



LEHIGH UNIVERSITY

Consolidated Financial Statements

June 30, 2018

(with comparative financial information for June 30, 2017)

(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 and its subsidiaries (the University), which comprise the consolidated financial position as of June 30, 2018, 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 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 entity'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 entity'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 consolidated financial position of Lehigh University and its subsidiaries as of June 30, 2018, 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 the University's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
October 24, 2018

LEHIGH UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2018

(with comparative financial information for June 30, 2017)

(In thousands)

Assets	2018	2017
Cash and cash equivalents (note 1(c))	\$ 58,037	23,705
Accounts receivable, net (note 5)	14,245	17,019
Inventories	1,516	1,503
Prepaid expenses and other assets	12,218	6,017
Contributions receivable, net (note 8)	31,039	33,901
Notes receivable, net (note 6)	9,358	11,758
Investments (notes 2 and 4)	1,898,895	1,871,799
Funds held in trust by others	4,842	4,553
Land, buildings, and equipment, net (note 7)	451,383	413,192
Total assets	<u>\$ 2,481,533</u>	<u>2,383,447</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 46,702	42,308
Deferred revenues	23,862	25,354
Annuity payment liability	18,100	18,431
Other liabilities (notes 10, 11, and 13)	59,226	52,257
Deposits held for others	1,217	1,346
Refundable federal student loan funds	1,434	2,018
Bonds, loans, and notes payable (note 10)	375,091	395,972
Total liabilities	<u>525,632</u>	<u>537,686</u>
Net assets (notes 3 and 9):		
Unrestricted	988,590	932,232
Temporarily restricted	397,169	364,188
Permanently restricted	570,142	549,341
Total net assets	<u>1,955,901</u>	<u>1,845,761</u>
Total liabilities and net assets	<u>\$ 2,481,533</u>	<u>2,383,447</u>

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY
Consolidated Statement of Activities
Year ended June 30, 2018
(with summarized comparative financial information for year ended June 30, 2017)
(In thousands)

	2018			Total	2017
	Unrestricted	Temporarily restricted	Permanently restricted		
Support and revenues:					
Tuition and fees, net (note 1(i))	\$ 197,046	—	—	197,046	191,329
Federal grants and contracts	28,100	—	—	28,100	27,433
State and local grants and contracts	7,214	—	—	7,214	6,380
Private grants and contracts	6,180	—	—	6,180	7,360
Contributions	16,253	—	—	16,253	12,163
Investment return (note 2)	86,392	—	—	86,392	83,515
Auxiliary enterprises	43,235	—	—	43,235	42,930
Independent operations (note 1(a))	21,974	—	—	21,974	15,305
Other sources	9,923	—	—	9,923	10,161
Net assets released from restrictions	3,021	(3,021)	—	—	—
Total support and revenues	<u>419,338</u>	<u>(3,021)</u>	<u>—</u>	<u>416,317</u>	<u>396,576</u>
Expenses:					
Instruction	156,074	—	—	156,074	150,480
Research	44,138	—	—	44,138	43,348
Public service	2,618	—	—	2,618	2,595
Academic support	38,237	—	—	38,237	35,175
Student services	39,029	—	—	39,029	36,190
Institutional support (note 16)	75,170	—	—	75,170	70,348
Auxiliary enterprises	38,955	—	—	38,955	38,702
Independent operations (note 1(a))	11,054	—	—	11,054	10,882
Total expenses (note 12)	<u>405,275</u>	<u>—</u>	<u>—</u>	<u>405,275</u>	<u>387,720</u>
Operating income (loss)	<u>14,063</u>	<u>(3,021)</u>	<u>—</u>	<u>11,042</u>	<u>8,856</u>
Nonoperating activities:					
Investment return (note 2):					
University	32,625	28,023	913	61,561	124,687
Independent operations	(2,606)	—	—	(2,606)	2,792
Gifts and trusts	5,504	8,437	18,838	32,779	31,399
Net assets released from restrictions and changes in donor intent	364	(565)	201	—	—
Change in fair value of interest rate swaps (note 11)	7,008	—	—	7,008	12,499
Postretirement plan changes other than net periodic benefit costs (note 13):					
University	941	—	—	941	1,039
Independent operations	50	—	—	50	30
Other	(1,591)	107	849	(635)	(9,735)
Nonoperating income	<u>42,295</u>	<u>36,002</u>	<u>20,801</u>	<u>99,098</u>	<u>162,711</u>
Change in net assets	<u>56,358</u>	<u>32,981</u>	<u>20,801</u>	<u>110,140</u>	<u>171,567</u>
Net assets, beginning of year	<u>932,232</u>	<u>364,188</u>	<u>549,341</u>	<u>1,845,761</u>	<u>1,674,194</u>
Net assets, end of year	<u>\$ 988,590</u>	<u>397,169</u>	<u>570,142</u>	<u>1,955,901</u>	<u>1,845,761</u>

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2018

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

(In thousands)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 110,140	171,567
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gifts and trusts restricted for long-term investment	(29,411)	(30,369)
Noncash contributions	(4,553)	(2,124)
Investment earnings restricted for long-term investment	(360)	(353)
Net realized and unrealized gains on investments	(139,678)	(200,982)
Change in fair value of interest rate swap agreements	(5,716)	(5,108)
Payment of annuity obligations	1,320	1,320
Other nonoperating activity	251	73
Depreciation and amortization	30,020	33,113
Loss on defeasance and refunding of tax-exempt bonds	—	10,063
Independent operations provision for bad debts	740	2,637
University provision for bad debts	77	45
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable	3,076	(5,035)
(Increase) decrease in inventories	(13)	87
Decrease in contributions receivable	2,862	3,129
Increase in accounts payable and accrued expenses	4,394	4,420
(Decrease) increase in deferred revenues	(1,492)	1,517
Decrease in annuity payment liability	(331)	(1,012)
Decrease in deposits held for others	(129)	(39)
Increase in accrued postretirement benefit cost	1,305	1,255
Increase in prepaid expenses and other assets	(1,487)	(433)
Decrease in other liabilities	(1,288)	(20)
Net cash used in operating activities	(30,273)	(16,249)
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	1,499,661	1,343,364
Purchases of investments	(1,387,477)	(1,460,021)
Student loans and other notes advanced	(966)	(982)
Independent operations loans advanced	(1,469)	(2,031)
Student loans and other notes collected	3,303	2,082
Independent operations loans collected	393	196
Purchase of land, buildings, and equipment	(55,895)	(38,851)
Net cash provided by (used in) investing activities	57,550	(156,243)
Cash flows from financing activities:		
Proceeds from issuance of indebtedness	2,307	253,474
Repayments of principal of indebtedness	(23,119)	(5,895)
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	29,411	30,369
Investment earnings restricted for long-term investment	360	353
Decrease in refundable loan funds	(584)	(176)
Payment of annuity obligations	(1,320)	(1,320)
Net cash provided by financing activities	7,055	171,267
Net increase (decrease) in cash and cash equivalents	34,332	(1,225)
Cash and cash equivalents at beginning of year	23,705	24,930
Cash and cash equivalents at end of year	\$ 58,037	23,705
Supplemental data:		
Interest paid	\$ 14,341	10,520

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2018

(with comparative financial information for June 30, 2017)

(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 1,900 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 stage 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 operating revenue reported in the University's consolidated statement of activities relates to BFTP and MRC revenue received in the form of federal and state grants, client fees for services, and investment return.

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(with comparative financial information for June 30, 2017)

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 interorganizational 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.

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June 30, 2018

(with comparative financial information for June 30, 2017)

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 toward 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 \$11.1 million and \$11.2 million as of June 30, 2018 and 2017, respectively, and are reported within investments in the consolidated statement of financial position.

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Notes to Consolidated Financial Statements

June 30, 2018

(with comparative financial information for June 30, 2017)

(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 2018 and 2017 were \$99.6 million and \$91.6 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 2017 amounts have been reclassified to conform to their presentation in the 2018 consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2018

(with comparative financial information for June 30, 2017)

(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, 2017, from which the summarized information was derived.

(2) Investments

Investments by major category at June 30, 2018 and 2017 are as follows (in thousands):

	2018	2017
Short-term investments	\$ 132,093	82,212
Fixed income investments:		
U.S. government	175,888	195,072
Corporate	164,711	230,542
Other	3,312	2,845
Corporate stocks	14,359	12,000
Mutual and exchange-traded funds	163,528	245,862
Real estate	21,158	18,653
Alternative investments:		
Public equity	581,031	460,418
Absolute return	301,981	297,745
Private investments	336,968	323,238
Life insurance and other investments	3,866	3,212
Total investments	\$ 1,898,895	1,871,799

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

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

The University is obligated under certain investment agreements to periodically advance additional funding up to contractual levels. At June 30, 2018 and 2017, the University had unfunded commitments of \$208 million and \$172 million, respectively. The investment agreements do not specify exact funding dates; however, it is likely that funding will occur over the next several years. Funds to meet these commitments

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Notes to Consolidated Financial Statements

June 30, 2018

(with comparative financial information for June 30, 2017)

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 both June 30, 2018 and 2017 are net of investment expenses.

	2018	2017
Investment earnings	\$ 15,060	10,577
Net realized and unrealized gains	132,893	197,625
	147,953	208,202
Independent operations – net realized and unrealized gains	6,785	3,357
Independent operations – other investment earnings	865	660
Total	\$ 155,603	212,219

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

	2018	2017
Operating:		
Endowment spending distribution	\$ 66,083	65,105
Spending distribution – other	11,742	11,748
Gains and other investment earnings	8,567	6,662
	86,392	83,515
Independent operations – realized gains	9,391	565
Independent operations – other investment earnings	865	660
Total operating	96,648	84,740
Nonoperating:		
Endowment spending distribution	775	573
Other investment losses (net)	(415)	(220)
Net realized and unrealized gains, net of spending distribution	61,201	124,334
	61,561	124,687
Independent operations – net unrealized (losses) gains	(2,606)	2,792
Total nonoperating	58,955	127,479
Total investment return	\$ 155,603	212,219

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Notes to Consolidated Financial Statements

June 30, 2018

(with comparative financial information for June 30, 2017)

(3) Endowment Net Assets

The University's endowment consists of approximately 2,800 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.

From time to time, the fair value of assets associated with permanently restricted endowment funds may fall below the original fair value amount. Deficiencies of this nature at June 30, 2018 and 2017 were \$6.5 million and \$10.7 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 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

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Notes to Consolidated Financial Statements

June 30, 2018

(with comparative financial information for June 30, 2017)

fluctuations in capital markets. Average annual spending rates per share were 5.1% and 5.4% for fiscal years 2018 and 2017, respectively.

Endowment net asset composition as of June 30, 2018 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds (corpus) \$	(6,456)	12,178	525,922	531,644
Board-designated endowment funds (corpus)	224,896	—	—	224,896
Accumulated gains on endowment funds	190,027	355,072	—	545,099
Total endowment net assets \$	<u>408,467</u>	<u>367,250</u>	<u>525,922</u>	<u>1,301,639</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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 \$	<u>385,758</u>	<u>339,753</u>	<u>502,475</u>	<u>1,227,986</u>

Changes in endowment net assets for the year ended June 30, 2018 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, June 30, 2017 \$	385,758	339,753	502,475	1,227,986
Investment return, net	12,758	26	140	12,924
Net appreciation (depreciation)	41,411	64,270	(115)	105,566
Contributions and other additions, net	1,131	13	23,317	24,461
Endowment distributions	(29,871)	(36,987)	—	(66,858)
Other changes	(2,720)	175	105	(2,440)
Total change in endowment funds	<u>22,709</u>	<u>27,497</u>	<u>23,447</u>	<u>73,653</u>
Net assets, June 30, 2018 \$	<u>408,467</u>	<u>367,250</u>	<u>525,922</u>	<u>1,301,639</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, June 30, 2016	\$ 342,680	289,449	476,063	1,108,192
Investment return, net	10,577	24	174	10,775
Net appreciation	75,985	86,805	450	163,240
Contributions and other additions, net	1,088	9	25,788	26,885
Endowment distributions	(29,204)	(36,474)	—	(65,678)
Other changes	(15,368)	(60)	—	(15,428)
Total change in endowment funds	<u>43,078</u>	<u>50,304</u>	<u>26,412</u>	<u>119,794</u>
Net assets, June 30, 2017	<u>\$ 385,758</u>	<u>339,753</u>	<u>502,475</u>	<u>1,227,986</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 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.

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(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, 2018 and 2017, 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.

(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.

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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 for investments at June 30, 2018 (in thousands):

	Fair value measurements at reporting date using				Total
	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)	
Short-term investments	\$ 132,093	—	—	—	132,093
Fixed income investments:					
U.S. government	139,320	36,568	—	—	175,888
Corporate	—	164,711	—	—	164,711
Other	—	3,312	—	—	3,312
Corporate stocks	14,359	—	—	—	14,359
Mutual and exchange-traded funds	163,528	—	—	—	163,528
Real estate	—	21,158	—	—	21,158
Alternative investments:					
Public equity	—	14,695	—	566,336	581,031
Absolute return	—	—	—	301,981	301,981
Private investments	—	—	—	336,968	336,968
Life insurance and other investments	3,861	5	—	—	3,866
Total investments	<u>\$ 453,161</u>	<u>240,449</u>	<u>—</u>	<u>1,205,285</u>	<u>1,898,895</u>

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

	Fair value measurements at reporting date using				Total
	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)	
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 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, 2018 (in thousands):

	Fair value	Estimated remaining lives	Unfunded commitments	Redemption terms	Redemption notice period
Public equity (1)	\$ 566,336	N/A	\$ —	Weekly—annually	5–120 Days
Absolute return (2):	272,645	N/A	13,933	Weekly—annually	45–180 Days
	29,336	1-6 Years	24,440	Generally not eligible	—
	<u>301,981</u>		<u>38,373</u>		
Private investments (3)	<u>336,968</u>	1-12 Years	<u>169,377</u>	Generally not eligible	—
Total	\$ <u>1,205,285</u>		\$ <u>207,750</u>		

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- (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, 2018.
- (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 33% of the total value in this category have restrictions that prevent full redemption at June 30, 2018.
- (3) This category includes investments in private equity and real estate funds. The primary objective of private equity funds is to achieve long-term returns in excess of public equity investments in part by earning an illiquidity premium. The primary objective of real estate funds is to provide portfolio diversification, with long-term returns expected to be between that of stocks and bonds. 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, 2018 and 2017 (net of allowances for doubtful accounts) are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Accounts receivable, net:		
Student accounts	\$ 398	581
Grants and contracts	6,997	8,918
Investment income	2,327	2,902
Other	4,523	4,618
	<u>\$ 14,245</u>	<u>17,019</u>

Allowances for doubtful accounts were \$3.1 million and \$3.5 million in 2018 and 2017, respectively.

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(6) Notes Receivable

Notes receivable at June 30, 2018 and 2017 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Notes receivable, net:		
University:		
Student loans	\$ 7,436	7,879
Other	250	2,224
Less allowance for doubtful loans	<u>(271)</u>	<u>(271)</u>
Total University	<u>7,415</u>	<u>9,832</u>
Independent operations:		
Program loans	11,399	12,710
Less allowance for doubtful accounts	<u>(9,456)</u>	<u>(10,784)</u>
Total independent operations	<u>1,943</u>	<u>1,926</u>
	<u>\$ 9,358</u>	<u>11,758</u>

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, 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 66,646	64,082
Buildings and improvements	685,779	643,052
Furniture, equipment, books, and collections	215,404	206,093
Construction in progress	<u>35,415</u>	<u>26,128</u>
	1,003,244	939,355
Less accumulated depreciation	<u>(551,861)</u>	<u>(526,163)</u>
Total	<u>\$ 451,383</u>	<u>413,192</u>

Depreciation expense totaled \$30.0 million and \$29.1 million for the years ended June 30, 2018 and 2017, respectively. Interest expense that was capitalized totaled \$500,000 and \$200,000 for the years ended June 30, 2018 and 2017, respectively,

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(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 \$11.3 million and \$13.1 million as of June 30, 2018 and 2017, respectively. Unconditional promises are expected to be realized in the following periods (in thousands):

	2018	2017
In one year or less	\$ 16,074	16,532
Between one year and five years	13,841	16,332
More than five years	3,968	4,328
	33,883	37,192
Less:		
Unamortized discount	(639)	(884)
Allowance for uncollectible accounts	(2,205)	(2,407)
	\$ 31,039	33,901

(9) Net Assets

Temporarily restricted net assets include the following at June 30, 2018 and 2017 (in thousands):

	2018	2017
Contributions receivable	\$ 15,470	13,994
Temporarily restricted endowment funds	11,906	15,466
Life income funds	2,915	3,055
Accumulated gains on permanent endowment funds	355,344	324,287
Other – related to time and purpose restrictions	11,534	7,386
	\$ 397,169	364,188

Based upon spending restrictions in effect as of June 30, 2018, accumulated gains on permanent endowment funds are designated for the following future spending purposes: scholarships and fellowships 35%, professorships and chairs 12%, student loans 1%, other restrictions 14%, and no purpose restrictions 38%.

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Permanently restricted net assets include the following at June 30, 2018 and 2017 (in thousands):

	2018	2017
Contributions receivable	\$ 12,559	16,894
Permanent loan funds	2,520	2,371
Annuity and life income funds	29,141	27,601
Permanent endowment funds	525,922	502,475
	\$ 570,142	549,341

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 \$3.1 million and \$3.3 million at June 30, 2018 and 2017, respectively. Net unamortized bond issuance costs were \$1.7 million and \$1.8 million at June 30, 2018 and 2017, respectively. The following table presents bonds, loans, and notes payable at June 30, 2018 and 2017 (in thousands):

	2018	2017
Taxable Commercial Paper Series A, up to \$75 million, weighted average interest rate of 2.02% and 1.30% on June 30, 2018 and 2017, respectively; average duration of 63 days and 122 days for the years ended June 30, 2018 and 2017, 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 1.40% and 0.88% on June 30, 2018 and 2017, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2020	15,632	16,472
Series 2001 bonds; tax-exempt variable rate revenue bonds, \$21,780 due serially from October 15, 2006 to October 15, 2019, variable rates of 1.40% and 0.88% on June 30, 2018 and 2017, respectively; bonds are supported with a standby bond purchase agreement, which expires on October 15, 2019	5,037	7,980

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	2018	2017
Series 2004 bonds; tax-exempt index rate revenue bonds, \$50,000 due serially from May 15, 2025 to May 15, 2034, rates of 2.10% and 1.40% on June 30, 2018 and 2017, respectively	49,776	49,758
Series 2006A bonds; tax-exempt variable rate revenue bonds, \$16,820 due serially from November 15, 2007 to November 15, 2021, variable rates of 1.36% and 0.85% on June 30, 2018 and 2017, respectively	7,196	8,833
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 3.53% and 3.56% on June 30, 2018 and 2017, respectively	24,541	24,526
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	29,649	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 2.16% and 1.50% on June 30, 2018 and 2017, respectively	74,111	74,680
Taxable fixed rate term loan issued by Bank of America, N.A., paid in full on June 15, 2018	—	12,543
Series 2016 taxable bonds; \$150,000 due serially from November 15, 2044 to November 15, 2046, fixed rate 3.48%	149,149	149,118
Mortgage issued by First Keystone National Bank assumed by Lehigh University subsidiary BFTP, paid in full on December 21, 2017	—	430
Construction loan issued by BB&T to Lehigh University subsidiary BFTP, paid in full on February 1, 2018	—	1,809
	\$ 375,091	395,972

The proceeds of the series 2016 taxable bonds were used to finance current and future capital projects consistent with the University's capital plan, to pay the costs of issuance, and other purposes duly authorized by the University.

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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.

The series 2016 taxable bonds are secured by a pledge of and security interest in the University's gross revenues.

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.

At June 30, 2018, the aggregate annual maturities of bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2019	\$	6,285
2020		6,160
2021		6,355
2022		6,595
2023		6,970
Thereafter		321,285
Total long-term bonds payable		353,650
Unamortized issuance costs		(1,668)
Unamortized bond premium		3,109
Commercial paper		20,000
	\$	375,091

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 series of 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.

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The University serves as the liquidity facility for its series 2006A bonds and the Commercial Paper program. As of June 30, 2018, the University estimates that \$65.1 million of liquid assets were available on a same day basis and an additional \$71.8 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	\$ 15,705	4.530 %	67% of USD – 1-month LIBOR-BBA	12/1/2030
2001 bonds	JPMorgan Chase Bank, N.A.	9/4/2001	5,040	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	7,210	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	74,365	1.148	70% of USD – 1-month LIBOR-BBA	11/15/2039
			\$ 176,935			

(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 net fair value of the University's swap agreements is included in other assets or other liabilities in the statement of financial position, and was recorded as a \$4.7 million asset and a \$1.0 million liability at June 30, 2018 and 2017, respectively. The change in fair value of the interest rate swaps is reflected in nonoperating activity on the statement of activities and was \$7.0 million and \$12.5 million for the years ended June 30, 2018 and 2017, respectively.

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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, 2018, the University would be required to post an additional \$3.6 million of collateral to its counterparties.

(12) Natural Expense Classification

The following table compares operating expenses by type for the years ended June 30, 2018 and 2017, respectively (in thousands):

	<u>2018</u>	<u>2017</u>
Salaries and wages	\$ 178,915	174,714
Employee benefits	62,265	55,953
Utilities	8,818	7,993
Purchased services	36,266	34,054
Building and grounds maintenance	23,459	22,246
Depreciation	29,980	29,072
Interest	13,886	11,579
All other business expenses	<u>51,686</u>	<u>52,109</u>
Total	<u>\$ 405,275</u>	<u>387,720</u>

(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 2018, the University reimbursed retirees a maximum of \$100.50 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):

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

	2018	2017
Benefit obligation at beginning of year	\$ 44,990	43,735
Operating:		
Service cost	1,548	1,532
Interest cost	1,849	1,795
Benefits paid	(1,101)	(1,003)
Total operating	2,296	2,324
Nonoperating:		
Actuarial gain	(92)	—
Assumption changes	(899)	(1,069)
Total nonoperating gain	(991)	(1,069)
Benefit obligation at end of year	\$ 46,295	44,990

The following table sets forth the status of the plan, which is unfunded, at June 30, 2018 and 2017:

	2018	2017
Accumulated postretirement benefit obligation:		
Retirees	\$ 17,155	14,545
Fully eligible active plan participants	15,034	15,933
Other active plan participants	14,106	14,512
Total	46,295	44,990
Plan assets at fair value	—	—
Accumulated postretirement benefit liability	\$ 46,295	44,990

Weighted average assumptions for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Discount rate for net periodic postretirement benefit cost	4.16 %	4.15 %
Discount rate for accumulated postretirement benefit obligation	4.45	4.16
Maximum increase in reimbursement rate	Lesser of medical CPI or 8%	Lesser of medical CPI or 8%

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Assumed healthcare cost trend rate at June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Healthcare cost trend rate assumed for next year	4.25 %	4.00 %
Rate to which the cost trend rate is assumed to decline (ultimate rate)	4.25	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, 2018 and 2017 is as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Increase in accumulated postretirement benefit obligation	\$ 8,966	9,186
Increase in net periodic postretirement benefit cost	905	889

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

Fiscal year ending June 30:	
2019	\$ 1,196
2020	1,305
2021	1,414
2022	1,526
2023	1,647
2024 through 2028	10,176

(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 \$14.6 million and \$14.3 million in 2018 and 2017, 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 \$8.6 million and \$8.9 million in 2018 and 2017, respectively.

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(16) Fund-Raising Costs

Fund-raising costs were approximately \$11.1 million and \$11.4 million in 2018 and 2017, 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 \$5.5 million and \$11.1 million as of June 30, 2018 and 2017, respectively.

The University leases certain equipment and real property. These leases are classified as operating leases and have lease terms ranging from one to ten years. Total lease expenses were approximately \$1.6 million and \$1.1 million in 2018 and 2017, respectively.

(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, 2018, 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 24, 2018, the date the financial statements were issued, and concluded that there are no items requiring disclosure.