KPMG

LEHIGH UNIVERSITY

Consolidated Financial Statements

June 30, 2017
(with comparative financial information for June 30, 2016)

(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, 2017, 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, 2017, 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 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
October 23, 2017

LEHIGH UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2017
(with comparative financial information for June 30, 2016)

(In thousands)

Assets		**2017**	**2016**
Cash and cash equivalents (note 1(c))	$	23,705	24,930
Accounts receivable, net (note 5)		17,019	12,946
Inventories		1,503	1,590
Prepaid expenses and other assets		6,017	5,584
Contributions receivable, net (note 8)		33,901	37,030
Notes receivable, net (note 6)		11,758	12,767
Investments (notes 2 and 4)		1,871,799	1,554,579
Funds held in trust by others		4,553	4,332
Land, buildings, and equipment, net (note 7)		413,192	401,190
Total assets	$	2,383,447	2,054,948
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	42,308	37,888
Deferred revenues		25,354	23,837
Annuity payment liability		18,431	19,443
Other liabilities (notes 10, 11, and 13)		52,257	55,982
Deposits held for others		1,346	1,385
Refundable federal student loan funds		2,018	2,194
Bonds, loans, and notes payable (note 10)		395,972	240,025
Total liabilities		537,686	380,754
Net assets (notes 3 and 9):			
Unrestricted		932,232	839,051
Temporarily restricted		364,188	309,160
Permanently restricted		549,341	525,983
Total net assets		1,845,761	1,674,194
Total liabilities and net assets	$	2,383,447	2,054,948

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2017
(with summarized comparative financial information for year ended June 30, 2016)

(In thousands)

	2017				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2016
Support and revenues:					
Tuition and fees, net (note 1(i))	$ 191,329	—	—	191,329	185,644
Federal grants and contracts	27,433	—	—	27,433	23,597
State and local grants and contracts	6,380	—	—	6,380	6,314
Private grants and contracts	7,360	—	—	7,360	5,807
Contributions	12,163	—	—	12,163	15,090
Investment return (note 2)	83,515	—	—	83,515	82,527
Auxiliary enterprises	42,930	—	—	42,930	43,492
Independent operations (note 1(a))	15,305	—	—	15,305	11,123
Other sources	10,161	—	—	10,161	9,543
Net assets released from restrictions	2,816	(2,816)	—	—	—
Total support and revenues	399,392	(2,816)	—	396,576	383,137
Expenses:					
Instruction	150,480	—	—	150,480	144,281
Research	43,348	—	—	43,348	39,285
Public service	2,595	—	—	2,595	3,258
Academic support	35,175	—	—	35,175	32,460
Student services	36,190	—	—	36,190	36,216
Institutional support (note 16)	70,348	—	—	70,348	69,522
Auxiliary enterprises	38,702	—	—	38,702	37,757
Independent operations (note 1(a))	10,882	—	—	10,882	11,240
Total expenses (note 12)	387,720	—	—	387,720	374,019
Operating income (loss)	11,672	(2,816)	—	8,856	9,118
Nonoperating activity:					
Investment return (note 2):					
University	70,631	51,079	2,977	124,687	(116,764)
Independent operations	2,792	—	—	2,792	387
Gifts and trusts	8,442	4,360	18,597	31,399	21,531
Net assets released from restrictions and changes in donor intent	(2,552)	2,469	83	—	—
Change in fair value of interest rate swaps (note 11)	12,499	—	—	12,499	(3,189)
Postretirement plan changes other than net periodic benefit costs (note 13):					
University	1,039	—	—	1,039	(2,559)
Independent operations	30	—	—	30	(63)
Other	(11,372)	(64)	1,701	(9,735)	2,691
Nonoperating income	81,509	57,844	23,358	162,711	(97,966)
Change in net assets	93,181	55,028	23,358	171,567	(88,848)
Net assets, beginning of year	839,051	309,160	525,983	1,674,194	1,763,042
Net assets, end of year	$ 932,232	364,188	549,341	1,845,761	1,674,194

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2017
(with comparative financial information for year ended June 30, 2016)

(In thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	171,567	(88,848)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Gifts and trusts restricted for long-term investment		(30,369)	(17,393)
Noncash contributions		(2,124)	(2,132)
Investment earnings restricted for long-term investment		(353)	281
Net realized gains on investments		(64,790)	(24,912)
Net unrealized (gains) losses on investments		(136,192)	69,008
Change in fair value of rate swap liabilities		(5,108)	2,786
Payment of annuity obligations		1,320	1,336
Other nonoperating activity		73	417
Depreciation and amortization		33,113	27,903
Loss on defeasance and refunding of tax-exempt bonds		10,063	—
Independent operations provision for bad debts		2,637	1,841
University provision for bad debts		45	381
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable		(5,035)	2,420
Decrease in inventories		87	162
Decrease in contributions receivable		3,129	19,658
Increase (decrease) in accounts payable and accrued expenses		4,420	(4,511)
Increase in deferred revenues		1,517	1,287
(Decrease) increase in annuity payment liability		(1,012)	657
(Decrease) increase in deposits held for others		(39)	37
Increase in accrued postretirement benefit cost		1,255	4,867
Increase in other assets		(433)	(1,146)
Decrease in other liabilities		(20)	(53)
Net cash used in operating activities		(16,249)	(5,954)
Cash flows from investing activities:			
Proceeds from sale and maturity of investments		1,343,364	1,279,981
Purchases of investments		(1,460,021)	(1,216,218)
Student loans and other notes advanced		(982)	(1,272)
Independent operations loans advanced		(2,031)	(1,607)
Student loans and other notes collected		2,082	1,339
Independent operations loans collected		196	270
Purchase of land, buildings, and equipment		(38,851)	(34,895)
Net cash (used in) provided by investing activities		(156,243)	27,598
Cash flows from financing activities:			
Proceeds from issuance of indebtedness		253,474	—
Repayments of principal of indebtedness		(5,895)	(41,021)
Defeasance and refunding of tax-exempt bonds		(95,475)	—
Loss on defeasance and refunding of tax-exempt bonds		(10,063)	—
Gifts and trusts restricted for long-term investment		30,369	17,393
Investment earnings restricted for long-term investment		353	(281)
Decrease in refundable loan funds		(176)	(95)
Payment of annuity obligations		(1,320)	(1,336)
Net cash provided by (used in) financing activities		171,267	(25,340)
Net decrease in cash and cash equivalents		(1,225)	(3,696)
Cash and cash equivalents at beginning of year		24,930	28,626
Cash and cash equivalents at end of year	$	23,705	24,930
Supplemental data:			
Interest paid	$	10,520	9,829

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

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

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

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

LU Properties also serves as Manager for South River Investments LLC (South River) and So-Beth Funding LLC (So-Beth Funding). South River, a Pennsylvania limited liability company, was formed to own and develop certain real estate properties in the local community. The results of South River's operations appear as public service in the University's consolidated statement of activities.

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 primarily as investment return 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 state loan programs and manufacturer grants. Considering the nature of the loans and collection history, BFTP has recorded an estimated allowance for doubtful collections.

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

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

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

(b) Basis of Presentation

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

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

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

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

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

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

(c) Cash Equivalents

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

(d) Inventories

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

(e) Investments

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

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

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

(f) Contributions

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

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

(g) Split-Interest Agreements and Annuities Payable

The University's split-interest agreements with donors consist primarily of annuity, life income, and charitable trusts for which the University serves as trustee. A majority of the assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets and changes in the estimated present value of future cash outflows and other changes in the estimates of future benefits.

The annuities payable represent the net present value of future cash outflows over the annuitant's life expectancy, as required by the annuity agreements. The net present value is calculated using a discount rate range of 1.57% to 7.5%. The University is required by the laws of certain states to register and maintain reserves against charitable gift annuities. Such reserves amounted to approximately $11.2 million and $11.8 million as of June 30, 2017 and 2016, respectively, and are reported within investments in the consolidated statement of financial position.

(Continued)

(h) Land, Buildings, and Equipment

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

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

(i) Tuition and Fees

Tuition and fees are reported net of financial aid that effectively reduces the amount of tuition and fees collected from students. Financial aid amounts offset against gross tuition and fees for 2017 and 2016 were $91.6 million and $86.6 million, respectively.

(j) Asset Retirement Liabilities

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

(k) Deferred Revenues

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

(l) Use of Estimates

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

(m) Reclassifications

Certain 2016 amounts have been reclassified to conform to their presentation in the 2017 consolidated financial statements.

(n) 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, 2016, from which the summarized information was derived.

(2) Investments

Investments by major category at June 30, 2017 and 2016 are as follows (in thousands):

		2017	2016
Short-term investments	$	82,212	69,021
Fixed income investments:			
U.S. government		195,072	146,084
Corporate		230,542	90,590
Other		2,845	3,300
Corporate stocks		12,000	22,248
Mutual and exchange-traded funds		245,862	191,661
Real estate		18,653	17,626
Alternative investments:			
Public equity		460,418	423,830
Absolute return		297,745	284,009
Private investments		323,238	303,054
Life insurance and other investments		3,212	3,156
Total investments	$	1,871,799	1,554,579

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. Fixed income investments include the proceeds from the 2016 taxable bond issue. Investments are reported at fair value or NAV as a practical expedient to fair value. Note 4, Fair Value Measurements, provides additional information about inputs used to determine fair value and about investments reported at NAV.

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

(Continued)

The University is obligated under certain investment agreements to periodically advance additional funding up to contractual levels. At June 30, 2017 and 2016, the University had unfunded commitments of $172 million and $156 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, 2017 and 2016 are net of investment expenses of approximately $8.2 million and $10.2 million, respectively.

		2017	2016
Investment earnings	$	10,577	10,421
Net realized and unrealized gains (losses)		197,625	(44,658)
		208,202	(34,237)
Independent operations – net realized and unrealized gains		3,357	562
Independent operations – other investment earnings		660	344
Total	$	212,219	(33,331)

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

		2017	2016
Operating:			
Endowment spending distribution	$	65,105	65,457
Spending distribution – other		11,748	9,821
Other investment earnings		6,662	7,249
		83,515	82,527
Independent operations – realized gains		565	175
Independent operations – other investment earnings		660	344
Total operating		84,740	83,046
Nonoperating:			
Endowment spending distribution		573	167
Other investment losses		(220)	(447)
Net realized and unrealized gains (losses) net of spending distribution		124,334	(116,484)
		124,687	(116,764)
Independent operations – net unrealized gains		2,792	387
Total nonoperating		127,479	(116,377)
Total investment return	$	212,219	(33,331)

(3) Endowment Net Assets

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

The University has interpreted relevant law as requiring the preservation of the original fair value of permanently restricted endowment funds as of the gift date, absent explicit donor stipulations to the contrary. From time to time, the fair value of assets associated with these funds may fall below the original fair value amount. Deficiencies of this nature at June 30, 2017 and 2016 were $10.7 million and $27.1 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 5.4% and 5.6% for fiscal years 2017 and 2016, respectively.

Endowment net asset composition as of June 30, 2017 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$	(10,687)	15,847	502,475	507,635
Board-designated endowment funds (corpus)		220,364	—	—	220,364
Accumulated gains on endowment funds		176,081	323,906	—	499,987
Total endowment net assets	$	385,758	339,753	502,475	1,227,986

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

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

Changes in endowment net assets for the year ended June 30, 2017 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2016	$ 342,680	289,449	476,063	1,108,192
Investment return:				
Investment income	10,577	24	174	10,775
Net appreciation	78,841	90,372	450	169,663
Total investment return	89,418	90,396	624	180,438
Contributions	1,088	9	25,788	26,885
Board designations/changes in donor intent	(14,151)	(60)	—	(14,211)
Amounts appropriated for expenditure:				
Endowment spending distribution	(29,204)	(36,474)	—	(65,678)
Endowment operating expense	(2,856)	(3,567)	—	(6,423)
Total amounts appropriated for expenditure	(32,060)	(40,041)	—	(72,101)
Change in other endowment liabilities	(1,217)	—	—	(1,217)
Total change in endowment funds	43,078	50,304	26,412	119,794
Net assets, June 30, 2017	$ 385,758	339,753	502,475	1,227,986

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

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

(4) Fair Value Measurements

The three levels of the fair value hierarchy are described below. The hierarchy gives the highest priority to unadjusted quoted or published 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 or published prices in active markets that are accessible at the measurement date for identical assets or liabilities.

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

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

The hierarchy requires the use of observable market data when available. The 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. 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, 2017 and 2016, the inputs to fair value of these funds are classified as Level 2 or Level 3, depending on whether the assets will ultimately be distributed to the University.

(e) Split-Interest Agreements

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

(f) Interest Rate Swaps

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.

(Continued)

(g) Investments

Fair value of equity securities has been determined from observable market or published 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 is recorded at the NAV as provided by external investment managers as a practical expedient for fair value. The University reviews and evaluates the values provided by external investment managers and agrees with the valuation methods and assumptions used in determining the NAV of those investments.

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

The following table presents the University's fair value hierarchy for investments at June 30, 2017 (in thousands):

	Fair value measurements at reporting date using				
	Quoted or published prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Measured at NAV per share (or its equivalent)	Total
Short-term investments	$ 82,212	—	—	—	82,212
Fixed income investments:					
U.S. government	154,773	40,299	—	—	195,072
Corporate	—	230,542	—	—	230,542
Other	—	2,845	—	—	2,845
Corporate stocks	12,000	—	—	—	12,000
Mutual and exchange-traded funds	245,862	—	—	—	245,862
Real estate	—	18,653	—	—	18,653
Alternative investments:					
Public equity	—	30,568	—	429,850	460,418
Absolute return	—	—	—	297,745	297,745
Private investments	—	—	—	323,238	323,238
Life insurance and other investments	3,203	9	—	—	3,212
Total investments	$ 498,050	322,916	—	1,050,833	1,871,799

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

	Fair value measurements at reporting date using				
	Quoted or published prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Measured at NAV per share (or its equivalent)**	**Total**
Short-term investments	$ 69,021	—	—	—	69,021
Fixed income investments:					
U.S. government	103,210	42,874	—	—	146,084
Corporate	—	90,042	548	—	90,590
Other	—	3,300	—	—	3,300
Corporate stocks	22,248	—	—	—	22,248
Mutual and exchange-traded funds	191,661	—	—	—	191,661
Real estate	—	17,626	—	—	17,626
Alternative investments:					
Public equity	—	29,929	—	393,901	423,830
Absolute return	—	—	—	284,009	284,009
Private investments	—	—	—	303,054	303,054
Life insurance and other investments	3,142	14	—	—	3,156
Total investments	$ 389,282	183,785	548	980,964	1,554,579

The following redemption table clarifies the nature, risk, and liquidity of the University's investments in alternative investment vehicles that are reported at NAV per share (or its equivalent) at June 30, 2017 (in thousands):

	Fair value	**Estimated remaining lives**	**Unfunded commitments**	**Redemption frequency after end of initial restriction period**	**Redemption notice period**
Public equity (1)	$ 429,850	N/A	$ —	weekly – annually	3–90 days
Absolute return (2)	297,745	1–4 years	20,337	various or not eligible	45–180 days
Private investments (3)	323,238	1–12 years	151,826	generally not eligible	—
Total	$ 1,050,833		$ 172,163		

(1) This category's primary objective is to capture the returns of publicly traded equities on a global market basis in order to provide long-term growth to the endowment. Investments representing approximately 8% of the total value in this category have restrictions that prevent full redemption at June 30, 2017.

(2) 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. These funds should also provide principal protection in equity sell-offs. Investments representing approximately 21% of the total value in this category have restrictions that prevent full redemption at June 30, 2017.

(3) This category includes investments in private equity and real estate funds. 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. Private investments typically have commitment periods up to 12 years.

(5) Accounts Receivable

Accounts receivable at June 30, 2017 and 2016 (net of allowances for doubtful accounts) are as follows (in thousands):

		2017	2016
Accounts receivable, net:			
Student accounts	$	581	816
Grants and contracts		8,918	6,040
Investment income		2,902	1,788
Other		4,618	4,302
	$	17,019	12,946

Allowances for doubtful accounts were $3.5 million and $2.6 million in 2017 and 2016, respectively.

(6) Notes Receivable

Notes receivable at June 30, 2017 and 2016 are as follows (in thousands):

		2017	2016
Notes receivable, net:			
University:			
Student loans	$	7,879	8,350
Other		2,224	2,903
Less allowance for doubtful loans		(271)	(285)
Total University		9,832	10,968
Independent operations:			
Program loans		12,710	11,563
Less allowance for doubtful accounts		(10,784)	(9,764)
Total independent operations		1,926	1,799
	$	11,758	12,767

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, 2017 and 2016 (in thousands):

		2017	2016
Land and improvements	$	64,082	62,560
Buildings and improvements		643,052	631,388
Furniture, equipment, books, and collections		206,093	198,986
Construction in progress		26,128	7,479
		939,355	900,413
Less accumulated depreciation		(526,163)	(499,223)
Total	$	413,192	401,190

Depreciation expense totaled $29.1 million and $27.7 million for the years ended June 30, 2017 and 2016, respectively. Capitalized interest totaled $0.6 million and $0.4 million for the years ended June 30, 2017 and 2016, respectively.

(Continued)

(8) Contributions

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions arising from unconditional promises to give are recorded at fair value determined based on the present value of estimated future cash flows. Contributions receivable also include charitable remainder trusts where the University is not the trustee of the assets of the trust, but will receive a distribution upon its termination. The net present value of contributions receivable is calculated using a discount rate range of 1.76% to 5.05%. Outstanding pledges that were conditional amounted to $13.1 million and $16.7 million as of June 30, 2017 and 2016, respectively. Unconditional promises are expected to be realized in the following periods (in thousands):

		2017	2016
In one year or less	$	16,532	16,682
Between one year and five years		16,332	17,468
More than five years		4,328	6,831
		37,192	40,981
Less:			
Unamortized discount		(884)	(1,325)
Allowance for uncollectible accounts		(2,407)	(2,626)
	$	33,901	37,030

(9) Net Assets

Temporarily restricted net assets include the following at June 30, 2017 and 2016 (in thousands):

		2017	2016
Contributions receivable	$	13,994	12,480
Temporarily restricted endowment funds		15,466	31,492
Life income funds		3,055	3,096
Accumulated gains on permanent endowment funds		324,287	257,957
Other – related to time and purpose restrictions		7,386	4,135
	$	364,188	309,160

Based upon spending restrictions in effect as of June 30, 2017, 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 13%, and no purpose restrictions 40%.

Permanently restricted net assets include the following at June 30, 2017 and 2016 (in thousands):

		2017	2016
Contributions receivable	$	16,894	21,636
Permanent loan funds		2,371	2,226
Annuity and life income funds		27,601	26,058
Permanent endowment funds		502,475	476,063
	$	549,341	525,983

Included in life income funds are $1.1 million (temporarily restricted) and $1.9 million (permanently restricted) net assets classified as contributions receivable on the consolidated statement of financial position.

(10) Bonds, Loans, and Notes Payable

Bonds, loans, and notes payable are reported net of any unamortized premiums, discounts, or issuance costs. Net unamortized premiums were $3.3 million at June 30, 2017. Net unamortized discounts were ($0.9) million at June 30, 2016. Net unamortized bond issuance costs were $1.8 million and $1.5 million at June 30, 2017 and 2016, respectively. The following table presents bonds, loans, and notes payable at June 30, 2017 and 2016 (in thousands):

		2017	2016
Taxable Commercial Paper Series A, up to $75 million, weighted average interest rate of 1.30% and 0.48% on June 30, 2017 and 2016, respectively; average duration of 122 days and 28 days for the years ended June 30, 2017 and 2016, respectively	$	20,000	20,000
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 0.88% and 0.43% on June 30, 2017 and 2016, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2018		16,472	17,271
Series 2001 bonds; tax-exempt variable rate revenue bonds, $21,780 due serially from October 15, 2006 to October 15, 2019, variable rates of 0.88% and 0.43% on June 30, 2017 and 2016, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2018		7,980	10,791

(Continued)

		2017	2016
Series 2004 bonds; tax-exempt index rate revenue bonds, $50,000 due serially from May 15, 2025 to May 15, 2034, rates of 1.40% and 0.96% on June 30, 2017 and 2016, respectively	$	49,758	49,739
Series 2006A bonds; tax-exempt variable rate revenue bonds, $16,820 due serially from November 15, 2007 to November 15, 2021, variable rates of 0.85% and 0.40% on June 30, 2017 and 2016, respectively		8,833	10,414
Series 2007 bonds; tax-exempt revenue bonds, $24,615 variable rate CPI bonds due serially from November 15, 2019 to November 15, 2025, variable rates of 3.56% and 2.03% on June 30, 2017 and 2016 respectively; term bonds in the amount of $29,310 were refunded on October 6, 2016		24,526	53,488
Series 2009 bonds; 5.00% to 5.50% tax-exempt fixed rate revenue bonds, legally defeased on October 6, 2016		—	64,674
Series 2016A bonds; 4.00% to 5.00% tax-exempt fixed rate revenue bonds, $26,715 due serially from November 15, 2026 to November 15, 2036		29,823	—
Series 2016B bonds; tax-exempt variable rate revenue bonds, $74,950 due serially from November 15, 2017 to November 15, 2039, variable rate of 1.50% on June 30, 2017		74,680	—
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%		12,543	13,025
Series 2016 taxable bonds; $150,000 due serially from November 15, 2044 to November 15, 2046, fixed rate 3.48%		149,118	—
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, paid in full on December 14, 2016		—	176

		2017	2016
Mortgage issued by First Keystone National Bank assumed by Lehigh University subsidiary BFTP, $528 due serially from June 23, 2010 to September 23, 2025; variable rate of 3.75% on both June 30, 2017 and 2016	$	430	447
Construction loan issued by BB&T to Lehigh University subsidiary BFTP, up to $5,000 due serially from February 17, 2018 to October 12, 2025; 30 day LIBOR Rate plus 2.50%; will convert to fixed rate loan following termination of construction period		1,809	—
	$	395,972	240,025

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

Concurrently, the Northampton County General Purpose Authority (NCGPA) issued $26,715,000 Higher Education Fixed Rate Revenue Bonds, Series A of 2016 (the 2016A Bonds) and $74,950,000 Higher Education Variable Rate Revenue Bonds, Series B of 2016 (the 2016B Bonds). The 2016A Bonds are tax-exempt bonds for the purpose of refunding, on a current basis, the University's 2007 term bonds, as well as paying certain issuance costs. The 2016B Bonds are tax-exempt bonds for the purpose of the legal defeasance of all of the University's 2009 Bonds. Loss on defeasance and refunding of the bonds totaled $10.1 million and is included in nonoperating other in the consolidated statement of activities. The University also entered into an interest rate swap agreement to effectively convert the 2016B Bonds to fixed rates and reduce the University's effective interest rate.

Proceeds from all other 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. In accordance with the NCGPA loan agreements, the University established 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 a building purchase and to finance the construction of a building addition. The BB&T loan is subject to a security agreement against business assets, liquidity and equity commitments, and additional collateral assignments. Upon completion of the construction and receipt of additional grant funding, the maximum loan value will reduce from $5.0 million to $3.3 million.

At June 30, 2017, the aggregate annual maturities of long-term bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2018	$	6,637
2019		18,513
2020		6,342
2021		6,537
2022		6,778
Thereafter		329,654

The Series of 2000B, 2001, and 2006A bonds bear interest at a weekly rate determined by the remarketing agent. The Series 2004 bonds bear interest based upon a LIBOR Index Rate 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.

Bondholders have a right to tender variable rate 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, 2017, Lehigh estimates that $76 million of liquid assets were available on a same day basis and an additional $91 million was available within 30 days.

As a component of the tax-exempt debt portfolio, the University entered into interest rate swap agreements that effectively convert certain variable rate revenue bond obligations to fixed rates or reduce the University's effective interest rate. 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	$	16,555	4.530 %	67% of USD-1 month LIBOR-BBA	12/1/2030
2001 bonds	JPMorgan Chase Bank, N.A.	9/4/2001		7,990	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		8,855	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
2016B bonds	Wells Fargo Bank, N.A.	10/6/2016		74,950	1.148	70% of USD-1 month LIBOR-BBA	11/15/2039
			$	182,965			

(11) Derivative Instruments

The University employs derivatives, primarily interest rate swap agreements, to manage interest rate risk associated with outstanding debt. The endowment fund also includes a swap position as part of its portfolio. The fair value of the University's swap agreements is included in other liabilities in the statement of financial position, and was $1.0 million and $6.1 million at June 30, 2017 and 2016, respectively. The change in fair value of the interest rate swaps is reflected in nonoperating activity on the statement of activities and was $12.5 million and $(3.2) million for the years ended June 30, 2017 and 2016, 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, 2017, the University would be required to post an additional $7.8 million of collateral to its counterparties.

(12) Natural Expense Classification

The following table compares operating expenses by type for the years ended June 30, 2017 and 2016, respectively, (in thousands):

		2017	2016
Salaries and wages	$	174,714	167,519
Employee benefits		55,953	52,264
Utilities		7,993	7,802
Purchased services		34,054	34,680
Building and grounds maintenance		22,246	22,108
Depreciation		29,072	27,742
Interest		11,579	9,580
All other business expenses		52,109	52,324
Total	$	387,720	374,019

(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 2017, the University reimbursed retirees a maximum of $96.50 per month for premium expenses. 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):

		2017	2016
Benefit obligation at beginning of year	$	43,735	38,868
Operating:			
Service cost		1,532	1,302
Interest cost		1,795	1,846
Benefits paid		(1,003)	(903)
Total operating		2,324	2,245
Nonoperating:			
Actuarial gain		—	(455)
Assumption changes		(1,069)	3,077
Total nonoperating (gain)/loss		(1,069)	2,622
Benefit obligation at end of year	$	44,990	43,735

The following table sets forth the status of the plan, which is unfunded, at June 30, 2017 and 2016:

		2017	2016
Accumulated postretirement benefit obligation:			
Retirees	$	14,545	14,140
Fully eligible active plan participants		15,933	15,489
Other active plan participants		14,512	14,106
Total		44,990	43,735
Plan assets at fair value		—	—
Accumulated postretirement benefit liability	$	44,990	43,735

Weighted average assumptions for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Discount rate for net periodic postretirement benefit cost	4.15 %	4.80 %
Discount rate for accumulated postretirement benefit obligation	4.16	4.15
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, 2017 and 2016 is as follows:

	2017	2016
Healthcare cost trend rate assumed for next year	4.00 %	4.00 %
Rate to which the cost trend rate is assumed to decline (ultimate rate)	4.00	4.00
Year that ultimate rate is reached	N/A	N/A

Impact of 1% increase in assumed healthcare cost trend rate at June 30, 2017 and 2016 is as follows (in thousands):

		2017	2016
Increase in accumulated postretirement benefit obligation	$	9,186	8,930
Increase in net periodic postretirement benefit cost		889	804

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

Fiscal year ending June 30:		
2018	$	1,046
2019		1,162
2020		1,268
2021		1,373
2022		1,482
2023 through 2027		9,134

(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 $14.3 million and $14.5 million in 2017 and 2016, 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 2020. These rates are also used for other sponsored programs except where separately negotiated. Indirect cost reimbursements from all sources totaled $8.9 million and $7.9 million in 2017 and 2016, respectively.

(16) Fund-Raising Costs

Fund-raising costs were approximately $11.4 million and $13.5 million in 2017 and 2016, respectively, and are included in institutional support in the consolidated statement of activities.

(17) Commitments and Contingencies

Open commitments for contracts with general contractors amounted to approximately $11.1 million and $0.7 million as of June 30, 2017 and 2016, 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 2017 and 2016 was approximately $1.1 million.

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(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, 2017 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 23, 2017, the date the financial statements were issued, and concluded that there are no items requiring disclosure.