



**LEHIGH UNIVERSITY**

Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

(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, 2015, 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, 2015, 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 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

**KPMG LLP**

Philadelphia, Pennsylvania  
October 20, 2015

**LEHIGH UNIVERSITY**

Consolidated Statement of Financial Position

June 30, 2015

(with comparative financial information for June 30, 2014)

(In thousands)

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Cash and cash equivalents (note 1(c))	\$ 28,626	49,927
Accounts receivable, net (note 5)	15,961	16,097
Inventories	1,752	1,797
Prepaid expenses and other assets	6,018	7,476
Contributions receivable, net (note 8)	56,688	70,150
Notes receivable, net (note 6)	13,140	12,996
Investments (notes 2 and 4)	1,662,156	1,640,541
Funds held in trust by others	4,615	4,884
Land, buildings, and equipment, net (note 7)	391,763	364,746
Total assets	\$ 2,180,719	2,168,614
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 42,399	40,042
Deferred revenues	22,550	25,210
Annuity payment liability	18,786	18,953
Other liabilities (notes 10, 11, and 13)	47,838	50,374
Deposits held for others	1,348	1,361
Refundable federal student loan funds	2,289	2,390
Bonds, loans, and notes payable (note 10)	282,467	263,223
Total liabilities	417,677	401,553
Net assets (notes 3 and 9):		
Unrestricted	881,797	853,706
Temporarily restricted	374,325	399,439
Permanently restricted	506,920	513,916
Total net assets	1,763,042	1,767,061
Total liabilities and net assets	\$ 2,180,719	2,168,614

See accompanying notes to consolidated financial statements.

**LEHIGH UNIVERSITY**

Consolidated Statement of Activities

Year ended June 30, 2015

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

(In thousands)

	2015			Total	2014
	Unrestricted	Temporarily restricted	Permanently restricted		
Support and revenues:					
Tuition and fees, net (note 1(i))	\$ 180,099	—	—	180,099	173,767
Federal grants and contracts	27,085	—	—	27,085	28,649
State and local grants and contracts	7,255	—	—	7,255	7,255
Private grants and contracts	6,026	—	—	6,026	6,428
Contributions	12,141	—	—	12,141	16,645
Investment return (note 2)	77,949	—	—	77,949	73,709
Auxiliary enterprises	42,063	—	—	42,063	40,861
Independent operations (note 1(a))	10,087	—	—	10,087	10,534
Other sources	10,145	—	—	10,145	9,458
Gifts and trusts released from restrictions	5,649	(5,649)	—	—	—
Total support and revenues	378,499	(5,649)	—	372,850	367,306
Expenses:					
Instruction	141,789	—	—	141,789	136,261
Research	40,459	—	—	40,459	39,935
Public service	3,244	—	—	3,244	3,790
Academic support	32,416	—	—	32,416	31,304
Student services	36,320	—	—	36,320	32,501
Institutional support (note 16)	67,264	—	—	67,264	61,597
Auxiliary enterprises	36,039	—	—	36,039	35,356
Independent operations (note 1(a))	10,195	—	—	10,195	9,740
Total expenses (note 12)	367,726	—	—	367,726	350,484
Operating income (loss)	10,773	(5,649)	—	5,124	16,822
Nonoperating activity:					
Investment return (note 2):					
University	(15,444)	(16,706)	472	(31,678)	108,758
Independent operations	(1,095)	—	—	(1,095)	93
Gifts and trusts	3,937	3,857	12,421	20,215	30,621
Gifts and trusts released from restrictions and changes in donor intent	14,612	(6,422)	(8,190)	—	—
Change in fair value of interest rate swaps (note 11)	984	—	—	984	774
Postretirement plan changes other than net periodic benefit costs (note 13):					
University	4,383	—	—	4,383	(2,755)
Independent operations	129	—	—	129	(98)
Other	9,812	(194)	(11,699)	(2,081)	2,193
Nonoperating income (loss)	17,318	(19,465)	(6,996)	(9,143)	139,586
Change in net assets	28,091	(25,114)	(6,996)	(4,019)	156,408
Net assets, beginning of year	853,706	399,439	513,916	1,767,061	1,610,653
Net assets, end of year	\$ 881,797	374,325	506,920	1,763,042	1,767,061

See accompanying notes to consolidated financial statements.

**LEHIGH UNIVERSITY**

Consolidated Statement of Cash Flows

Year ended June 30, 2015

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

(In thousands)

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (4,019)	156,408
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gifts and trusts restricted for long-term investment	(26,483)	(26,757)
Noncash contributions	(1,914)	(33)
Investment earnings restricted for long-term investment	(343)	(649)
Net realized gains on investments	(86,355)	(49,872)
Net unrealized losses (gains) on investments	58,816	(123,305)
Change in fair value of rate swap liabilities	(791)	(774)
Payment of annuity obligations	1,341	1,301
Other nonoperating activity	476	29
Depreciation and amortization	26,455	24,955
Independent operations provision for bad debts	1,020	519
University provision for bad debts	92	63
Change in operating assets and liabilities:		
Increase in accounts receivable	(89)	(635)
Decrease in inventories	45	41
Decrease (increase) in contributions receivable	13,462	(4,801)
Increase in accounts payable and accrued expenses	2,357	5,581
(Decrease) increase in deferred revenues	(2,660)	1,294
(Decrease) increase in annuity payment liability	(167)	347
Decrease in deposits held for others	(13)	(144)
(Decrease) increase in accrued postretirement benefit cost	(1,926)	5,048
Decrease (increase) in other assets	1,338	(1,005)
Increase (decrease) in other liabilities	142	(123)
Net cash used in operating activities	(19,216)	(12,512)
Cash flows from investing activities:		
Proceeds from sale of investments	1,526,565	1,497,715
Purchases of investments	(1,520,371)	(1,478,931)
Student loans and other notes advanced	(1,304)	(3,525)
Independent operations loans advanced	(2,032)	(1,477)
Student loans and other notes collected	1,299	1,346
Independent operations loans collected	972	872
Purchase of land, buildings, and equipment	(51,797)	(30,459)
Net cash used in investing activities	(46,668)	(14,459)
Cash flows from financing activities:		
Proceeds from issuance of indebtedness	25,000	—
Repayments of principal of indebtedness	(5,801)	(5,554)
Gifts and trusts restricted for long-term investment	26,483	26,757
Investment earnings restricted for long-term investment	343	649
Decrease in refundable loan funds	(101)	(96)
Payment of annuity obligations	(1,341)	(1,301)
Net cash provided by financing activities	44,583	20,455
Net decrease in cash and cash equivalents	(21,301)	(6,516)
Cash and cash equivalents at beginning of year	49,927	56,443
Cash and cash equivalents at end of year	\$ 28,626	49,927
Supplemental data:		
Interest paid	\$ 10,053	10,256

See accompanying notes to consolidated financial statements.

# LEHIGH UNIVERSITY

## Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

### (1) Summary of Significant Accounting Policies

#### (a) Organization

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

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

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

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

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.



# LEHIGH UNIVERSITY

## Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

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

**(b) Basis of Presentation**

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

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

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

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

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

Nonoperating activities reflect transactions of a long-term investment or capital nature, including contributions restricted for acquisitions of facilities and equipment, contributions restricted with donor-imposed stipulations, gains and losses on investments net of the University's spending policy, and certain postretirement benefits-related changes in net assets.

**(c) Cash Equivalents**

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

**(d) Inventories**

Inventories are stated at the lower of cost or market.

**(e) Investments**

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

## LEHIGH UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

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

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

**(f) Contributions**

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

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

**(g) Split-Interest Agreements and Annuities Payable**

The University's split-interest agreements with donors consist primarily of annuity, life income, and charitable trusts for which the University serves as trustee. A majority of the assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets and changes in the estimated present value of future cash outflows and other changes in the estimates of future benefits. The annuities payable represent the net present value of future cash outflows over the annuitant's life expectancy, as required by the annuity agreements. The net present value is calculated using a discount rate range of 1.57% to 7.5%. The University is required by the laws of certain states to register and maintain reserves against charitable gift annuities. Such reserves amounted to approximately \$11.4 million and \$11.0 million as of June 30, 2015 and 2014, respectively, and are reported within investments in the consolidated statement of financial position.

# LEHIGH UNIVERSITY

## Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

**(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 2015 and 2014 were \$82.5 million and \$78.7 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) Reclassifications**

Certain 2014 amounts have been reclassified to conform to their presentation in the 2015 consolidated financial statements.

# LEHIGH UNIVERSITY

## Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

**(n) Recent Accounting Pronouncements**

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-07 (ASU 2015-07), *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share as a practical expedient. It also removes the requirement to make certain disclosures for all investments valued using NAV as a practical expedient. The University has elected to early adopt ASU 2015-07 as permitted, and presentation in note 4 has been applied retrospectively.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. The University plans to adopt ASU No. 2015-03, which is required to be adopted for periods beginning after December 15, 2015 for its fiscal year ending June 30, 2016. The impact of adoption will be the reclassification of bond issuance costs, which totaled \$1.6 million at June 30, 2015.

**(o) Prior Year Summarized Financial Information**

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2014, from which the summarized information was derived.

## LEHIGH UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

#### (2) Investments

Investments by major category at June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Short-term investments	\$ 6,100	54,401
Fixed income investments:		
U.S. government	161,952	185,327
Corporate	116,678	124,720
Other	6,905	6,927
Corporate stocks	19,863	49,968
Mutual and exchange-traded funds	239,284	184,253
Real estate	19,926	11,131
Alternative investments:		
Global equity	405,279	333,649
Hedged equity	65,323	50,343
Absolute return	273,305	290,005
Natural resources equity	28,650	35,743
Developed market credit	16,036	23,832
Private investments	299,720	287,149
Life insurance and other investments	3,135	3,093
Total investments	\$ 1,662,156	1,640,541

The University's investments are comprised of the assets of the University's endowment, assets supporting certain split interest agreements, and other investments for general operating purposes. Investments are reported at fair value or net asset value as a practical expedient to fair value note 4, Fair Value Measurements, provides additional information about inputs used to determine fair value and about investments reported at net asset 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, 2015 and 2014, the University had unfunded commitments of \$155 million and \$159 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.

**LEHIGH UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

The components of total investment return are reflected below (in thousands). Investment earnings at both June 30, 2015 and 2014 are net of investment expenses of approximately \$9.1 million:

	<b>2015</b>	<b>2014</b>
Investment earnings	\$ 18,077	10,246
Net realized and unrealized gains	28,194	172,221
	46,271	182,467
Independent operations – net realized and unrealized (losses) gains	(655)	956
Independent operations – other investment earnings	816	1,388
Total	\$ 46,432	184,811

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

	<b>2015</b>	<b>2014</b>
Operating:		
Endowment spending distribution	\$ 61,574	59,605
Spending distribution – other	9,916	8,054
Other investment earnings	6,459	6,050
	77,949	73,709
Independent operations – realized gains	440	863
Independent operations – other investment earnings	816	1,388
Total operating	79,205	75,960
Nonoperating:		
Endowment spending distribution	326	1,121
Other investment gains (losses)	17	(472)
Net realized and unrealized (losses) gains net of spending distribution	(32,021)	108,109
	(31,678)	108,758
Independent operations – net unrealized (losses) gains	(1,095)	93
Total nonoperating	(32,773)	108,851
Total investment return	\$ 46,432	184,811

# LEHIGH UNIVERSITY

## Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

### (3) Endowment Net Assets

The University's endowment consists of approximately 2,600 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, 2015 and 2014 were \$10.5 million and \$8.0 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.

# LEHIGH UNIVERSITY

## Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

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% for both fiscal year 2015 and 2014. For the fiscal years ended June 30, 2015 and 2014, gains of approximately \$60.2 million and \$64.1 million, respectively, were included in endowment earnings distributed in accordance with the spending policy.

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

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

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

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
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



**LEHIGH UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

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

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

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(with comparative financial information for June 30, 2014)

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>61,160</u>	<u>79,738</u>	<u>314</u>	<u>141,212</u>
Total investment return	<u>73,345</u>	<u>79,776</u>	<u>681</u>	<u>153,802</u>
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	<u>(3,286)</u>	<u>(3,717)</u>	<u>—</u>	<u>(7,003)</u>
Total amounts appropriated for expenditure	(31,785)	(35,944)	—	(67,729)
Change in other endowment liabilities	<u>(4,877)</u>	<u>—</u>	<u>—</u>	<u>(4,877)</u>
Total change in endowment funds	<u>39,670</u>	<u>44,815</u>	<u>21,246</u>	<u>105,731</u>
Net assets, June 30, 2014	<u>\$ 392,145</u>	<u>352,715</u>	<u>426,330</u>	<u>1,171,190</u>

**(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.

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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 level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the measurement.

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

**(a) *Short-Term Assets and Liabilities***

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

**(b) *Notes Receivable***

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

**(c) *Contributions Receivable***

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

**(d) *Funds Held in Trust by Others***

Funds held in trust by others are held and administered by outside trustees, with the University deriving income or a residual interest from the assets of such funds. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence. As of June 30, 2015 and 2014, 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.

# LEHIGH UNIVERSITY

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(e) ***Split-Interest Agreements***

Depending on the type of agreement, fair value measurements for split-interest agreements are performed either at inception or on a recurring basis. Fair value of the residual gift is generally based on the present value of expected future cash flows including payments to beneficiaries and investment return, and Level 3 inputs include the life expectancy of the donor and other beneficiaries as well as financial assumptions.

(f) ***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.

(g) ***Investments***

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

Estimated fair value of alternative investments that are not readily marketable are recorded at the 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.

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

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

	Fair value measurements at reporting date using			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-term investments	\$ 6,100	—	—	6,100
Fixed income investments:				
U.S. government	106,657	55,295	—	161,952
Corporate	—	115,965	713	116,678
Other	—	6,905	—	6,905
Corporate stocks	19,863	—	—	19,863
Mutual and exchange-traded funds	239,284	—	—	239,284
Real estate	—	19,926	—	19,926
Natural resources equity	252	—	—	252
Life insurance and other investments	3,108	27	—	3,135
	\$ 375,264	198,118	713	574,095
Investments measured at net asset value per share (or its equivalent)				
Global equity				405,279
Hedged equity				65,323
Absolute return				273,305
Natural resources equity				28,398
Developed market credit				16,036
Private investments				299,720
				1,088,061
Total investments measured at net asset value per share (or its equivalent)				1,088,061
Total investments				\$ 1,662,156

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## Notes to Consolidated Financial Statements

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(with comparative financial information for June 30, 2014)

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
Natural resources equity	1,394	—	—	1,394
Life insurance and other investments	3,068	25	—	3,093
Total investments in fair value hierarchy	\$ 348,186	272,239	789	621,214
Investments measured at net asset value per share (or its equivalent)				
Global equity				333,649
Hedged equity				50,343
Absolute return				290,005
Natural resources equity				34,349
Developed market credit				23,832
Private investments				287,149
Total investments measured at net asset value per share (or its equivalent)				1,019,327
Total investments				\$ 1,640,541

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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, 2015 (in thousands):

	<u>Fair value</u>	<u>Estimated remaining lives</u>	<u>Unfunded commitments</u>	<u>Redemption frequency after end of initial restriction period</u>	<u>Redemption notice period</u>
Global equity (1)	\$ 405,279	N/A	\$ —	daily-quarterly	5–90 days
Hedged equity (2)	65,323	N/A	—	quarterly-annually	45–80 days
Absolute return (3)	273,305	N/A	16,661	various or not eligible	30–180 days
Natural resources equity (4)	28,398	N/A	—	various or not eligible	35 days
Developed market credit (5)	16,036	1–5 years	4,692	not eligible	—
Private investments (6)	<u>299,720</u>	1–13 years	<u>133,596</u>	generally not eligible	—
Total	<u>\$ 1,088,061</u>		<u>\$ 154,949</u>		

- (1) This category includes investments in both developed and emerging market equity funds. The portfolio’s return is driven primarily by economic growth. Its primary objective is to capture the returns of publicly traded equities on a global developed market basis and the growth potential of emerging markets in order to provide long-term growth to the endowment. These funds will also provide a diversification to U.S. and other developed equity and bond markets. Investments representing approximately 17% of the total value in this category have restrictions that prevent full redemption at June 30, 2015.
- (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. Investments representing approximately 7% of the total value in this category have restrictions that prevent full redemption at June 30, 2015.
- (3) The primary objective of this category is to capture the returns associated with skill-based active management by exploiting the inefficiencies associated with marketable securities, thus providing a diversifying return stream with low correlation to returns of stocks and bonds. These funds will also provide principal protection in equity sell-offs. Investments representing approximately 9% of the total value in this category have restrictions that prevent full redemption at June 30, 2015.
- (4) Investment returns for this category are driven by a combination of global economic growth, as well as supply/demand curves in the commodity market. Funds gain direct and indirect exposure to commodities and natural resources through liquid, publicly traded securities in order to

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provide long-term growth to the endowment while providing principal protection in unexpected inflationary environments.

- (5) This category's return is driven by a combination of changes in interest rates and credit spreads. Its objectives are to provide income, to mitigate overall portfolio volatility through its lower correlation to equity investments, and add yield over the U.S. Treasuries portfolio. These investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions.
- (6) This category includes investments in private equity and real estate funds. Returns are driven primarily by economic growth. The primary objective of these funds is to provide long-term returns in excess of publicly traded equity markets, portfolio diversification relative to global equities and bonds, and long-term returns between that of stocks and bonds while carrying relatively lower risk than equities. These funds will also potentially offer some protection for the endowment in the event of inflation. All but one of these investments receives distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions.

### (5) Accounts Receivable

Accounts receivable at June 30, 2015 and 2014 (net of allowances for doubtful accounts) are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Accounts receivable, net:		
Student accounts	\$ 553	639
Grants and contracts	7,261	8,419
Investment income	2,806	2,012
Other	5,341	5,027
	<u>\$ 15,961</u>	<u>16,097</u>

Allowances for doubtful accounts were \$2.3 million and \$2.1 million in 2015 and 2014, respectively.



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#### (6) Notes Receivable

Notes receivable at June 30, 2015 and 2014 are as follows (in thousands):

	<b>2015</b>	<b>2014</b>
Notes receivable, net:		
University:		
Student loans	\$ 8,377	8,355
Other	2,975	3,046
Less allowance for doubtful loans	(285)	(285)
Total University	11,067	11,116
Independent operations:		
Program loans	10,631	11,312
Less allowance for doubtful accounts	(8,558)	(9,432)
Total independent operations	2,073	1,880
	\$ 13,140	12,996

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, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Land and improvements	\$ 57,431	52,860
Buildings	574,370	550,672
Furniture, equipment, books, and collections	193,985	186,656
Construction in progress	40,365	26,613
	866,151	816,801
Less accumulated depreciation	(474,388)	(452,055)
Total	\$ 391,763	364,746

Depreciation expense totaled \$26.3 million and \$24.8 million for the years ended June 30, 2015 and 2014, 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

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promises to give are recorded at fair value determined based on the present value of estimated future cash flows. Contributions receivable also include charitable remainder trusts where the University is not the trustee of the assets of the trust, but will receive a distribution upon its termination. The net present value of contributions receivable is calculated using a discount rate range of 1.76% to 5.23%. Outstanding pledges that were conditional amounted to \$16.7 million and \$12.0 million as of June 30, 2015 and 2014, respectively. Unconditional promises are expected to be realized in the following periods (in thousands):

	<b>2015</b>	<b>2014</b>
In one year or less	\$ 12,352	24,121
Between one year and five years	42,526	41,445
More than five years	5,677	9,030
	60,555	74,596
Less:		
Unamortized discount	(1,494)	(1,544)
Allowance for uncollectible amounts	(2,373)	(2,902)
	\$ 56,688	70,150

#### (9) Net Assets

Temporarily restricted net assets include the following at June 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Contributions receivable	\$ 12,517	22,155
Temporarily restricted endowment funds	15,224	10,971
Life income funds	3,368	3,551
Accumulated gains on permanent endowment funds	322,463	341,744
Other – related to time and purpose restrictions	20,753	21,018
	\$ 374,325	399,439

Based upon spending restrictions in effect as of June 30, 2015, accumulated gains on permanent endowment funds are designated for the following future spending purposes: scholarships and fellowships 34%, professorships and chairs 12%, student loans 1%, other restrictions 12%, and no purpose restrictions 41%.

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Permanently restricted net assets include the following at June 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Contributions receivable	\$ 19,999	20,827
Permanent loan funds	2,074	15,169
Annuity and life income funds	49,626	51,590
Permanent endowment funds	435,221	426,330
	\$ 506,920	513,916

Included in life income funds are \$1.2 million (temporarily restricted) and \$23.0 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, 2015 and 2014, bonds, loans, and notes payable, including net unamortized discounts of \$0.9 million and \$1.0 million at June 30, 2015 and 2014, respectively, consisted of the following (in thousands):

	<b>2015</b>	<b>2014</b>
Taxable Commercial Paper Series A, up to \$75 million, weighted average interest rate of 0.15% and 0.13% on June 30, 2015 and 2014 respectively; average duration of 94 days and 90 days on June 30, 2015 and 2014, respectively	\$ 55,000	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 0.05% and 0.03% on June 30, 2015 and 2014, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2016	18,135	18,870
Series 2001 bonds; tax-exempt variable rate revenue bonds, \$21,780 due serially from October 15, 2006 to October 15, 2019, variable rates of 0.05% and 0.03% on June 30, 2015 and 2014, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2016	13,500	16,070
Series 2004 bonds; tax-exempt index rate revenue bonds, \$50,000 due serially from May 15, 2025 to May 15, 2034, rates of 0.75% and 0.73% on June 30, 2015 and 2014, respectively	50,000	50,000

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	2015	2014
Series 2006A bonds; tax-exempt variable rate revenue bonds, \$16,820 due serially from November 15, 2007 to November 15, 2021, variable rates of 0.05% and 0.03% on June 30, 2015 and 2014, respectively	\$ 11,968	13,444
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 1.10% and 2.69% on June 30, 2015 and 2014 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	65,261	65,219
Taxable fixed rate term loan issued by Bank of America, N.A., \$15,000 due serially from February 1, 2012 to December 23, 2018, 2.61%	13,494	13,953
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%	668	1,160
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, 2015 and 2014, respectively	462	478
Interest free loan issued by Columbia Alliance for Economic Growth to Lehigh University subsidiary BFTP, \$250 due serially from June 30, 2010 to June 30, 2016	50	100
	\$ 282,467	263,223

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

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(NCGPA). Each loan agreement is a general obligation of the University for which it has pledged its full faith and credit. In addition, the University has granted NCGPA a security interest in the University's gross revenues as defined in each loan agreement. Pursuant to the NCGPA loan agreements, the University is required to establish rates and charges sufficient to provide, in each fiscal year, for the payment of the University's operating expenses and debt service on its long-term indebtedness. The University may incur additional indebtedness under certain conditions described in the loan agreements and the bond indentures.

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

At June 30, 2015, the aggregate annual maturities of long-term bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2016	\$	5,689
2017		5,878
2018		6,301
2019		17,753
2020		5,567
Thereafter		187,191

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, 2015, Lehigh estimates that \$109 million of liquid assets were available on a same day basis and an additional \$73 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 \$220 million and \$226 million at June 30, 2015 and 2014, 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

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effective interest rate. As of June 30, 2015, 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	\$ 18,135	4.530%	67% of USD-1 month LIBOR-BBA	12/1/2030
2001 bonds	JPMorgan Chase Bank, N.A.	9/4/2001	13,500	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	11,980	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
			\$ 184,395			

#### (11) Derivative Instruments

The University employs derivatives, primarily interest rate swap agreements, to manage interest rate risk associated with outstanding debt. Effective 2015, the endowment fund also entered into a swap position as part of its portfolio. The fair value of the University's swap agreements is included in other liabilities in the statement of financial position, and was \$3.3 million and \$4.1 million at June 30, 2015 and 2014, respectively. The change in fair value of interest rate swaps is reflected in nonoperating activity on the statement of activities and was \$1.0 million and \$0.7 million for the years ended June 30, 2015 and 2014, respectively.

Certain of the University's interest rate swap agreements contain provisions that require the University's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the University's debt were to fall below investment grade, it would be a violation of these provisions, and the counterparties to the rate swap agreement could request next-day full collateralization on all rate swaps in net liability positions. To date, the University has not posted collateral for any rate swap agreements. If the credit-risk related contingent features underlying these agreements were triggered on June 30, 2015, the University would be required to post an additional \$8.9 million of collateral to its counterparties.

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#### (12) Natural Expense Classification

The following table compares operating expenses by type for the years ended June 30, 2015 and 2014, respectively, (in thousands):

	2015	2014
Salaries and wages	\$ 162,010	156,970
Employee benefits	56,152	49,638
Utilities	9,767	11,499
Purchased services	33,010	31,384
Building and grounds maintenance	21,452	20,786
Depreciation	26,290	24,788
Interest	10,198	10,419
All other business expenses	48,847	45,000
Total	\$ 367,726	350,484

#### (13) Postretirement and Postemployment Benefits Other than Pensions

The University pays for a portion of the cost of medical insurance for retired employees and their eligible dependents. During fiscal year 2015, the University reimbursed retirees a maximum of \$91.20 per month for premium expenses, or a total of \$830,000 (as compared to \$785,000 in fiscal year 2014). 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):

	2015	2014
Benefit obligation at beginning of year	\$ 40,794	35,746
Operating:		
Service cost	1,539	1,179
Interest cost	1,877	1,801
Benefits paid	(830)	(785)
Total operating	2,586	2,195
Nonoperating:		
Actuarial gain	(9)	(1,491)
Assumption changes	(4,503)	4,344
Total nonoperating	(4,512)	2,853
Benefit obligation at end of year	\$ 38,868	40,794

**LEHIGH UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative financial information for June 30, 2014)

The following table sets forth the status of the plan, which is unfunded, at June 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Accumulated postretirement benefit obligation:		
Retirees	\$ 11,819	12,391
Fully eligible active plan participants	13,320	13,825
Other active plan participants	13,729	14,578
Total	38,868	40,794
Plan assets at fair value	—	—
Accumulated postretirement benefit liability	\$ 38,868	40,794

Weighted average assumptions for the years ended June 30, 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Discount rate for net periodic postretirement benefit cost	4.65%	5.10%
Discount rate for accumulated postretirement benefit obligation	4.80	4.65
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, 2015 and 2014 is as follows:

	<b>2015</b>	<b>2014</b>
Healthcare cost trend rate assumed for next year	4.00%	5.00%
Rate to which the cost trend rate is assumed to decline (ultimate rate)	4.00	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, 2015 and 2014 is as follows (in thousands):

	<b>2015</b>	<b>2014</b>
Increase in accumulated postretirement benefit obligation	\$ 8,008	8,414
Increase in net periodic postretirement benefit cost	900	645



# LEHIGH UNIVERSITY

## Notes to Consolidated Financial Statements

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

Fiscal year ending June 30:		
2016	\$	914
2017		1,005
2018		1,105
2019		1,223
2020		1,345
2021 through 2025		8,459

### (14) Retirement Plans

The University provides pensions to substantially all salaried faculty and staff through a defined contribution plan administered by Teacher's Insurance and Annuity Association / College Retirement Equities Fund. The plan features base contributions from the University and voluntary employee contributions with a University match. Total expense for this plan was \$14.4 million and \$13.6 million in 2015 and 2014, respectively.

### (15) Grants and Contracts

The University receives grant and contract revenue from various government agencies and private sources for the support of research, training, and other sponsored programs. Revenues associated with the direct costs of these programs are recognized as the related costs are incurred. Indirect cost reimbursements from federal agencies are based on predetermined rates negotiated with the University's cognizant agency, the Office of Naval Research, and are in effect through fiscal year 2017. These rates are also used for other sponsored programs except where separately negotiated. Indirect cost reimbursements from all sources totaled \$8.6 million and \$8.9 million in 2015 and 2014, respectively.

### (16) Fund-Raising Costs

Fund-raising costs were approximately \$13.6 million and \$8.9 million in 2015 and 2014, respectively, and are included in institutional support in the consolidated statement of activities. Fund-raising costs increased from 2014 to 2015 due to preparations for the University's upcoming comprehensive campaign and sesquicentennial.

### (17) Commitments and Contingencies

Open commitments for contracts with general contractors amounted to approximately \$7.1 million and \$18.1 million as of June 30, 2015 and 2014, respectively.

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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 fiscal 2015 and 2014 was approximately \$1.1 million and \$1.0 million, respectively.

### **(18) 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. When relationships exist, measures are taken to ensure that such transactions are conducted at arm's length, for appropriate compensation, based on terms that are fair and reasonable and for the benefit of the University.

### **(19) 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, 2015, 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.

### **(20) Subsequent Events**

The University has evaluated subsequent events through October 20, 2015, the date financial statements were issued, and identified no matters for disclosure.