LEHIGH UNIVERSITY

Consolidated Financial Statements

June 30, 2014
(with comparative financial information for June 30, 2013)

(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 financial statements of Lehigh University, which comprise the consolidated statement of financial position as of June 30, 2014, 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, 2014, 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 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 14, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
October 21, 2014

LEHIGH UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2014
(with comparative financial information for June 30, 2013)

(In thousands)

Assets		**2014**	**2013**
Cash and cash equivalents (note 1(c))	$	49,927	56,443
Accounts receivable, net (note 5)		16,097	15,378
Inventories		1,797	1,838
Prepaid expenses and other assets		7,476	6,591
Contributions receivable, net (note 8)		70,150	65,349
Notes receivable, net (note 6)		12,996	10,944
Investments (notes 2 and 4)		1,640,541	1,486,467
Funds held in trust by others		4,884	4,565
Land, buildings, and equipment, net (note 7)		364,746	360,135
Total assets	$	2,168,614	2,007,710
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	40,042	34,461
Deferred revenues		25,210	23,916
Annuity payment liability		18,953	18,606
Other liabilities (notes 10, 11, and 12)		50,374	47,353
Deposits held for others		1,361	1,505
Refundable federal student loan funds		2,390	2,486
Bonds, loans, and notes payable (note 10)		263,223	268,730
Total liabilities		401,553	397,057
Net assets (note 9):			
Unrestricted		853,706	775,381
Temporarily restricted		399,439	349,956
Permanently restricted		513,916	485,316
Total net assets		1,767,061	1,610,653
Total liabilities and net assets	$	2,168,614	2,007,710

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2014
(with comparative financial information for year ended June 30, 2013)

(In thousands)

		2014				
		Unrestricted	Temporarily restricted	Permanently restricted	Total	2013
Support and revenues:						
Tuition and fees, net (note 1(i))	$	173,767	—	—	173,767	165,736
Federal grants and contracts		28,649	—	—	28,649	33,893
State and local grants and contracts		7,255	—	—	7,255	7,136
Private grants and contracts		6,428	—	—	6,428	7,984
Contributions		16,645	—	—	16,645	13,366
Investment return (note 2)		73,709	—	—	73,709	70,748
Auxiliary enterprises		40,861	—	—	40,861	39,983
Independent operations (note 1(a))		10,542	(8)	—	10,534	9,528
Other sources		9,458	—	—	9,458	9,308
Gifts and trusts released from restrictions		2,319	(2,319)	—	—	—
Total support and revenues		369,633	(2,327)	—	367,306	357,682
Expenses:						
Instruction		136,261	—	—	136,261	131,003
Research		39,935	—	—	39,935	37,543
Public service		3,790	—	—	3,790	8,579
Academic support		31,304	—	—	31,304	29,220
Student services		32,501	—	—	32,501	31,418
Institutional support (note 15)		61,597	—	—	61,597	60,224
Auxiliary enterprises		35,356	—	—	35,356	33,961
Independent operations (note 1(a))		9,740	—	—	9,740	9,643
Total expenses		350,484	—	—	350,484	341,591
Operating income (loss)		19,149	(2,327)	—	16,822	16,091
Nonoperating activity:						
Investment return (note 2):						
University		60,141	44,222	4,395	108,758	48,306
Independent operations		93	—	—	93	455
Gifts and trusts		313	13,211	17,097	30,621	35,399
Gifts and trusts released from restrictions and changes in donor intent		2,060	(6,066)	4,006	—	—
Change in fair value of interest rate swaps (note 11)		774	—	—	774	6,071
Postretirement plan changes other than net periodic benefit costs (note 12):						
University		(2,755)	—	—	(2,755)	3,856
Independent operations		(98)	—	—	(98)	119
Other		(1,352)	443	3,102	2,193	4,259
Nonoperating income		59,176	51,810	28,600	139,586	98,465
Change in net assets		78,325	49,483	28,600	156,408	114,556
Net assets, beginning of year		775,381	349,956	485,316	1,610,653	1,496,097
Net assets, end of year	$	853,706	399,439	513,916	1,767,061	1,610,653

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2014
(with comparative financial information for year ended June 30, 2013)

(In thousands)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	156,408	114,556
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Gifts and trusts restricted for long-term investment		(26,757)	(26,832)
Noncash contributions		(33)	(14)
Investment earnings restricted for long-term investment		(649)	(714)
Net realized gains on investments		(49,872)	(29,242)
Net unrealized gains on investments		(123,305)	(77,541)
Change in fair value of swap agreements		(774)	(6,071)
Payment of annuity obligations		1,301	1,617
Other nonoperating activity		29	184
Depreciation and amortization		24,955	24,784
Independent operations provision for bad debts		519	1,243
University provision for bad debts		63	66
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable		(635)	1,749
Decrease (increase) in inventories		41	(212)
Increase in contributions receivable		(4,801)	(8,160)
Increase (decrease) in accounts payable and accrued expenses		5,581	(1,539)
Increase in deferred revenues		1,294	1,716
Increase (decrease) in annuity payment liability		347	(2,450)
Decrease in deposits held for others		(144)	(104)
Increase (decrease) in accrued postretirement benefit cost		5,048	(1,651)
Increase in other assets		(1,005)	(72)
(Decrease) increase in other liabilities		(123)	1,198
Net cash used in operating activities		(12,512)	(7,489)
Cash flows from investing activities:			
Proceeds from sale of investments		1,497,715	1,759,910
Purchases of investments		(1,478,931)	(1,755,101)
Student loans and other notes advanced		(3,525)	(1,565)
Independent operations loans advanced		(1,477)	(1,509)
Student loans and other notes collected		1,346	1,287
Independent operations loans collected		872	888
Purchase of land, buildings, and equipment		(30,459)	(30,611)
Net cash used in investing activities		(14,459)	(26,701)
Cash flows from financing activities:			
Proceeds from issuance of indebtedness		—	10,000
Repayments of principal of indebtedness		(5,554)	(5,675)
Gifts and trusts restricted for long-term investment		26,757	26,832
Investment earnings restricted for long-term investment		649	714
Decrease in refundable loan funds		(96)	(94)
Payment of annuity obligations		(1,301)	(1,617)
Net cash provided by financing activities		20,455	30,160
Net decrease in cash and cash equivalents		(6,516)	(4,030)
Cash and cash equivalents at beginning of year		56,443	60,473
Cash and cash equivalents at end of year	$	49,927	56,443
Supplemental data:			
Interest paid	$	8,699	8,651

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 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.

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 activity 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.

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.

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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 net 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 market.

(e) Investments

Investments are stated at 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 1.72% 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 $11.0 million and $10.9 million as of June 30, 2014 and 2013, 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) 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 2014 and 2013 were $78.7 million and $75.5 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.

(m) 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

(Continued)

conjunction with the University's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived.

(2) Investments

Investments by major category at June 30, 2014 and 2013 are as follows (in thousands):

		2014	2013
Short-term investments	$	54,401	17,246
Fixed income investments:			
U.S. government		185,327	171,688
Corporate		124,720	129,685
Other		6,927	2,976
Corporate stocks		49,968	51,783
Mutual and exchange-traded funds		184,253	190,304
Real estate		11,131	7,555
Alternative investments:			
Global equity		315,181	215,015
Hedged equity		64,292	57,291
Hedged emerging market equity		38,216	56,547
Absolute return		234,335	221,191
Natural resources equity		8,659	10,365
Commodities		27,513	45,394
Developed market credit		23,832	21,867
Emerging market credit		4,234	24,934
Private investments		304,459	259,942
Life insurance and other investments		3,093	2,684
Total investments	$	1,640,541	1,486,467

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. Note 4, Fair Value Measurements, provides additional information about inputs used to determine fair value.

The majority of endowment, annuity, and life income 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, 2014 and 2013, the University had unfunded commitments of $159 million and $162 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, 2014 and 2013 are net of investment expenses of approximately $9.1 million and $7.5 million, respectively:

		2014	2013
Investment earnings	$	10,246	12,643
Net realized and unrealized gains		172,221	106,411
		182,467	119,054
Independent operations – net realized and unrealized gains		956	372
Independent operations – other investment earnings		1,388	318
Total	$	184,811	119,744

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

		2014	2013
Operating:			
Endowment spending distribution	$	59,605	57,817
Spending distribution – other		8,054	7,199
Other investment earnings		6,050	5,732
		73,709	70,748
Independent operations – realized gains (losses)		863	(83)
Independent operations – other investment earnings		1,388	318
Total operating		75,960	70,983
Nonoperating:			
Endowment spending distribution		1,121	1,121
Other investment losses		(472)	(407)
Net realized and unrealized gains net of spending distribution		108,109	47,592
		108,758	48,306
Independent operations – net unrealized gains		93	455
Total nonoperating		108,851	48,761
Total investment return	$	184,811	119,744

(3) Endowment Net Assets

The University's endowment consists of approximately 2,500 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, 2014 and 2013 were $8.0 million and $17.5 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 5.2% and 5.5% for fiscal year 2014 and 2013, respectively. For the fiscal years ended June 30, 2014 and 2013, gains of approximately $64.1 million and $58.8 million, respectively, were included in endowment earnings distributed in accordance with the spending policy.

Endowment net asset composition as of June 30, 2014 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$	(7,955)	11,040	426,330	429,415
Board-designated endowment funds (corpus)		213,687	—	—	213,687
Accumulated gains on endowment funds		186,413	341,675	—	528,088
Total endowment net assets	$	392,145	352,715	426,330	1,171,190

Endowment net asset composition as of June 30, 2013 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$	(17,480)	19,408	405,084	407,012
Board-designated endowment funds (corpus)		204,636	—	—	204,636
Accumulated gains on endowment funds		165,319	288,492	—	453,811
Total endowment net assets	$	352,475	307,900	405,084	1,065,459

Changes in endowment net assets for the year ended June 30, 2014 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2013	$ 352,475	307,900	405,084	1,065,459
Investment return:				
Investment income	12,185	38	367	12,590
Net appreciation	61,160	79,738	314	141,212
Total investment return	73,345	79,776	681	153,802
Contributions	4,547	1,054	20,265	25,866
Board designations/changes in donor intent	(1,560)	(71)	300	(1,331)
Amounts appropriated for expenditure:				
Endowment spending distribution	(28,499)	(32,227)	—	(60,726)
Endowment operating expense	(3,286)	(3,717)	—	(7,003)
Total amounts appropriated for expenditure	(31,785)	(35,944)	—	(67,729)
Change in other endowment liabilities	(4,877)	—	—	(4,877)
Total change in endowment funds	39,670	44,815	21,246	105,731
Net assets, June 30, 2014	$ 392,145	352,715	426,330	1,171,190

Changes in endowment net assets for the year ended June 30, 2013 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2012	$	322,001	290,910	382,373	995,284
Investment return:					
Investment income (loss)		14,381	12	(68)	14,325
Net appreciation		41,420	50,203	552	92,175
Total investment return		55,801	50,215	484	106,500
Contributions		4,168	100	22,431	26,699
Board designations/changes in donor intent		565	(244)	(204)	117
Amounts appropriated for expenditure:					
Endowment spending distribution		(28,826)	(30,112)	—	(58,938)
Endowment operating expense		(2,842)	(2,969)	—	(5,811)
Total amounts appropriated for expenditure		(31,668)	(33,081)	—	(64,749)
Change in other endowment liabilities		1,608	—	—	1,608
Total change in endowment funds		30,474	16,990	22,711	70,175
Net assets, June 30, 2013	$	352,475	307,900	405,084	1,065,459

(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. Generally, University investments in redeemable investment funds and commingled investment funds that are fully redeemable in a period of 60 days or less from the measurement date, given timely notice under the terms of the investment fund, at net asset value or its equivalent, are classified as Level 2.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable. The University includes in this category investments which offer a calculated net asset value per share and investments that do not meet the liquidity criteria required of Level 2 investments.

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:

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.

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.

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.

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, 2014 and 2013, 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.

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.

Debt and Related Interest Rate Swaps

The fair value of variable rate revenue bonds, as disclosed in note 10, 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.

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 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 the net asset value of those investments. Alternative investments are generally classified as Level 2 or 3 based on factors that include pricing inputs as well as the University's ability to redeem its investment within 60 days of the date of the consolidated statement of financial position.

The following table presents the University's fair value hierarchy for investments at June 30, 2014 (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)**	**Total**
Short-term investments	$ 54,401	—	—	54,401
Fixed income investments:				
U.S. government	123,418	61,909	—	185,327
Corporate	—	123,931	789	124,720
Other	—	6,927	—	6,927
Corporate stocks	49,968	—	—	49,968
Mutual and exchange-traded funds	115,937	68,316	—	184,253
Real estate	—	11,131	—	11,131
Alternative investments:				
Global equity	—	239,035	76,146	315,181
Hedged equity	—	35,935	28,357	64,292
Hedged emerging market equity	—	38,216	—	38,216
Absolute return	—	189,541	44,794	234,335
Natural resources equity	1,394	6,591	674	8,659
Commodities	—	27,513	—	27,513
Developed market credit	—	—	23,832	23,832
Emerging market credit	—	—	4,234	4,234
Private investments	—	483	303,976	304,459
Life insurance and other investments	3,068	25	—	3,093
Total investments	$ 348,186	809,553	482,802	1,640,541

The following table presents the University's fair value hierarchy for investments at June 30, 2013 (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)**	**Total**
Short-term investments	$ 17,246	—	—	17,246
Fixed income investments:				
U.S. government	114,716	56,972	—	171,688
Corporate	—	127,809	1,876	129,685
Other	—	2,976	—	2,976
Corporate stocks	51,783	—	—	51,783
Mutual and exchange-traded funds	135,243	55,061	—	190,304
Real estate	—	7,555	—	7,555
Alternative investments:				
Global equity	—	68,070	146,945	215,015
Hedged equity	—	43,363	13,928	57,291
Hedged emerging market equity	—	21,005	35,542	56,547
Absolute return	—	166,679	54,512	221,191
Natural resources equity	—	10,155	210	10,365
Commodities	—	45,394	—	45,394
Developed market credit	—	—	21,867	21,867
Emerging market credit	—	21,927	3,007	24,934
Private investments	—	—	259,942	259,942
Life insurance and other investments	2,669	15	—	2,684
Total investments	$ 321,657	626,981	537,829	1,486,467

The following table provides a reconciliation of the beginning and ending balances for investments in hierarchy Level 3 at June 30, 2014 (in thousands):

	Fair value measurements using significant unobservable inputs (Level 3)									
	Fixed income investments	**Global equity**	**Hedged equity**	**Hedged emerging market equity**	**Absolute return**	**Natural resources equity**	**Developed market credit**	**Emerging market credit**	**Private investments**	**Total**
Beginning balance	$ 1,876	146,945	13,928	35,542	54,512	210	21,867	3,007	259,942	537,829
Total realized/unrealized gains (losses)	61	10,181	3,082	(2,236)	1,384	54	2,263	216	23,171	38,176
Purchases	9,543	47,636	4,102	54,561	35,579	413	2,900	1,052	41,333	197,119
Sales and settlements	(10,691)	(57,428)	(6,153)	(77,561)	(36,898)	(3)	(3,198)	(41)	(19,534)	(211,507)
Transfer in and/or out of Level 3	—	(71,188)	13,398	(10,306)	(9,783)	—	—	—	(936)	(78,815)
Ending balance	$ 789	76,146	28,357	—	44,794	674	23,832	4,234	303,976	482,802
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	$ (233)	10,348	4,641	—	2,093	50	2,264	216	23,254	42,633

Net transfers from Level 3 to Level 2 of $78,815 for the year ended June 30, 2014 were recorded based on the redemption provisions of the investments. There were no transfers between Levels 1 and 2.

The following redemption table clarifies the nature, risk, and liquidity of the University's investments in alternative investment vehicles that calculate net asset value per share (or its equivalent) at June 30, 2014 (in thousands):

	Fair value	Estimated remaining lives	Unfunded commitments	Redemption frequency after end of initial restriction period	Redemption notice period
Global equity (1)	$ 315,181	N/A	$ —	daily-quarterly	5-90 days
Hedged equity (2)	64,292	N/A	—	quarterly-annually	45-80 days
Hedged emerging market equity (3)	38,216	N/A	—	quarterly – semi-annually	60 days
Absolute return (4)	234,335	N/A	12,219	various or not eligible	30-65 days
Natural resources equity (5)	7,265	N/A	2,435	daily or not eligible	—
Commodities (6)	27,513	N/A	—	monthly	35 days
Developed market credit (7)	23,832	2-6 years	7,725	not eligible	—
Emerging market credit (8)	4,234	3 years	635	not eligible	—
Private investments (9)	304,459	1-13 years	135,645	generally not eligible	—
Total	$ 1,019,327		$ 158,659		

(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 returns of publicly traded equities on a global basis in order to provide long-term growth to the endowment. Investments representing approximately 39% of the total value in this category cannot be redeemed at June 30, 2014 due to restrictions on full withdrawals.

(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) This category's return is driven by economic growth of the developing world and manager skill. Its primary objective is to capture the growth potential of emerging markets in a very risk controlled way so as to reduce the volatility of the returns typically associated with emerging market investing. These funds will also provide long term growth to the endowment.

(4) 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.

(5) Investment returns for this category are driven by a combination of global economic growth, as well as price appreciation of commodities. Funds 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.

(6) This category's return is driven by supply/demand curves in the commodity markets that drive commodity prices. Its investment objective is to provide direct exposure to commodities and natural resources through liquid trading strategies in order to provide a diversifying return stream with

historically low correlation to the returns of stocks and bonds, while providing principal protection in unexpected inflationary environments.

(7) 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.

(8) This category's return is driven by a combination of changes in emerging market interest rates, currencies, and credit spreads. Its objective is to provide income, to mitigate overall portfolio volatility through lower correlation to developed bond and equity investments, add yield over the U.S. Treasuries portfolio and provide a potential hedge against deterioration of the U.S. dollar. These investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions.

(9) This category includes investments in private equity, real estate, and oil and gas funds. Returns are driven primarily by economic growth. The primary objective of these funds is to provide diversification, inflation protection, and long-term returns in excess of publicly traded equity markets. 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, 2014 and 2013 (net of allowances for doubtful accounts) are as follows (in thousands):

	2014	2013
Accounts receivable, net:		
Student accounts	$ 639	571
Grants and contracts	8,419	7,649
Investment income	2,012	2,049
Other	5,027	5,109
	$ 16,097	15,378

Allowances for doubtful accounts were $2.1 million and $2.2 million in 2014 and 2013, respectively.

(6) Notes Receivable

Notes receivable at June 30, 2014 and 2013 are as follows (in thousands):

		2014	2013
Notes receivable, net:			
University:			
Student loans	$	8,355	8,193
Other		3,046	1,137
Less: allowance for doubtful loans		(285)	(285)
Total University		11,116	9,045
Independent operations:			
Program loans		11,312	12,346
Less: allowance for doubtful accounts		(9,432)	(10,447)
Total independent operations		1,880	1,899
`	$	12,996	10,944

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, 2014 and 2013 (in thousands):

		2014	2013
Land and improvements	$	52,860	51,263
Buildings		550,672	523,544
Furniture, equipment, books, and collections		186,656	183,515
Construction in progress		26,613	32,430
		816,801	790,752
Less accumulated depreciation		(452,055)	(430,617)
Total	$	364,746	360,135

Depreciation expense totaled $24.8 million and $24.6 million for the years ended June 30, 2014 and 2013, 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

 (Continued)

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 5.23%. Outstanding pledges that were conditional amounted to $12.0 million and $1.8 million as of June 30, 2014 and 2013, respectively. Unconditional promises are expected to be realized in the following periods (in thousands):

		2014	2013
In one year or less	$	24,121	18,705
Between one year and five years		41,445	23,537
More than five years		9,030	28,096
		74,596	70,338
Less:			
Unamortized discount		(1,544)	(2,457)
Allowance for uncollectible amounts		(2,902)	(2,532)
	$	70,150	65,349

(9) Net Assets

Temporarily restricted net assets include the following at June 30, 2014 and 2013 (in thousands):

		2014	2013
Contributions receivable	$	22,155	20,344
Temporarily restricted endowment funds		10,971	19,173
Life income funds		3,551	3,228
Accumulated gains on permanent endowment funds		341,744	288,727
Other – related to time and purpose restrictions		21,018	18,484
	$	399,439	349,956

Based upon spending restrictions in effect as of June 30, 2014, accumulated gains on permanent endowment funds are designated for the following future spending purposes: scholarships and fellowships 34%, professorships and chairs 12%, student loans 4%, other restrictions 12%, and no purpose restrictions 38%.

Permanently restricted net assets include the following at June 30, 2014 and 2013 (in thousands):

		2014	2013
Contributions receivable	$	20,827	21,037
Permanent loan funds		15,169	13,922
Annuity and life income funds		51,590	45,273
Permanent endowment funds		426,330	405,084
	$	513,916	485,316

Included in life income funds are $1.4 million (temporarily restricted) and $25.7 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, 2014 and 2013, bonds, loans, and notes payable, including unamortized premiums and discounts, consisted of the following (in thousands):

		2014	2013
Taxable Commercial Paper Series A, up to $75 million, weighted average interest rate of 0.13% and 0.16% on June 30, 2014 and 2013, respectively; average duration of 90 days and 89 days on June 30, 2014 and 2013, respectively	$	30,000	30,000
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 0.03% and 0.05% on June 30, 2014 and 2013, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2016		18,870	19,570
Series 2001 bonds; tax-exempt variable rate revenue bonds, $21,780 due serially from October 15, 2006 to October 15, 2019, variable rates of 0.03% and 0.05% on June 30, 2014 and 2013, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2016		16,070	18,520
Series 2004 bonds; tax-exempt index rate revenue bonds, $50,000 due serially from May 15, 2025 to May 15, 2034, rates of 0.73% and 0.76% on June 30, 2014 and 2013, respectively		50,000	50,000

		2014	2013
Series 2006A bonds; tax-exempt variable rate revenue bonds, $16,820 due serially from November 15, 2007 to November 15, 2021, variable rates of 0.03% and 0.04% on June 30, 2014 and 2013, respectively	$	13,444	14,865
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 2.69% and 2.65% on June 30, 2014 and 2013, 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		53,929	53,929
Series 2009 bonds; 5.00% to 5.50% tax-exempt revenue bonds, $66,165 due serially from November 15, 2029 to November 15, 2039		65,219	65,177
Taxable fixed rate term loan issued by Bank of America, N.A., up to $15,000, 2.61%, due December 23, 2018		13,953	14,400
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%		1,160	1,651
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 3.25% on June 30, 2014 and 2013, respectively.		478	493
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		100	125
	$	263,223	268,730

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 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, 2014, the aggregate annual maturities of long-term bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2015	$	5,467
2016		5,689
2017		5,878
2018		6,631
2019		17,753
Thereafter		192,763

The Series of 2000B, 2001, and 2006A bonds bear interest at a weekly rate determined by the remarketing agent. In February 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, 2014, Lehigh estimates that $66 million of liquid assets were available on a same day basis and an additional $128 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 $226 million and $227 million at June 30, 2014 and 2013, 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, 2014, 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	$ 18,870	4.530%	67% of USD-1 month LIBOR-BBA	12/1/2030
2001 bonds	JPMorgan Chase Bank, N.A.	9/4/2001	16,070	4.400	67% of USD-1 month LIBOR-BBA	10/15/2019
2004 bonds	Wells Fargo Bank, N.A.	12/8/2008	50,000	1.953	67% of USD-3 month LIBOR-BBA	5/15/2034
2006A bonds	JPMorgan Chase Bank, N.A.	8/24/2006	13,460	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
			$ 189,180			

(11) Derivative Instruments

The University employs derivatives, primarily interest rate swap agreements, to manage interest rate risk associated with outstanding debt. The fair value of the University's swap agreements is included in other liabilities in the statement of financial position, and was $4.1 million and $4.8 million at June 30, 2014 and 2013, respectively. The change in fair value of interest rate swaps is reflected in nonoperating activity on the statement of activities and was $0.7 million and $6.1 million for the years ended June 30, 2014 and 2013, respectively.

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, 2014, the University would be required to post an additional $7.9 million of collateral to its counterparties.

(12) 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 2014, the University reimbursed retirees a maximum of $89.40 per month for premium expenses, or a total of $785,000 (as compared to $733,000 in fiscal year 2013). 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):

		2014	2013
Benefit obligation at beginning of year	$	35,746	37,397
Operating:			
Service cost		1,179	1,392
Interest cost		1,801	1,665
Benefits paid		(785)	(733)
Total operating		2,195	2,324
Nonoperating:			
Actuarial gain		(1,491)	(3,975)
Assumption changes		4,344	—
Total nonoperating		2,853	(3,975)
Benefit obligation at end of year	$	40,794	35,746

The following table sets forth the status of the plan, which is unfunded, at June 30, 2014 and 2013:

		2014	2013
Accumulated postretirement benefit obligation:			
Retirees	$	12,391	12,682
Fully eligible active plan participants		13,825	11,234
Other active plan participants		14,578	11,830
Total		40,794	35,746
Plan assets at fair value		—	—
Accumulated postretirement benefit liability	$	40,794	35,746

Weighted average assumptions for the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Discount rate for net periodic postretirement benefit cost	5.10%	4.50%
Discount rate for accumulated postretirement benefit obligation	4.65	5.10
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, 2014 and 2013 is as follows:

	2014	2013
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, 2014 and 2013 is as follows (in thousands):

	2014	2013
Increase in accumulated postretirement benefit obligation	$ 8,414	6,268
Increase in net periodic postretirement benefit cost	645	776

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

Fiscal year ending June 30:	
2015	$ 840
2016	915
2017	1,008
2018	1,112
2019	1,238
2020 through 2024	8,210

(13) 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 $13.6 million and $12.5 million in 2014 and 2013, respectively.

(14) 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 $8.9 million and $9.3 million in 2014 and 2013, respectively.

(15) Fund-Raising Costs

Fund-raising costs were approximately $8.9 million in both fiscal 2014 and 2013, and are included in institutional support in the consolidated statement of activities.

(16) Commitments and Contingencies

Open commitments for contracts with general contractors amounted to approximately $18.1 million and $0.8 million as of June 30, 2014 and 2013, 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 2014 and 2013 was approximately $1.0 million.

(17) 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.

(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, 2014, 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

The University has evaluated subsequent events through October 21, 2014, the date financial statements were issued, and identified no matters for disclosure.