	11,240	10,195
Total expenses (note 12)		374,019	—	—	374,019	367,726
Operating income (loss)		12,282	(3,164)	—	9,118	5,124
Nonoperating activity:						
Investment return (note 2):						
University		(68,149)	(48,245)	(370)	(116,764)	(31,678)
Independent operations		387	—	—	387	(1,095)
Gifts and trusts		3,244	3,107	15,180	21,531	20,215
Gifts and trusts released from restrictions and changes in donor intent		16,899	(17,101)	202	—	—
Change in fair value of interest rate swaps (note 11)		(3,189)	—	—	(3,189)	984
Postretirement plan changes other than net periodic benefit costs (note 13):						
University		(2,559)	—	—	(2,559)	4,383
Independent operations		(63)	—	—	(63)	129
Other		(1,598)	238	4,051	2,691	(2,081)
Nonoperating income (loss)		(55,028)	(62,001)	19,063	(97,966)	(9,143)
Change in net assets		(42,746)	(65,165)	19,063	(88,848)	(4,019)
Net assets, beginning of year		881,797	374,325	506,920	1,763,042	1,767,061
Net assets, end of year	$	839,051	309,160	525,983	1,674,194	1,763,042

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2016
(with comparative financial information for year ended June 30, 2015)

(In thousands)

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	(88,848)	(4,019)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Gifts and trusts restricted for long-term investment		(17,393)	(26,483)
Noncash contributions		(2,132)	(1,914)
Investment earnings restricted for long-term investment		281	(343)
Net realized gains on investments		(24,912)	(86,355)
Net unrealized losses on investments		69,008	58,816
Change in fair value of rate swap liabilities		2,786	(791)
Payment of annuity obligations		1,336	1,341
Other nonoperating activity		417	476
Depreciation and amortization		27,903	26,455
Independent operations provision for bad debts		1,841	1,020
University provision for bad debts		381	92
Change in operating assets and liabilities:			
Decrease (increase) in accounts receivable		2,420	(89)
Decrease in inventories		162	45
Decrease in contributions receivable		19,658	13,462
(Decrease) increase in accounts payable and accrued expenses		(4,511)	2,357
Increase (decrease) in deferred revenues		1,287	(2,660)
Increase (decrease) in annuity payment liability		657	(167)
Increase (decrease) in deposits held for others		37	(13)
Increase (decrease) in accrued postretirement benefit cost		4,867	(1,926)
(Increase) decrease in other assets		(1,146)	1,338
(Decrease) increase in other liabilities		(53)	142
Net cash used in operating activities		(5,954)	(19,216)
Cash flows from investing activities:			
Proceeds from sale of investments		1,734,705	1,526,565
Purchases of investments		(1,670,942)	(1,520,371)
Student loans and other notes advanced		(1,272)	(1,304)
Independent operations loans advanced		(1,607)	(2,032)
Student loans and other notes collected		1,339	1,299
Independent operations loans collected		270	972
Purchase of land, buildings, and equipment		(34,895)	(51,797)
Net cash provided by (used in) investing activities		27,598	(46,668)
Cash flows from financing activities:			
Proceeds from issuance of indebtedness		—	25,000
Repayments of principal of indebtedness		(41,021)	(5,801)
Gifts and trusts restricted for long-term investment		17,393	26,483
Investment earnings restricted for long-term investment		(281)	343
Decrease in refundable loan funds		(95)	(101)
Payment of annuity obligations		(1,336)	(1,341)
Net cash (used in) provided by financing activities		(25,340)	44,583
Net decrease in cash and cash equivalents		(3,696)	(21,301)
Cash and cash equivalents at beginning of year		28,626	49,927
Cash and cash equivalents at end of year	$	24,930	28,626
Supplemental data:			
Interest paid	$	9,829	10,053

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Lehigh University (the University), an independent, nondenominational, coeducational university, is incorporated in the Commonwealth of Pennsylvania as a nonprofit corporation and is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The University is accredited by the Middle States Association of Colleges and Schools.

Founded in 1865, the University has approximately 5,100 undergraduates within its three major units – the College of Arts and Sciences, the College of Business and Economics, and the P.C. Rossin College of Engineering and Applied Science – and approximately 2,000 students enrolled in graduate programs offered through these colleges and in the College of Education.

The University's subsidiary organization, LU Properties, LLC (LU Properties), a Pennsylvania limited liability company, serves as Manager for twenty-three limited liability companies that were established as a result of a real estate gift. The University is the sole member of all of the limited liability companies. As Manager, LU Properties is responsible for the strategic and operational aspects of the real estate investment. The results of their operations are shown as nonoperating investment return in the University's consolidated statement of activities.

The University is also the sole member of So-Beth Funding LLC (So-Beth Funding). So-Beth Funding was formed to improve the condition of residential properties and quality of property management in the South Bethlehem community in order to create a more attractive and safe neighborhood for University students and the greater community. The results of So-Beth Funding's operations appear as institutional support in the University's consolidated statement of activities.

In 2016 the University established South River Investments LLC (South River), a Pennsylvania limited liability company, to own and develop certain real estate properties in the local community. The results of South River's operations appear as public service in the University's consolidated statement of activities.

The Ben Franklin Technology Partners of Northeastern PA (BFTP), Manufacturers Resource Center (MRC), and Lehigh and Northampton Counties Revolving Loan Fund (RLF) are also wholly owned subsidiaries of the University. The results of their operations are shown as independent operations in the University's consolidated statement of activities.

BFTP is an entity that encourages public and private sector cooperation in stimulating economic growth. BFTP provides funds to its clients under the terms of its early stage and established manufacturer loan programs. Considering the nature of the loans and collection history, BFTP has recorded an estimated allowance for doubtful collections.

MRC provides resources to help small and medium-sized regional manufacturing companies enhance their ability to compete successfully by providing consulting, education, and strategic partnering services. RLF's principal activity is to provide capital (in the form of loans) to new and existing businesses for the purpose of creating and retaining permanent private-sector jobs.

The majority of the independent operations revenue reported in the University's consolidated statement of activities relates to BFTP and MRC revenue received in the form of federal and state grants and client fees for services.

The assets and liabilities of all subsidiary organizations appear in the appropriate line items of the consolidated statement of financial position.

(b) Basis of Presentation

The accompanying consolidated financial statements of the University include all subsidiary organizations and have been prepared on the accrual basis of accounting and in conformity with U.S. generally accepted accounting principles (GAAP). All significant inter-organizational balances and transactions have been eliminated.

The University's consolidated financial statements are presented in accordance with the external financial reporting requirements for not-for-profit organizations, which include three basic financial statements and the classification of resources into three separate classes of net assets, as follows:

Unrestricted – Net assets that are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or management.

Temporarily Restricted – Net assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations.

Permanently Restricted – Net assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University. Generally, the donors of these assets permit the University to use all or part of the investment income on related investments for general or specific purposes. Such assets primarily include the University's permanent endowment fund.

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, gains and losses on investments net of the University's spending policy, and certain postretirement benefits-related changes in net assets.

(c) Cash Equivalents

All highly liquid investments with an original maturity of three months or less, except those held for long-term investment purposes, are considered to be cash equivalents.

(d) Inventories

Inventories are stated at the lower of cost or net realizable value.

(e) Investments

Investments are stated at fair value or net asset value (NAV) as a practical expedient to fair value (see note 4).

Unrealized gains and losses on investments are included in nonoperating investment return in the consolidated statement of activities.

The University's investments are exposed to various risks such as interest rate, market, and credit risks. Such risks, and the resulting investment security values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

(f) Contributions

Contributions received, including unconditional promises to give, are recognized as revenues when the donor's commitment is received. Unconditional promises to give are recognized at the estimated present value of the future cash flows, net of allowances. Allowances for uncollectible amounts are recorded based on management's estimate of realizability of the underlying pledges.

Contributions made towards long-lived assets are held as temporarily restricted until the asset is completed and available for use. At such time, the contribution is considered to be released from restriction and reclassified to unrestricted net assets. Contributions that are released from restriction within the year received are classified as unrestricted gifts. Gifts of noncash assets are recorded at their fair value. Conditional promises are recorded when donor stipulations are substantially met.

(g) Split-Interest Agreements and Annuities Payable

The University's split-interest agreements with donors consist primarily of annuity, life income, and charitable trusts for which the University serves as trustee. A majority of the assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets and changes in the estimated present value of future cash outflows and other changes in the estimates of future benefits. The annuities payable represent the net present value of future cash outflows over the annuitant's life expectancy, as required by the annuity agreements. The net present value is calculated using a discount rate range of 1.57% to 7.5%. The University is required by the laws of certain states to register and maintain reserves against charitable gift annuities. Such reserves amounted to approximately $11.8 million and $11.4 million as of June 30, 2016 and 2015, respectively, and are reported within investments in the consolidated statement of financial position.

(h) Land, Buildings, and Equipment

Land, buildings, and equipment are carried at cost or at the fair market value at the date of the gift, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related asset. Depreciation is not recorded on land. Such assets and lives generally are as follows:

Buildings	50 to 60 years
Equipment	5 to 10 years
Leasehold and other improvements	10 to 20 years

(i) Tuition and Fees

Tuition and fees are reported net of financial aid that effectively reduces the amount of tuition and fees collected from students. Financial aid amounts offset against gross tuition and fees for 2016 and 2015 were $86.6 million and $82.5 million, respectively.

(j) Asset Retirement Liabilities

The University recognizes a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the University capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statement of activities.

(k) Deferred Revenues

Revenues received in exchange transactions for specific activities that have not yet taken place are recorded as deferred revenue. Significant components of deferred revenue include student tuition and educational fees received in advance of services to be rendered and unexpended advances of grant and contract revenues.

(l) Use of Estimates

The preparation of the University’s consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated statement of financial position and the reported amounts of revenue and expense included in the consolidated statement of activities. Actual results could differ from such estimates. Significant estimates include alternative investments that are measured at NAV per share as a practical expedient for fair value, the postretirement benefit liability, and allocation of functional expenses.

(Continued)

(m) Reclassifications

Certain 2015 amounts have been reclassified to conform to their presentation in the 2016 consolidated financial statements.

(n) Recent Accounting Pronouncements

In June 2015, the Financial Accounting Standards Board issued ASU No. 2015-10, *Technical Corrections and Improvements*, that addresses a variety of matters, including the amendment of the master glossary term, *readily determinable fair value*. Paragraph 30 of the ASU states that the fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

Paragraph 30 of the ASU became effective upon issuance. This guidance has resulted in the correction and reclassification of certain investments held by the University from investment funds measured at NAV (or its equivalent) to Level 2 of the fair value hierarchy. This guidance has been applied retrospectively and is reflected in the fair value hierarchy as of June 30, 2016 and 2015.

(o) Prior Year Summarized Financial Information

The consolidated 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 GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2015, from which the summarized information was derived.

(2) Investments

Investments by major category at June 30, 2016 and 2015 are as follows (in thousands):

		2016	2015
Short-term investments	$	69,021	6,100
Fixed income investments:			
U.S. government		146,084	161,952
Corporate		90,590	116,678
Other		3,300	6,905
Corporate stocks		22,192	19,863
Mutual and exchange-traded funds		191,661	239,284
Real estate		17,626	19,926
Alternative investments:			
Global equity		359,174	405,279
Hedged equity		59,585	65,323
Absolute return		252,878	273,305
Natural resources equity		23,542	28,650
Developed market credit		15,681	16,036
Private investments		300,089	299,720
Life insurance and other investments		3,156	3,135
Total investments	$	1,554,579	1,662,156

The University's investments are comprised of the assets of the University's endowment, assets supporting certain split interest agreements, and other investments for general operating purposes. Investments are reported at fair value or NAV as a practical expedient to fair value. Note 4, Fair Value Measurements, provides additional information about inputs used to determine fair value and about investments reported at NAV.

The majority of endowment and annuity fund investments are combined in investment pools with each individual account subscribing to or disposing of shares on the basis of the fair value per share. The investment objective is to maximize long-term total return through a combination of income and capital appreciation in a manner consistent with sound investment practices.

The University is obligated under certain investment agreements to periodically advance additional funding up to contractual levels. At June 30, 2016 and 2015, the University had unfunded commitments of $156 million and $155 million, respectively. While it is uncertain as to when these commitments will be called since the agreements do not specify exact funding dates, it is likely that funding will occur over the next several years. Funds to meet these commitments will be generated from rebalancing the investment pool asset allocation, as well as donor gifts and existing cash.

The components of total investment return are reflected below (in thousands). Investment earnings at June 30, 2016 and 2015 are net of investment expenses of approximately $10.2 million and $9.1 million, respectively.

		2016	2015
Investment earnings	$	10,421	18,077
Net realized and unrealized (losses) gains		(44,658)	28,194
		(34,237)	46,271
Independent operations – net realized and unrealized gains (losses)		562	(655)
Independent operations – other investment earnings		344	816
Total	$	(33,331)	46,432

Investment return, as reflected in the consolidated statement of activities, consists of the following components (in thousands):

		2016	2015
Operating:			
Endowment spending distribution	$	65,457	61,574
Spending distribution – other		9,821	9,916
Other investment earnings		7,249	6,459
		82,527	77,949
Independent operations – realized gains		175	440
Independent operations – other investment earnings		344	816
Total operating		83,046	79,205
Nonoperating:			
Endowment spending distribution		167	326
Other investment (losses) gains		(447)	17
Net realized and unrealized losses net of spending distribution		(116,484)	(32,021)
		(116,764)	(31,678)
Independent operations – net unrealized gains (losses)		387	(1,095)
Total nonoperating		(116,377)	(32,773)
Total investment return	$	(33,331)	46,432

(3) Endowment Net Assets

The University's endowment consists of approximately 2,700 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments (board-designated). Net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

The University has interpreted relevant law as requiring the preservation of the original fair value of permanently restricted endowment funds as of the gift date, absent explicit donor stipulations to the contrary. From time to time, the fair value of assets associated with these funds may fall below the original fair value amount. Deficiencies of this nature at June 30, 2016 and 2015 were $27.1 million and $10.5 million, respectively. Such deficiencies are recorded as a decrease to unrestricted net assets and an increase to temporarily restricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the new permanently restricted contributions.

Endowment funds include funds actively managed by the University as part of a single commingled investment pool as well as a limited number of individual funds that are separately invested or held in trust by others. The principal financial objective of the endowment pool is that the real purchasing power of the endowment principal should be preserved and, if possible, enhanced, to help ensure the University's financial future. The productivity of the endowment pool must strike a balance between the preservation of principal in real terms for perpetuity and supporting a spending policy that sustains the educational mission of the University.

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 University's investment policy includes a target asset allocation, well diversified among suitable asset classes that is expected to generate, on average, the level of expected return necessary to meet endowment objectives at a responsible level of volatility consistent with achieving that return. To monitor the effectiveness of the investment strategy of the endowment pool, performance goals are established to exceed the expected real rate of return, established benchmark indices, and the median return of comparable endowment funds.

Commonwealth of Pennsylvania law permits the University 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 University. Therefore, in accordance with Commonwealth of Pennsylvania law regarding the investment of trust funds, gains on permanently restricted funds are classified as temporarily restricted net assets until appropriated under the spending policy. Net gains in excess of the spending policy are reflected as nonoperating investment return activity.

The University has an endowment spending policy based on 5% of a three-year moving average market value with a minimum increase of 0% per year and a maximum increase of 10% per year over the prior year's spending rate.

Any income earned in excess of the spending limit is reinvested while funds may be withdrawn from investment return earned in prior years if income is less than the spending policy provision. This is designed to insulate investment policy from budgetary pressures, and to insulate program spending from fluctuations in capital markets. Average annual spending rates per share were 5.6% and 5.2% for fiscal years 2016 and 2015, respectively.

Endowment net asset composition as of June 30, 2016 (in thousands):

		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds (corpus)	$	(27,131)	32,101	476,063	481,033
Board-designated endowment funds (corpus)		214,064	—	—	214,064
Accumulated gains on endowment funds		155,747	257,348	—	413,095
Total endowment net assets	$	342,680	289,449	476,063	1,108,192

Endowment net asset composition as of June 30, 2015 (in thousands):

		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds (corpus)	$	(10,543)	13,808	435,221	438,486
Board-designated endowment funds (corpus)		230,654	—	—	230,654
Accumulated gains on endowment funds		175,149	323,879	—	499,028
Total endowment net assets	$	395,260	337,687	435,221	1,168,168

Changes in endowment net assets for the year ended June 30, 2016 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2015	$ 395,260	337,687	435,221	1,168,168
Investment return:				
Investment income	12,627	24	145	12,796
Net (depreciation) appreciation	(28,328)	(8,772)	1,586	(35,514)
Total investment return	(15,701)	(8,748)	1,731	(22,718)
Contributions	4,905	5	39,111	44,021
Board designations/changes in donor intent	(2,892)	-	-	(2,892)
Amounts appropriated for expenditure:				
Endowment spending distribution	(30,433)	(35,191)	-	(65,624)
Endowment operating expense	(3,722)	(4,304)	-	(8,026)
Total amounts appropriated for expenditure	(34,155)	(39,495)	-	(73,650)
Change in other endowment liabilities	(4,737)	-	-	(4,737)
Total change in endowment funds	(52,580)	(48,238)	40,842	(59,976)
Net assets, June 30, 2016	$ 342,680	289,449	476,063	1,108,192

Changes in endowment net assets for the year ended June 30, 2015 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2014	$	392,145	352,715	426,330	1,171,190
Investment return:					
Investment income		21,870	22	2,235	24,127
Net appreciation		4,949	15,544	116	20,609
Total investment return		26,819	15,566	2,351	44,736
Contributions		1,283	25	16,258	17,566
Board designations/changes in donor intent		9,811	1,697	(9,718)	1,790
Amounts appropriated for expenditure:					
Endowment spending distribution		(32,903)	(28,997)	—	(61,900)
Endowment operating expense		(3,766)	(3,319)	—	(7,085)
Total amounts appropriated for expenditure		(36,669)	(32,316)	—	(68,985)
Change in other endowment liabilities		1,871	—	—	1,871
Total change in endowment funds		3,115	(15,028)	8,891	(3,022)
Net assets, June 30, 2015	$	395,260	337,687	435,221	1,168,168

(4) Fair Value Measurements

The three levels of the fair value hierarchy are described below. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements):

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Quoted prices for instruments that are identical or similar in markets that are not active and model-derived valuations for which all significant inputs are observable, either directly or indirectly in active markets.

(Continued)

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

The hierarchy requires the use of observable market data when available. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the measurement.

The following discussion describes the valuation methodologies used for assets and liabilities measured at fair value:

(a) Short-Term Assets and Liabilities

The carrying amount of student accounts receivable, accounts payable and accrued expenses, and the commercial paper component of the University's debt approximates fair value due to the short maturity of these financial instruments.

(b) Notes Receivable

Notes receivable are carried at face value less an allowance for doubtful accounts. A reasonable estimate of the fair value of loans receivable under student loan programs is not practical to determine because the federally sponsored loans are subject to significant government restrictions as to marketability, interest rates, and repayment terms. Because of the early stage nature of the companies to which program loans are provided by BFTP and the lack of a secondary market for such securities, it is not practical to determine their fair value.

(c) Contributions Receivable

The University values contributions receivable at fair value on the date the pledge is received using the present value of future cash flows as described in note 8 based on Level 3 inputs. Contributions receivable are not measured at fair value subsequent to this initial measurement, because the discount rate selected for each contribution remains constant over time.

(d) Funds Held in Trust by Others

Funds held in trust by others are held and administered by outside trustees, with the University deriving income or a residual interest from the assets of such funds. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence. As of June 30, 2016 and 2015, the inputs to fair value of these funds are classified as Level 2 or Level 3, depending on whether the assets will ultimately be distributed to the University.

(e) Split-Interest Agreements

Depending on the type of agreement, fair value measurements for split-interest agreements are performed either at inception or on a recurring basis. Fair value of 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.

(Continued)

(f) Debt and Related Interest Rate Swaps

The fair value of variable rate revenue bonds is based on current interest rates for bonds of similar ratings and maturities. The fair value of fixed rate bond debt is determined by discounting future cash flows of each instrument at rates that reflect, among other things, market interest rates and the University's credit standing. The inputs to fair value of the University's debt are Level 2 inputs.

The fair value of the University's rate swap liability 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.

(g) Investments

Fair value of equity securities has been determined from observable market quotations, when available. Fair value for fixed maturity securities is based upon prices provided by the University's investment managers and custodian banks. Both the investment managers and the custodian banks use a variety of pricing sources to determine fixed maturity market valuations.

Estimated fair value of alternative investments that are not readily marketable are recorded at the NAV as provided by external investment managers as a practical expedient for fair value. The University 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.

Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following table presents the University's fair value hierarchy for investments at June 30, 2016 (in thousands):

	Fair value measurements at reporting date using				
	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Measured at NAV per share (or its equivalent)**	**Total**
Short-term investments	$ 69,021	—	—	—	69,021
Fixed income investments:					
U.S. government	103,210	42,874	—	—	146,084
Corporate	—	90,042	548	—	90,590
Other	—	3,300	—	—	3,300
Corporate stocks	22,192	—	—	—	22,192
Mutual and exchange-traded funds	191,661	—	—	—	191,661
Real estate	—	17,626	—	—	17,626
Alternative investments:					
Global equity	—	24,858	—	334,316	359,174
Hedged equity	—	—	—	59,585	59,585
Absolute return	—	—	—	252,878	252,878
Natural resources equity	56	5,071	—	18,415	23,542
Developed market credit	—	—	—	15,681	15,681
Private investments	—	—	—	300,089	300,089
Life insurance and other investments	3,142	14	—	—	3,156
Total investments	$ 389,282	183,785	548	980,964	1,554,579

The following table presents the University's fair value hierarchy for investments at June 30, 2015 (in thousands):

	Fair value measurements at reporting date using				
	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Measured at NAV per share (or its equivalent)**	**Total**
Short-term investments	$ 6,100	—	—	—	6,100
Fixed income investments:					
U.S. government	106,657	55,295	—	—	161,952
Corporate	—	115,965	713	—	116,678
Other	—	6,905	—	—	6,905
Corporate stocks	19,863	—	—	—	19,863
Mutual and exchange-traded funds	239,284	—	—	—	239,284
Real estate	—	19,926	—	—	19,926
Alternative investments:					
Global equity	—	27,635	—	377,644	405,279
Hedged equity	—	—	—	65,323	65,323
Absolute return	—	—	—	273,305	273,305
Natural resources equity	252	6,536	—	21,862	28,650
Developed market credit	—	—	—	16,036	16,036
Private investments	—	—	—	299,720	299,720
Life insurance and other investments	3,108	27	—	—	3,135
Total investments	$ 375,264	232,289	713	1,053,890	1,662,156

In accordance with ASU 2015-10, *Technical Corrections and Improvements*, the University removed $34,171 as of June 30, 2015 from investments measured at NAV per share (or its equivalent) and included these amounts in Level 2 to correct the fair value hierarchy table.

The following redemption table clarifies the nature, risk, and liquidity of the University's investments in alternative investment vehicles that calculate NAV per share (or its equivalent) at June 30, 2016 (in thousands):

	Fair value	Estimated remaining lives	Unfunded commitments	Redemption frequency after end of initial restriction period	Redemption notice period
Global equity (1)	$ 334,316	N/A	$ —	daily-quarterly	5–90 days
Hedged equity (2)	59,585	N/A	—	quarterly-annually	45–80 days
Absolute return (3)	252,878	N/A	5,239	various or not eligible	30–180 days
Natural resources equity (4)	18,415	N/A	—	monthly or not eligible	35 days
Developed market credit (5)	15,681	1–10 years	10,974	not eligible	—
Private investments (6)	300,089	1–13 years	140,097	generally not eligible	—
Total	$ 980,964		$ 156,310		

(1) This category includes investments in both developed and emerging market equity funds. The portfolio's return is driven primarily by economic growth. Its primary objective is to capture the returns of publicly traded equities on a global developed market basis and the growth potential of emerging markets in order to provide long-term growth to the endowment. These funds will also provide a diversification to U.S. and other developed equity and bond markets. Investments representing approximately 14% of the total value in this category have restrictions that prevent full redemption at June 30, 2016.

(2) This category's return is driven by economic growth and manager skill. Its primary objective is to provide opportunity to profit from positive equity market cycles while offering protection during negative equity market cycles in order to provide long-term growth to the endowment.

(3) The primary objective of this category is to capture the returns associated with skill-based active management by exploiting the inefficiencies associated with marketable securities, thus providing a diversifying return stream with low correlation to returns of stocks and bonds. These funds will also provide principal protection in equity sell-offs. Investments representing approximately 11% of the total value in this category have restrictions that prevent full redemption at June 30, 2016.

(4) Investment returns for this category are driven by a combination of global economic growth, as well as supply/demand curves in the commodity market. Funds gain direct and indirect exposure to commodities and natural resources through liquid, publicly traded securities in order to provide long-term growth to the endowment while providing principal protection in unexpected inflationary environments.

(5) This category's return is driven by a combination of changes in interest rates and credit spreads. Its objectives are to provide income, to mitigate overall portfolio volatility through its lower correlation to equity investments, and add yield over the U.S. Treasuries portfolio. These investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions.

(6) This category includes investments in private equity and real estate funds. Returns are driven primarily by economic growth. The primary objective of these funds is to provide long-term returns in excess of publicly traded equity markets, portfolio diversification relative to global equities and bonds, and long-term returns between that of stocks and bonds while carrying relatively lower risk than equities. These funds will also potentially offer some protection for the endowment in the event of inflation. All but one of these investments receives distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions.

(5) Accounts Receivable

Accounts receivable at June 30, 2016 and 2015 (net of allowances for doubtful accounts) are as follows (in thousands):

		2016	2015
Accounts receivable, net:			
Student accounts	$	816	553
Grants and contracts		6,040	7,261
Investment income		1,788	2,806
Other		4,302	5,341
	$	12,946	15,961

Allowances for doubtful accounts were $2.6 million and $2.3 million in 2016 and 2015, respectively.

(6) Notes Receivable

Notes receivable at June 30, 2016 and 2015 are as follows (in thousands):

		2016	2015
Notes receivable, net:			
University:			
Student loans	$	8,350	8,377
Other		2,903	2,975
Less allowance for doubtful loans		(285)	(285)
Total University		10,968	11,067
Independent operations:			
Program loans		11,563	10,631
Less allowance for doubtful accounts		(9,764)	(8,558)
Total independent operations		1,799	2,073
	$	12,767	13,140

Independent operations notes receivable primarily consist of loans provided by BFTP to early stage firms. The majority of these loans are fully reserved.

(7) Land, Buildings, and Equipment, Net

Land, buildings, and equipment are summarized as follows at June 30, 2016 and 2015 (in thousands):

		2016	2015
Land and improvements	$	62,560	57,431
Buildings and improvements		631,388	574,370
Furniture, equipment, books, and collections		198,986	193,985
Construction in progress		7,479	40,365
		900,413	866,151
Less accumulated depreciation		(499,223)	(474,388)
Total	$	401,190	391,763

Depreciation expense totaled $27.7 million and $26.3 million for the years ended June 30, 2016 and 2015, respectively.

(8) Contributions

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions arising from unconditional promises to give are recorded at fair value determined based on the present value of estimated future cash flows. Contributions receivable also include charitable remainder trusts where the University is not the trustee of the assets of the trust, but will receive a distribution upon its termination. The net present value of contributions receivable is calculated using a discount rate range of 1.76% to 5.05%. Outstanding pledges that were conditional amounted to $16.7 million as of both June 30, 2016 and 2015. Unconditional promises are expected to be realized in the following periods (in thousands):

		2016	2015
In one year or less	$	16,682	12,352
Between one year and five years		17,468	42,526
More than five years		6,831	5,677
		40,981	60,555
Less:			
Unamortized discount		(1,325)	(1,494)
Allowance for uncollectible accounts		(2,626)	(2,373)
	$	37,030	56,688

(9) Net Assets

Temporarily restricted net assets include the following at June 30, 2016 and 2015 (in thousands):

		2016	2015
Contributions receivable	$	12,480	12,517
Temporarily restricted endowment funds		31,492	15,224
Life income funds		3,096	3,368
Accumulated gains on permanent endowment funds		257,957	322,463
Other – related to time and purpose restrictions		4,135	20,753
	$	309,160	374,325

Based upon spending restrictions in effect as of June 30, 2016, accumulated gains on permanent endowment funds are designated for the following future spending purposes: scholarships and fellowships 32%, professorships and chairs 12%, student loans 1%, other restrictions 10%, and no purpose restrictions 45%.

Permanently restricted net assets include the following at June 30, 2016 and 2015 (in thousands):

		2016	2015
Contributions receivable	$	21,636	19,999
Permanent loan funds		2,226	2,074
Annuity and life income funds		26,058	49,626
Permanent endowment funds		476,063	435,221
	$	525,983	506,920

Included in life income funds are $1.0 million (temporarily restricted) and $1.9 million (permanently restricted) net assets classified as contributions receivable on the consolidated statement of financial position.

(10) Bonds, Loans, and Notes Payable

At June 30, 2016 and 2015, bonds, loans, and notes payable, including net unamortized discounts of $0.9 million at both June 30, 2016 and 2015 and unamortized bond issuance costs of $1.5 million and $1.6 million at June 30, 2016 and 2015 respectively, consisted of the following (in thousands):

		2016	2015
Taxable Commercial Paper Series A, up to $75 million, weighted average interest rate of 0.48% and 0.15% on June 30, 2016 and 2015 respectively; average duration of 28 days and 94 days for the years ended June 30, 2016 and 2015, respectively	$	20,000	55,000
Northampton County General Purpose Authority (NCGPA):			
Series 2000B bonds; tax-exempt variable rate revenue bonds, $25,000 due serially from December 1, 2003 to December 1, 2030, variable rates of 0.43% and 0.05% on June 30, 2016 and 2015, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2016		17,271	18,029
Series 2001 bonds; tax-exempt variable rate revenue bonds, $21,780 due serially from October 15, 2006 to October 15, 2019, variable rates of 0.43% and 0.05% on June 30, 2016 and 2015, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2016		10,791	13,468
Series 2004 bonds; tax-exempt index rate revenue bonds, $50,000 due serially from May 15, 2025 to May 15, 2034, rates of 0.96% and 0.75% on June 30, 2016 and 2015, respectively		49,739	49,721

	2016	2015
Series 2006A bonds; tax-exempt variable rate revenue bonds, $16,820 due serially from November 15, 2007 to November 15, 2021, variable rates of 0.40% and 0.05% on June 30, 2016 and 2015, respectively	$ 10,414	11,938
Series 2007 bonds; tax-exempt revenue bonds, $24,615 variable rate CPI bonds due serially from November 15, 2019 to November 15, 2025, variable rates of 2.03% and 1.10% on June 30, 2016 and 2015 respectively; $2,975 term bonds, 4.375%, due November 15, 2031; $26,335 term bonds, 4.5%, due November 15, 2036: Term bonds are insured by MBIA Insurance Corporation	53,488	53,455
Series 2009 bonds; 5.00% to 5.50% tax-exempt revenue bonds, $66,165 due serially from November 15, 2029 to November 15, 2039	64,674	64,602
Taxable fixed rate term loan issued by Bank of America, N.A., $15,000 due serially from February 1, 2012 to December 23, 2018, 2.61%	13,025	13,494
Fixed rate term loan (converted from September 10, 2012 construction loan) issued by Wells Fargo Bank, N.A. as agent for Lehigh Valley Economic Development Corporation Loan Pool to Lehigh University subsidiary BFTP, $800 due serially from March 1, 2014 to March 1, 2017, balance due February 1, 2018, 3.5%	176	668
Mortgage issued by First Keystone National Bank assumed by Lehigh University subsidiary BFTP, $528 due serially from June 23, 2010 to September 23, 2025; variable rate of 3.75% and 3.25% on June 30, 2016 and 2015, respectively	447	462
Interest free loan issued by Columbia Alliance for Economic Growth to Lehigh University subsidiary BFTP, $250 due serially from June 30, 2010 to June 30, 2016	—	50
	$ 240,025	280,887

Proceeds from all tax-exempt bonds, loans, and notes were used by the University to purchase land and buildings, construct or renovate facilities, upgrade computing and information service facilities, purchase equipment, and finance certain completed facilities. Payment of all outstanding tax-exempt bonds is secured by separate loan agreements between the University and the Northampton County General Purpose Authority (NCGPA). Each loan agreement is a general obligation of the University for which it has pledged its full faith and credit. In addition, the University has granted NCGPA a security interest in the University's gross revenues as defined in each loan agreement. Pursuant to the NCGPA loan agreements, the University is required to establish rates and charges sufficient to provide, in each fiscal year, for the payment of the University's operating expenses and debt service on its long-term indebtedness. The University may incur additional indebtedness under certain conditions described in the loan agreements and the bond indentures.

BFTP debt was used for the renovation of a new business incubator facility, a building purchase, and other building renovations. The Wells Fargo loan is subject to a financial covenant requiring BFTP to maintain not less than two times the outstanding balance of the term loan in unencumbered liquid assets at all times.

At June 30, 2016, the aggregate annual maturities of long-term bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2017	$	5,878
2018		5,971
2019		17,753
2020		5,567
2021		5,753
Thereafter		181,436

The Series of 2000B, 2001, and 2006A bonds bear interest at a weekly rate determined by the remarketing agent. In 2013 all outstanding Series 2004 bonds were converted to a ten-year bank purchase and the prior standby bond purchase agreement was terminated. The Series 2004 bonds were converted from a weekly rate to a LIBOR index rate. The LIBOR Index Rate is set by the calculation agent on a monthly basis. The University may elect to convert to another variable rate mode or to a fixed mode as determined by the remarketing agent. The bondholders have a right to tender bonds at interest rate reset dates. The University entered into separate standby bond purchase agreements with banks to provide liquidity in case of tender of the 2000B or 2001 bonds. These agreements expire prior to the maturity of the bonds and may be extended at the University's request. However, the banks have no obligation to agree to the extended purchase period.

The University serves as the liquidity facility for its 2006A bonds and the Commercial Paper program. As of June 30, 2016, Lehigh estimates that $71 million of liquid assets were available on a same day basis and an additional $68 million was available within 30 days.

As a component of the tax-exempt debt portfolio, the University entered into interest rate swap agreements that effectively convert certain variable rate revenue bond obligations to fixed rates or reduce the University's effective interest rate. As of June 30, 2016, the rate swaps are classified as Level 2 fair value financial instruments. Significant terms of each of the swap agreements are as follows (in thousands):

Series	Counterparty	Effective date	Current notional amount	University pays	University receives	Expiration date
2000B bonds	JPMorgan Chase Bank, N.A.	12/7/2000	$ 17,365	4.530%	67% of USD-1 month LIBOR-BBA	12/1/2030
2001 bonds	JPMorgan Chase Bank, N.A.	9/4/2001	10,810	4.400	67% of USD-1 month LIBOR-BBA	10/15/2019
2004 bonds	Wells Fargo Bank, N.A.	12/18/2008	50,000	1.953	67% of USD-3 month LIBOR-BBA	5/15/2034
2006A bonds	JPMorgan Chase Bank, N.A.	8/24/2006	10,445	3.392	67% of USD-1 month LIBOR-BBA	11/15/2021
2007 CPI bonds	JPMorgan Chase Bank, N.A.	2/1/2007	24,615	3.980 to 4.100	Variable rate based on CPI-U	various through 11/15/2025
2009 bonds	Wells Fargo Bank, N.A.	3/19/2009	66,165	USD-SIFMA Municipal Swap Index	67% of USD-3 month LIBOR-BBA plus 1%	11/15/2039
			$ 179,400			

(11) Derivative Instruments

The University employs derivatives, primarily interest rate swap agreements, to manage interest rate risk associated with outstanding debt. The endowment fund also includes a swap position as part of its portfolio. The fair value of the University's swap agreements is included in other liabilities in the statement of financial position, and was $6.1 million and $3.3 million at June 30, 2016 and 2015, respectively. The change in fair value of interest rate swaps is reflected in nonoperating activity on the statement of activities and was $(3.2) million and $1.0 million for the years ended June 30, 2016 and 2015, respectively.

Certain of the University's interest rate swap agreements contain provisions that require the University's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the University's debt were to fall below investment grade, it would be a violation of these provisions, and the counterparties to the rate swap agreement could request next-day full collateralization on all rate swaps in net liability positions. To date, the University has not posted collateral for any rate swap agreements. If the credit-risk related contingent features underlying these agreements were triggered on June 30, 2016, the University would be required to post an additional $14.2 million of collateral to its counterparties.

(12) Natural Expense Classification

The following table compares operating expenses by type for the years ended June 30, 2016 and 2015, respectively, (in thousands):

		2016	2015
Salaries and wages	$	167,519	162,010
Employee benefits		52,264	56,152
Utilities		7,802	9,767
Purchased services		34,680	33,010
Building and grounds maintenance		22,108	21,452
Depreciation		27,742	26,290
Interest		9,580	10,198
All other business expenses		52,324	48,847
Total	$	374,019	367,726

(13) Postretirement and Postemployment Benefits Other than Pensions

The University pays for a portion of the cost of medical insurance for retired employees and their eligible dependents. During fiscal year 2016, the University reimbursed retirees a maximum of $96.50 per month for premium expenses, or a total of $903,000 (as compared to $830,000 in fiscal year 2015). The maximum monthly reimbursement amount will increase each year at the lesser of medical Consumer Price Index (CPI) or 8%. These postretirement medical benefits accrue from the later of date of hire or age 30. The University uses a July 1 measurement date for its plan. Summarized plan information is stated below (in thousands):

The following shows the reconciliation of the beginning and ending balances of the benefit obligation (in thousands):

		2016	2015
Benefit obligation at beginning of year	$	38,868	40,794
Operating:			
Service cost		1,302	1,539
Interest cost		1,846	1,877
Benefits paid		(903)	(830)
Total operating		2,245	2,586
Nonoperating:			
Actuarial gain		(455)	(9)
Assumption changes		3,077	(4,503)
Total nonoperating loss/(gain)		2,622	(4,512)
Benefit obligation at end of year	$	43,735	38,868

The following table sets forth the status of the plan, which is unfunded, at June 30, 2016 and 2015:

		2016	2015
Accumulated postretirement benefit obligation:			
Retirees	$	14,140	11,819
Fully eligible active plan participants		15,489	13,320
Other active plan participants		14,106	13,729
Total		43,735	38,868
Plan assets at fair value		—	—
Accumulated postretirement benefit liability	$	43,735	38,868

Weighted average assumptions for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Discount rate for net periodic postretirement benefit cost	4.80%	4.65%
Discount rate for accumulated postretirement benefit obligation	4.15%	4.80%
Maximum increase in reimbursement rate	lesser of medical CPI or 8%	lesser of medical CPI or 8%

Assumed healthcare cost trend rate at June 30, 2016 and 2015 is as follows:

	2016	2015
Healthcare cost trend rate assumed for next year	4.00%	4.00%
Rate to which the cost trend rate is assumed to decline (ultimate rate)	4.00	4.00
Year that ultimate rate is reached	N/A	N/A

Impact of 1% increase in assumed healthcare cost trend rate at June 30, 2016 and 2015 is as follows (in thousands):

		2016	2015
Increase in accumulated postretirement benefit obligation	$	8,930	8,008
Increase in net periodic postretirement benefit cost		804	900

Estimated future University contributions reflecting expected future service are as follows (in thousands):

Fiscal year ending June 30:		
2017	$	951
2018		1,048
2019		1,165
2020		1,274
2021		1,382
2022 through 2026		8,742

(14) Retirement Plans

The University provides pensions to substantially all salaried faculty and staff through a defined contribution plan administered by Teacher's Insurance and Annuity Association / College Retirement Equities Fund. The plan features base contributions from the University and voluntary employee contributions with a University match. Total expense for this plan was $14.5 million and $14.4 million in 2016 and 2015, respectively.

(15) Grants and Contracts

The University receives grant and contract revenue from various government agencies and private sources for the support of research, training, and other sponsored programs. Revenues associated with the direct costs of these programs are recognized as the related costs are incurred. Indirect cost reimbursements from federal agencies are based on predetermined rates negotiated with the University's cognizant agency, the Office of Naval Research, and are in effect through fiscal year 2017. These rates are also used for other sponsored programs except where separately negotiated. Indirect cost reimbursements from all sources totaled $7.9 million and $8.6 million in 2016 and 2015, respectively.

(16) Fund-Raising Costs

Fund-raising costs were approximately $13.5 million and $13.6 million in 2016 and 2015, respectively, and are included in institutional support in the consolidated statement of activities.

(17) Commitments and Contingencies

Open commitments for contracts with general contractors amounted to approximately $0.7 million and $7.1 million as of June 30, 2016 and 2015, respectively.

The University leases certain equipment and real property. These leases are classified as operating leases and have lease terms ranging from one to seven years. Total lease expense for both fiscal 2016 and 2015 was approximately $1.1 million.

(18) Income Taxes

The University has been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. Accordingly, no provisions for income taxes have been made in the accompanying consolidated financial statements. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(19) Subsequent Events

On October 6, 2016, the University issued $150,000,000 aggregate principal amount of its Series 2016 taxable bonds (the Bonds). The Bonds are secured by a pledge of and security interest in the University's gross revenues. The proceeds of the Bonds will be used to finance current and future capital projects consistent with the University's capital plan, to pay the costs of issuance, and any other purpose duly authorized by the University.

Concurrently, the Northampton County General Purpose Authority (NCGPA) issued $26,715,000 Higher Education Fixed Rate Revenue Bonds, Series A of 2016 (the 2016A Bonds) and $74,950,000 Higher Education Variable Rate Revenue Bonds, Series B of 2016 (the 2016B Bonds). The 2016A Bonds are tax-exempt bonds for the purpose of refunding, on a current basis, the University's 2007 term bonds, as well as paying certain issuance costs. The 2016B Bonds are tax-exempt bonds for the purpose of the legal defeasance of all of the University's 2009 Bonds. The University also entered into an interest rate swap agreement to effectively convert the 2016B Bonds to fixed rates and reduce the University's effective interest rate.