LEHIGH UNIVERSITY

Consolidated Financial Statements

June 30, 2012
(with comparative financial information for June 30, 2011)

(With Independent Auditors' Report Thereon)

LEHIGH UNIVERSITY

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
Lehigh University

We have audited the accompanying consolidated statement of financial position of Lehigh University (the University) as of June 30, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2011 consolidated financial statements, and in our report dated October 17, 2011; we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 22, 2012

LEHIGH UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2012
(with comparative financial information for June 30, 2011)

(In thousands)

Assets		**2012**	**2011**
Cash and cash equivalents (note 1(c))	$	60,473	42,227
Accounts receivable, net (note 4)		17,557	19,181
Inventories		1,626	1,539
Prepaid expenses and other assets		6,649	6,268
Contributions receivable, net (note 7)		57,189	68,557
Notes receivable, net (note 5)		10,984	11,150
Investments (note 2)		1,384,669	1,420,341
Funds held in trust by others		4,388	4,648
Land, buildings, and equipment, net (note 6)		353,454	345,956
Total assets	$	1,896,989	1,919,867
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	36,000	33,736
Deferred revenues		22,200	23,926
Annuity payment liability		21,056	21,603
Other liabilities (notes 9, 10, and 11)		53,089	39,727
Deposits held for others		1,609	2,212
Refundable federal student loan funds		2,580	2,675
Bonds, loans, and notes payable (note 9)		264,358	237,247
Total liabilities		400,892	361,126
Net assets (note 8):			
Unrestricted		708,638	749,725
Temporarily restricted		333,532	371,575
Permanently restricted		453,927	437,441
Total net assets		1,496,097	1,558,741
Total liabilities and net assets	$	1,896,989	1,919,867

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2012
(with comparative financial information for year ended June 30, 2011)

(In thousands)

		2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2011**
Support and revenues:					
Tuition and fees, net (note 1(j))	$ 158,300	—	—	158,300	152,070
Federal grants and contracts	32,121	—	—	32,121	28,080
State and local grants and contracts	7,362	—	—	7,362	9,772
Private grants and contracts	7,145	—	—	7,145	8,254
Contributions	10,735	—	—	10,735	11,982
Investment return (note 2)	69,875	—	—	69,875	68,083
Auxiliary enterprises	38,700	—	—	38,700	37,769
Independent operations (note 1(a))	15,278	—	—	15,278	19,071
Other sources	8,933	—	—	8,933	8,197
Gifts and trusts released from restrictions	2,367	(2,367)	—	—	—
Total support and revenues	350,816	(2,367)	—	348,449	343,278
Expenses:					
Instruction	130,397	—	—	130,397	123,846
Research	34,497	—	—	34,497	36,693
Public service	9,361	—	—	9,361	8,022
Academic support	29,511	—	—	29,511	28,628
Student services	29,134	—	—	29,134	28,822
Institutional support (note 14)	57,908	—	—	57,908	54,049
Auxiliary enterprises	31,948	—	—	31,948	31,316
Independent operations (note 1(a))	9,822	—	—	9,822	9,730
Total expenses	332,578	—	—	332,578	321,106
Operating income (loss)	18,238	(2,367)	—	15,871	22,172
Nonoperating activity:					
Investment return (note 2)	(49,429)	(40,825)	33	(90,221)	134,792
Gifts and trusts	3,318	5,545	14,610	23,473	33,890
Gifts and trusts released from restrictions and changes in donor intent	455	(1,324)	869	—	—
Change in fair value of interest rate swaps (note 10)	(10,115)	—	—	(10,115)	5,276
Independent operations (note 1(a))	(806)	8	—	(798)	1,578
Other	(2,748)	920	974	(854)	4,286
Nonoperating income (loss)	(59,325)	(35,676)	16,486	(78,515)	179,822
Change in net assets	(41,087)	(38,043)	16,486	(62,644)	201,994
Net assets, beginning of year	749,725	371,575	437,441	1,558,741	1,356,747
Net assets, end of year	$ 708,638	333,532	453,927	1,496,097	1,558,741

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2012
(with comparative financial information for year ended June 30, 2011)

(In thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(62,644)	201,994
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Gifts and trusts restricted for long-term investment		(20,485)	(29,789)
Noncash contributions		(3,316)	(60)
Investment earnings restricted for long-term investment		(1,284)	(1,308)
Net realized gains on investments		(39,162)	(64,147)
Net unrealized losses (gains) on investments		78,606	(123,535)
Change in fair value of swap agreements		10,115	(5,276)
Payment of annuity obligations		1,976	2,172
Other nonoperating activity		549	260
Depreciation and amortization		24,503	23,051
Independent operations provision for bad debts		1,298	1,195
University provision for bad debts		50	154
Change in operating assets and liabilities:			
Decrease in accounts receivable		1,506	10,352
Increase in inventories		(87)	(35)
Decrease (increase) in contributions receivable		11,368	(16,894)
Increase in accounts payable and accrued expenses		2,264	2,056
Decrease in deferred revenues		(1,726)	(2,499)
Decrease in annuity payment liability		(547)	(752)
(Decrease) increase in deposits held for others		(603)	102
Increase in accrued postretirement benefit cost		3,557	2,267
Increase in other assets		(514)	(18)
Decrease in other liabilities		(503)	(522)
Net cash provided by (used in) operating activities		4,921	(1,232)
Cash flows from investing activities:			
Proceeds from sale of investments		1,851,066	722,187
Purchases of investments		(1,851,828)	(717,067)
Student loans and other notes advanced		(1,492)	(1,526)
Independent operations loans advanced		(1,703)	(1,886)
Student loans and other notes collected		1,332	1,221
Independent operations loans collected		713	1,153
Purchase of land, buildings, and equipment		(31,535)	(30,480)
Net cash used in investing activities		(33,447)	(26,398)
Cash flows from financing activities:			
Proceeds from issuance of indebtedness		35,000	2,932
Repayments of principal of indebtedness		(7,926)	(6,170)
Gifts and trusts restricted for long-term investment		20,485	29,789
Investment earnings restricted for long-term investment		1,284	1,308
Decrease in refundable loan funds		(95)	(89)
Payment of annuity obligations		(1,976)	(2,172)
Net cash provided by financing activities		46,772	25,598
Net increase (decrease) in cash and cash equivalents		18,246	(2,032)
Cash and cash equivalents at beginning of year		42,227	44,259
Cash and cash equivalents at end of year	$	60,473	42,227
Supplemental data:			
Interest paid	$	8,516	8,907

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 as a predominantly technical school, the University now has approximately 4,900 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 2,200 students enrolled in graduate programs offered through these colleges and in the College of Education.

In 2012, the University established a new subsidiary organization, LU Properties, LLC ("LU Properties"), a Pennsylvania limited liability company. LU Properties serves as Manager for twenty-three limited liability companies that were established in the same year as a result of a real estate gift. The University is the sole member of all of the aforementioned 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 activity in the University's consolidated statement of activities.

The University is also the sole member of SoBeth 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.

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. Since 2003, BFTP has provided 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, client royalties, 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, and gains and losses on investments net of the University's spending policy.

(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 market.

(e) Investments

Investments are stated at fair value (see note 1(i)).

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 2.24% 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 $10.9 million and $11.8 million as of June 30, 2012 and 2011, 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
Other improvements	10 to 20 years

(i) 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.
>
> 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 University's assets and liabilities are recorded in their entirety based on the lowest level of input that is significant to the fair value measurement.

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

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 7 based on level 3 inputs. Contributions receivable are not measured at fair value subsequent to this initial measurement.

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 private equity investments and hedge funds that are not readily marketable are recorded at the net asset value 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

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the net asset value of those investments. Private equity and hedge fund investments are generally classified as level 2 or 3 based on factors that include the University's ability to redeem its investment at or near the date of the consolidated statement of financial position.

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 inputs include the life expectancy of the donor and other beneficiaries as well as financial assumptions.

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 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.

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, 2012 and 2011, 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.

(j) 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 2012 and 2011 were $72.3 million and $69.8 million, respectively.

(k) Asset Retirement Liabilities

The University recognizes the fair value of 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.

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(l) 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.

(m) 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.

(n) Reclassifications

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to their presentation in the 2012 consolidated financial statements.

(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, 2011, from which the summarized information was derived.

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(2) Investments

The following table presents the University's fair value hierarchy for investments measured at fair value at June 30, 2012 (in thousands):

	Fair value measurements at reporting date using				
	Level 1	Level 2	Level 3	2012	2011
Short-term investments	$ 23,577	—	—	23,577	35,699
Fixed-income investments – U.S. government	129,560	70,983	—	200,543	183,925
Fixed-income investments – corporate	7,278	101,835	—	109,113	97,350
Fixed-income investments – other	22,344	32,911	20,463	75,718	77,942
Corporate stocks	71,680	137,684	90,512	299,876	363,372
Mutual funds	57,854	—	—	57,854	71,196
Hedge funds	—	—	349,545	349,545	341,069
Private equity	—	—	231,893	231,893	206,152
Natural resources	4,668	24,560	1,218	30,446	40,588
Life insurance and other investments	2,601	3,503	—	6,104	3,048
Total investments	$ 319,562	371,476	693,631	1,384,669	1,420,341

The following table provides a reconciliation of the beginning and ending balances for measurements in hierarchy level 3 at June 30, 2012 (in thousands):

	Fair value measurements using significant unobservable inputs (Level 3)					
	Fixed income	Corporate stocks	Hedge funds	Private equity	Natural resources	Total
Beginning balance	$ 22,598	29,690	341,069	206,152	—	599,509
Total realized/unrealized gains (losses)	(1,735)	547	(3,963)	(7,207)	(320)	(12,678)
Purchases	3,184	75,275	108,480	54,591	2,030	243,560
Sales	(3,584)	(15,000)	(96,041)	(21,643)	(492)	(136,760)
Transfer in and/or out of level 3	—	—	—	—	—	—
Ending balance	$ 20,463	90,512	349,545	231,893	1,218	693,631
The amount of total gains or losses for the period attributable to the change in unrealized gains or losses related to assets still held at the reporting date	$ (1,883)	547	(4,189)	(7,772)	(320)	(13,617)

The following table presents the attributes of the University's investments in certain investment vehicles that calculate net asset value per share (or its equivalent) at June 30, 2012 (in thousands):

	Fair value	Estimated remaining lives	Unfunded commitments	Redemption frequency after end of initial restriction period	Redemption notice period
Fixed-income (1)	$ 20,463	1-9 years	$ 3,816	Not eligible	
Corporate stocks (2)	90,512	N/A	—	monthly-quarterly	30-90 days
Hedge funds:					
Absolute return (3)	211,402	N/A	—	monthly-annually	30-185 days
Global equities (4)	89,512	N/A	—	quarterly-annually	30-90 days
Inflation hedge (5)	48,631	N/A	—	monthly	35 days
Total hedge funds	349,545		—		
Private equity:					
Real estate funds (6)	42,877	.5-9 years	12,849	Not eligible	
Inflation hedge (7)	9,358	7-10 years	13,900	Not eligible	
Other private equity (8)	179,658	1-12 years	105,453	Generally not eligible	
Total private equity	231,893		132,202		
Natural resources (9)	1,218	6 years	2,633	Not eligible	
Total	$ 693,631		$ 138,651		

(1) The investment objectives of the funds in this category are to provide income, to mitigate overall portfolio volatility through lower correlation to equity investments, and to add yield in excess of a U.S. Treasuries portfolio. The fair values of the investments in this category have been estimated using the net asset value per share (or its equivalent) of the investments. These investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions. It is estimated that the underlying assets of these funds will be liquidated in 1 to 9 years.

(2) This category includes corporate stock funds where the portfolio's primary objective is to provide income or long-term growth to the endowment. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The investments in this category cannot be redeemed at June 30, 2012 because redemption is not allowed in the first 1 to 5 years after acquisition. The remaining restriction period for these investments generally ranges from 2 to 48 months at June 30, 2012.

(3) This category includes investments which should have returns that have low correlation to the returns of stocks and bonds, generating a truly diversified return stream. The absolute return portfolio is diversified by manager and strategy, and is implemented through fund of funds, individual managers, or a combination of the two. The fair values of the investments in this category

have been estimated using the net asset value per share of the investments. Investments representing approximately 16% of the total value in this category cannot be redeemed at June 30, 2012 because redemption is not allowed in the first 1 to 3 years after acquisition. The remaining restriction period for these investments generally ranges from 2 to 15 months at June 30, 2012. One investment, valued at $10.0 million was subscribed as of June 30, 2012 in a fund with an inception date of July 1, 2012.

(4) This category includes investments where the portfolio's return is driven by economic growth. Its primary objective is to provide long-term growth to the endowment pool and consists of investments that carry the expectation of equity-like returns. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Two investments representing approximately 56% of the total value in this category cannot be redeemed at June 30, 2012 because redemption is not allowed in the first 1 and 3 years after acquisition. The remaining restriction period for these investments is 12 and 36 months at June 30, 2012. These investments, valued at $50.0 million were subscribed as of June 30, 2012 in funds with inception dates of July 1, 2012.

(5) This category includes investments in hedge funds consisting of investments in assets that provide diversification and protect against unexpected inflation. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

(6) This category includes investments in real estate funds to provide portfolio diversification relative to global equities and bonds, provide long-term returns between that of stocks and bonds while carrying relatively lower risk than equities, and potentially offer some protection in the event of unanticipated inflation. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. These investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions. It is estimated that the underlying assets of these funds will be liquidated in 6 months to 9 years.

(7) This category includes investments in private equity funds consisting of investments in assets that provide diversification and protect against unexpected inflation. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. These investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions. It is estimated that the underlying assets of these funds will be liquidated in 7 to 10 years.

(8) This category includes investments in various private equity funds where the returns should be above long-term norms in the public equity markets in order to compensate for the illiquidity and nonmarket risks that are entailed. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All but one of these investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions. It is estimated that the underlying assets of these funds will be liquidated in 1 to 12 years. One investment, valued at $1.7 million can be redeemed semi-annually with 185 days' notice.

(9) This category includes an investment in a natural resources fund. The portfolio's return is driven by a combination of global economic growth, as well as price appreciation of commodities. The objective is to gain indirect exposure to commodities and natural resources through liquid, publicly traded securities in order to provide long-term growth to the endowment as well as potential protection from unexpected inflation. This investment receives distributions through the liquidation of the underlying assets of the fund and does not have redemption provisions. It is estimated that the underlying assets of this fund will be liquidated in 6 years.

The majority of investments of endowment, annuity, and life income funds 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 components of total investment return are reflected below (in thousands). Investment earnings at June 30, 2012 and 2011 are net of investment expenses of approximately $6.9 million and $5.9 million, respectively:

		2012	**2011**
Investment earnings	$	18,335	16,890
Net realized and unrealized (losses) gains		(38,681)	185,985
		(20,346)	202,875
Independent operations net realized and unrealized (losses) gains		(763)	1,697
Independent operations other investment earnings		881	364
Total	$	(20,228)	204,936

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

		2012	2011
Operating:			
Endowment spending distribution	$	56,060	54,433
Spending distribution – other		6,752	6,886
Other investment earnings		7,063	6,764
		69,875	68,083
Realized gains (independent operations)		43	121
Other investment earnings (independent operations)		881	364
Total operating		70,799	68,568
Nonoperating:			
Endowment spending distribution		1,122	1,126
Other investment earnings		162	182
Net realized and unrealized (losses) gains net of spending policy		(91,505)	133,484
		(90,221)	134,792
Net unrealized (losses) gains (independent operations)		(806)	1,576
Total nonoperating		(91,027)	136,368
Total investment return	$	(20,228)	204,936

(3) Endowment Net Assets

The University's endowment consists of approximately 2,400 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.

Consistent with governing law, the University has interpreted relevant law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary.

Commonwealth of Pennsylvania law permits the University to allocate to income each year a portion of the endowment net realized gains based on 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 net realized 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. Net realized and unrealized gains in excess of the spending policy are reflected as nonoperating investment return activity.

(Continued)

Endowment net asset composition as of June 30, 2012 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$	(25,080)	26,996	382,373	384,289
Board-designated endowment funds (corpus)		136,533	—	—	136,533
Accumulated gains on endowment funds		210,548	263,914	—	474,462
Total endowment net assets	$	322,001	290,910	382,373	995,284

Endowment net asset composition as of June 30, 2011 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$	(11,993)	13,859	367,154	369,020
Board-designated endowment funds (corpus)		133,366	—	—	133,366
Accumulated gains on endowment funds		211,826	317,733	—	529,559
Total endowment net assets	$	333,199	331,592	367,154	1,031,945

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. Deficiencies of this nature at June 30, 2012 and 2011 were $25.1 million and $12.0 million, respectively. Such deficiencies are recorded in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the new permanently restricted contributions.

Changes in endowment net assets for the year ended June 30, 2012 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2011	$ 333,199	331,592	367,154	1,031,945
Investment return:				
Investment income	16,266	11	709	16,986
Net (depreciation) appreciation	(27,051)	(11,115)	151	(38,015)
Total investment return	(10,785)	(11,104)	860	(21,029)
Contributions	3,039	—	14,449	17,488
Board designations/changes in donor intent	15,493	65	(90)	15,468
Amounts appropriated for expenditure:				
Endowment spending distribution	(30,354)	(26,828)	—	(57,182)
Endowment operating expense	(3,185)	(2,815)	—	(6,000)
Total amounts appropriated for expenditure	(33,539)	(29,643)	—	(63,182)
Change in other endowment liabilities	14,594	—	—	14,594
Total change in endowment funds	(11,198)	(40,682)	15,219	(36,661)
Net assets, June 30, 2012	$ 322,001	290,910	382,373	995,284

Changes in endowment net assets for the year ended June 30, 2011 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2010	$ 287,375	277,159	344,055	908,589
Investment return:				
Investment income	14,644	8	117	14,769
Net appreciation	77,506	85,309	812	163,627
Total investment return	92,150	85,317	929	178,396
Contributions	3,827	2	22,130	25,959
Board designations/changes in donor intent	1,494	(1,452)	40	82
Amounts appropriated for expenditure:				
Endowment spending distribution	(28,690)	(26,869)	—	(55,559)
Endowment operating expense	(2,739)	(2,565)	—	(5,304)
Total amounts appropriated for expenditure	(31,429)	(29,434)	—	(60,863)
Change in other endowment liabilities	(20,218)	—	—	(20,218)
Total change in endowment funds	45,824	54,433	23,099	123,356
Net assets, June 30, 2011	$ 333,199	331,592	367,154	1,031,945

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. The minimum increase of 0% was temporarily suspended in 2011 and 2012.

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 for fiscal year 2012 and 2011 were 5.5% and 5.4%, respectively. For the fiscal years ended June 30, 2012 and 2011, gains of approximately $52.8 million and $52.5 million, respectively, were included in endowment earnings distributed in accordance with the spending policy.

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.

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. 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.

(4) Accounts Receivable

Accounts receivable at June 30, 2012 and 2011 (net of allowances for doubtful accounts) are as follows (in thousands):

		2012	2011
Accounts receivable, net:			
Student accounts	$	797	764
Grants and contracts		10,280	11,267
Investment income		2,302	1,914
Other		4,178	5,236
	$	17,557	19,181

Allowances for doubtful accounts were $1.8 million and $1.7 million in 2012 and 2011, respectively.

(5) Notes Receivable

Notes receivable at June 30, 2012 and 2011 (net of allowances for doubtful accounts) are as follows (in thousands):

		2012	2011
Notes receivable, net:			
Student loans	$	7,844	8,206
Notes issued by independent operations		2,113	2,313
Other		1,027	631
	$	10,984	11,150

Certain loans have been designated as impaired when, based upon current information and events, it is probable that the University will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income on student and other loans is recognized on a cash basis. Interest on notes issued by independent operations is fully reserved or recorded on a cash basis. For the years ended June 30, 2012 and 2011, there were no sales of notes receivable. The following table provides additional detail concerning the University's notes receivable at June 30, 2012 and June 30, 2011 (in thousands):

		2012	2011
Student and other loans:			
Impaired receivable balance	$	317	274
Average balance impaired loans		295	325
Loans past due due 90 days or more and not designated as impaired		509	605
Allowance for doubtful loans at beginning of year	$	271	271
Additions charged to bad debt expense		40	74
Write-downs charged against the allowance		(40)	(74)
Recoveries of amounts previously charged off		—	—
Allowance for doubtful accounts at end of year	$	271	271
Notes issued by independent operations:			
Impaired receivable balance	$	6,324	6,238
Average balance impaired loans		6,099	5,987
Loans past due due 90 days or more and not designated as impaired		—	33
Allowance for doubtful loans at beginning of year	$	9,984	10,468
Additions charged to bad debt expense		1,572	1,711
Write-downs charged against the allowance		(1,339)	(1,594)
Recoveries of amounts previously charged off		(382)	(601)
Allowance for doubtful accounts at end of year	$	9,835	9,984

(6) Land, Buildings, and Equipment, Net

Land, buildings, and equipment are summarized as follows at June 30, 2012 and 2011 (in thousands):

		2012	2011
Land and improvements	$	49,992	48,002
Buildings		510,292	481,996
Furniture, equipment, books, and collections		179,878	178,229
Construction in progress		22,067	26,967
		762,229	735,194
Less accumulated depreciation		(408,775)	(389,238)
Total	$	353,454	345,956

Depreciation expense totaled $24.3 million and $22.9 million for the years ended June 30, 2012 and 2011, respectively.

(7) 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 2.24% to 6.5%. As of June 30, 2012, the University had outstanding pledges totaling $4.9 million that were conditional. Unconditional promises are expected to be realized in the following periods (in thousands):

	2012	2011
In one year or less	$ 11,720	23,010
Between one year and five years	22,008	25,258
More than five years	28,631	27,735
	62,359	76,003
Less:		
Unamortized discount	(2,702)	(2,595)
Allowance for uncollectible amounts	(2,468)	(4,851)
	$ 57,189	68,557

(8) Net Assets

Temporarily restricted net assets include the following at June 30, 2012 and 2011 (in thousands):

	2012	2011
Contributions receivable	$ 20,456	24,045
Temporarily restricted endowment funds	26,721	13,663
Life income funds	2,852	3,010
Accumulated gains on permanent endowment funds	264,189	317,929
Other – related to time and purpose restrictions	19,314	12,928
	$ 333,532	371,575

Based upon spending restrictions in effect as of June 30, 2012, accumulated gains on permanent endowment funds are designated for the following future spending purposes: scholarships and fellowships 31%, professorships and chairs 12%, student loans 4%, no purpose restrictions 43%, and other restrictions 10%.

Permanently restricted net assets include the following at June 30, 2012 and 2011 (in thousands):

		2012	2011
Contributions receivable	$	15,078	13,637
Permanent loan funds		12,673	11,467
Annuity and life income funds		43,803	45,183
Permanent endowment funds		382,373	367,154
	$	453,927	437,441

Included in life income funds are $1.1 million (temporarily restricted) and $20.6 million (permanently restricted) net assets classified as contributions receivable on the consolidated statement of financial position.

(9) Bonds, Loans, and Notes Payable

At June 30, 2012 and 2011, bonds, loans, and notes payable, including unamortized premiums and discounts, consisted of the following (in thousands):

		2012	2011
Taxable Commercial Paper Series A, up to $75 million, weighted average interest rate of 0.17%, and average duration of 73 days on June 30, 2012	$	20,000	—
Northampton County Higher Education Authority (NCHEA): Series 1999 bonds; 5.25% to 5.5% tax-exempt revenue bonds		—	5,140
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 0.17% and 0.12% on June 30, 2012 and 2011, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2013		20,240	20,875
Series 2001 bonds; tax-exempt variable rate revenue bonds, $21,780 due serially from October 15, 2006 to October 15, 2019, variable rates of 0.17% and 0.12% on June 30, 2012 and 2011, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2013		20,860	21,060
Series 2004 bonds; tax-exempt variable rate revenue bonds, $50,000 due serially from May 15, 2025 to May 15, 2034, variable rates of 0.17% and 0.09% on June 30, 2012 and 2011, respectively; bonds are supported with a standby bond purchase agreement, which expires on February 15, 2013		50,000	50,000
Series 2006A bonds; tax-exempt variable rate revenue bonds, $16,820 due serially from November 15, 2007 to November 15, 2021, variable rates of 0.17% and 0.12% on June 30, 2012 and 2011, respectively		16,240	16,355

		2012	2011
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 3.83% and 3.86% on June 30, 2012 and 2011, 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	$	53,930	53,930
Series 2009 bonds; 5.00% to 5.50% tax-exempt revenue bonds, $66,165 due serially from November 15, 2029 to November 15, 2039		65,135	65,092
Fixed rate taxable term loan issued by Bank of America, N.A., up to $15,000, 2.61%, due December 23, 2018		14,832	—
Variable rate term loan with draw period issued by Wells Fargo Bank to Lehigh University subsidiary BFTP, up to $2,200 due December 31, 2011; LIBOR Market Index Rate plus 2.4%		—	366
Construction loan issued by Wells Fargo Bank as agent for Lehigh Valley Economic Development Corporation Loan Pool to Lehigh University subsidiary BFTP, up to $5,000 due May 7, 2015; LIBOR Market Index Rate plus 3.25% with a floor of 5%; will convert to fixed rate term loan September 10, 2012		2,465	3,737
Mortgage issued by First Keystone National Bank assumed by Lehigh University subsidiary BFTP, $528 due serially from June 23, 2010 to September 23, 2025; five-year United States Treasury Rate in effect at September 10, 2010, 2015 and 2020 plus 3.25%		506	517
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		150	175
	$	264,358	237,247

Proceeds from all 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 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. In addition, BFTP has a $5 million line of credit with Wells Fargo Bank to support construction. The Wells Fargo loan and line of credit are subject to financial covenants requiring BFTP to maintain $7 million in unencumbered liquid assets at all times.

At June 30, 2012, the aggregate annual maturities of long-term bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2013	$	5,410
2014		5,595
2015		7,812
2016		5,880
2017		6,056
Thereafter		214,656

The Series of 2000B, 2001, 2004, and 2006A bonds bear interest at a weekly rate determined by the remarketing agent. 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, 2001, or 2004 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, 2012, Lehigh estimates that $62 million of liquid assets were available on a same day basis and an additional $148 million was available within 30 days.

The fair value of the University's tax-exempt debt, estimated based on current rates offered for similar issues with similar security, terms, and maturities, approximates $236 million and $233 million at June 30, 2012 and 2011, respectively.

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, 2012, 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	$	20,240	4.530%	67% of USD-1 month LIBOR-BBA	12/1/2030
2001 bonds	JPMorgan Chase Bank, N.A.	9/4/2001		20,860	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		16,265	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
			$	198,145			

(10) Derivative Instruments (In millions)

The University employs derivatives, primarily interest rate swap agreements, to manage interest rate risk associated with outstanding debt.

	Balance sheet location	Location of gain(loss)		Fair value 2012	Fair value 2011	Amount of loss 2012	Amount of gain 2011
Interest rate swap agreements	Other liabilities	Nonoperating activity – Change in fair value of interest rate swaps	$	(10.9)	(0.8)	(10.1)	5.3

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, 2012, the University would be required to post an additional $15.1 million of collateral to its counterparties.

(11) 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 2012, the University reimbursed retirees a maximum of $83.70 per month for premium expenses, or a total of $689,000 (as compared to $685,000 in fiscal year 2011). 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):

		2012	2011
Benefit obligation at beginning of year	$	33,840	31,573
Service cost		1,310	1,235
Interest cost		1,800	1,587
Actuarial gain		(1,110)	—
Assumption changes		2,246	130
Benefits paid		(689)	(685)
Benefit obligation at end of year	$	37,397	33,840

The following table sets forth the status of the plan, which is unfunded, at June 30, 2012 and 2011:

		2012	2011
Accumulated postretirement benefit obligation:			
Retirees	$	12,021	8,931
Fully eligible active plan participants		11,803	10,441
Other active plan participants		13,573	14,468
Total		37,397	33,840
Plan assets at fair value		—	—
Accumulated postretirement benefit liability	$	37,397	33,840

Weighted average assumptions for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Discount rate for net periodic postretirement benefit cost	5.40%	5.10%
Discount rate for accumulated postretirement benefit obligation	4.50	5.40
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, 2012 and 2011 is as follows:

	2012	2011
Healthcare cost trend rate assumed for next year	5.00%	5.00%
Rate to which the cost trend rate is assumed to decline (ultimate rate)	5.00	5.00
Year that ultimate rate is reached	N/A	N/A

Impact of 1% increase in assumed healthcare cost trend rates at June 30, 2012 and 2011 is as follows (in thousands):

	2012	2011
Increase in accumulated postretirement benefit obligation	$ 7,438	6,314
Increase in net periodic postretirement benefit cost	711	623

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

Fiscal year ending June 30:	
2013	$ 788
2014	868
2015	939
2016	1,020
2017 through 2022	8,513

(12) Retirement Plans

The University provides pensions to substantially all salaried faculty and staff who are 35 years old or who have reached age 21 and completed two years of service under a noncontributory defined contribution plan with Teacher's Insurance and Annuity Association/College Retirement Equities Fund. Plan contributions vest immediately and are based on a percent of salary. Total pension expense for this plan totaled $12.0 million and 11.6 million in 2012 and 2011, respectively.

(13) 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 2013. These rates are also used for other sponsored programs except where separately negotiated. Indirect cost reimbursements from all sources totaled $8.5 million in both 2012 and 2011.

(14) Fund-Raising Costs

Fund-raising costs were approximately $7.4 million and $6.8 million in 2012 and 2011, respectively, and are included in institutional support in the consolidated statement of activities.

(15) Commitments and Contingencies

Open commitments for construction contracts amounted to approximately $3.9 million and $5.9 million as of June 30, 2012 and 2011, respectively.

The University is obligated under certain investment agreements to periodically advance additional funding up to contractual levels. At June 30, 2012 and 2011, the University had unfunded commitments of $139 million and $143 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 endowment asset allocation, as well as donor gifts and existing cash.

The University leases certain equipment and real property. These leases are classified as operating leases and have lease terms ranging from one to five years. Total lease expense for fiscal 2012 and 2011 was approximately $1.0 million and $1.1 million, respectively.

(16) Related-Party Transactions

Certain members of the University's Board of Trustees and advisory committees are affiliated with firms that provide financial services to the University.

(17) 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, 2012, 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.

(18) Subsequent Events

The University has evaluated subsequent events through October 22, 2012, the date financial statements were issued, and identified no matters for disclosure.