LEHIGH UNIVERSITY

Consolidated Financial Statements

June 30, 2023
(with summarized comparative financial information for June 30, 2022)

(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:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lehigh University and its subsidiaries (the University), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the University's 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 17, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
October 10, 2023

LEHIGH UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2023
(with summarized comparative financial information for June 30, 2022)

(In thousands)

Assets		2023	2022
Cash and cash equivalents	$	32,992	48,933
Accounts receivable, net (note 6)		19,237	19,718
Prepaid expenses and other assets		23,066	15,835
Contributions receivable, net (note 8)		20,811	28,884
Notes receivable, net		8,970	9,099
Investments (notes 3 and 5)		2,340,083	2,270,345
Funds held in trust by others		4,803	4,887
Property, plant, and equipment, net (note 7)		747,126	725,439
Total assets	$	3,197,088	3,123,140
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	56,101	53,596
Deferred revenues		18,473	16,418
Annuity payment obligations		23,563	17,248
Other liabilities (notes 11, 13, and 16)		101,949	103,017
Bonds and notes payable (note 10)		491,561	498,592
Total liabilities		691,647	688,871
Net assets (notes 4 and 9):			
Without donor restrictions		1,243,615	1,198,209
With donor restrictions		1,261,826	1,236,060
Total net assets		2,505,441	2,434,269
Total liabilities and net assets	$	3,197,088	3,123,140

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2023
(with summarized comparative financial information for year ended June 30, 2022)

(In thousands)

	2023			
	Without Donor Restrictions	With Donor Restrictions	Total	2022
Support and revenues:				
Tuition and fees, net	$ 236,100	—	236,100	217,933
Federal grants and contracts	42,033	—	42,033	50,614
State and local grants and contracts	7,994	—	7,994	7,861
Private grants and contracts	4,677	—	4,677	4,484
Contributions	19,036	—	19,036	14,958
Investment return, net (note 3)	96,622	—	96,622	85,324
Auxiliary enterprises, net	54,307	—	54,307	52,402
Independent operations (note 1(a))	12,990	—	12,990	15,274
Other sources	11,585	—	11,585	9,550
Net assets released from restrictions	4,861	(4,861)	—	—
Total support and revenues	490,205	(4,861)	485,344	458,400
Expenses:				
Salaries and wages	204,858	—	204,858	190,690
Employee benefits	66,149	—	66,149	62,177
Purchased services	46,473	—	46,473	41,437
Occupancy	40,216	—	40,216	37,166
Depreciation	41,433	—	41,433	38,288
Interest	18,942	—	18,942	13,534
Independent operations	14,518	—	14,518	11,032
Other business expenses	62,464	—	62,464	60,627
Total expenses (note 12)	495,053	—	495,053	454,951
Operating income (loss)	(4,848)	(4,861)	(9,709)	3,449
Nonoperating activity:				
Investment return, net (note 3):				
University	21,125	32,145	53,270	(138,391)
Independent operations	1,868	—	1,868	(7,373)
Gifts and trusts	2,928	22,666	25,594	30,975
Net assets released from restrictions and changes in donor intent	19,555	(19,555)	—	—
Change in fair value of interest rate swaps (note 11)	4,542	—	4,542	14,310
Changes in postretirement health benefits obligation other than net periodic benefit cost (note 13):				
University	3,730	—	3,730	13,580
Independent operations	99	—	99	346
Net periodic benefit costs other than service costs (note 13):		—		
University	(2,339)	—	(2,339)	(1,924)
Independent operations	(75)	—	(75)	(60)
Other	(1,179)	(4,629)	(5,808)	2,678
Nonoperating (loss) income	50,254	30,627	80,881	(85,859)
Change in net assets	45,406	25,766	71,172	(82,410)
Net assets at beginning of year	1,198,209	1,236,060	2,434,269	2,516,679
Net assets at end of year	$ 1,243,615	1,261,826	2,505,441	2,434,269

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2023
(with summarized comparative financial information for year ended June 30, 2022)

(In thousands)

		2023	2022
Cash flows from operating activities:			
Change in net assets	$	71,172	(82,410)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Gifts and trusts restricted for long-term investment		(31,585)	(33,909)
Noncash contributions		(2,673)	(2,161)
Investment earnings restricted for long-term investment		(1,676)	(1,057)
Net realized and unrealized losses (gains) on investments		(130,105)	66,846
Change in fair value of interest rate swap agreements		(4,542)	(14,310)
Payment of annuity obligations		1,305	1,329
Other nonoperating activity		20	(2,077)
Depreciation and amortization		42,641	40,023
Independent operations provision for uncollectible accounts		35	(544)
University provision for uncollectible accounts		51	(4)
Change in operating assets and liabilities:			
Accounts receivable		788	(582)
Contributions receivable		8,073	6,190
Accounts payable and accrued expenses		4,929	4,169
Deferred revenues		2,055	2,238
Annuity payment obligations		6,315	(828)
Deposits held for others		(36)	(11)
Accrued postretirement benefit cost		(956)	(10,802)
Prepaid expenses and other assets		(2,688)	(2,767)
Other liabilities		—	(55)
Net cash used in operating activities		(36,877)	(30,722)
Cash flows from investing activities:			
Proceeds from sale and maturity of investments		1,098,753	920,344
Purchases of investments		(1,038,048)	(837,496)
Student loans and other notes advanced		(798)	(799)
Independent operations loans advanced		(948)	(1,088)
Student loans and other notes collected		735	934
Independent operations loans collected		728	946
Purchase of land, buildings, and equipment		(61,958)	(89,157)
Change in accounts payable and accrued expenses for property, plant, and equipment		(2,424)	4,456
Net cash used in investing activities		(3,960)	(1,860)
Cash flows from financing activities:			
Repayments on bonds		(6,970)	(6,595)
Gifts and trusts restricted for long-term investment		31,584	33,909
Investment earnings restricted for long-term investment		1,676	1,057
Decrease in refundable loan funds		(166)	(236)
Payment of annuity obligations		(1,305)	(1,329)
Net cash provided by financing activities		24,819	26,806
Net decrease in cash and cash equivalents		(16,018)	(5,776)
Cash, cash equivalents, and restricted cash at beginning of year		48,883	54,659
Cash, cash equivalents, and restricted cash at end of year	$	32,865	48,883
Reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown above:			
Cash and cash equivalents		32,992	48,933
Cash restricted for long-term investment purposes		(127)	(50)
Total cash, cash equivalents, and restricted cash shown above	$	32,865	48,883
Supplemental data:			
Cash paid for interest	$	18,975	16,426

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 5,600 undergraduates within its major units – the College of Arts and Sciences, the College of Business, the College of Health, and the P.C. Rossin College of Engineering and Applied Science – and approximately 1,800 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 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). 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 are included in the expenses presented in in note 12, *Functional Allocation of Expenses*.

The Ben Franklin Technology Partners of Northeastern PA (BFTP) and Manufacturers Resource Center (MRC) 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.

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.

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.

The assets and liabilities of all subsidiary organizations appear in the respective 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-entity 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 two separate classes of net assets, as follows:

Without Donor Restrictions – Net assets that are free of donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees.

With Donor Restrictions – This category includes net assets subject to donor-imposed restrictions that may be met by actions of the University or by the passage of time. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University. Donors of these assets generally permit the University to use all or part of the investment return on related investments for general or specific purposes in accordance with a Board approved spending policy.

Note 9, *Net Assets*, provides additional information regarding the composition of net assets with and without donor restrictions.

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, change in the fair value of interest rate swaps, gains and losses on investments net of the University's spending policy, certain postretirement benefits-related changes in net assets and other non-recurring activities.

(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) Investments

Investments are stated at fair value or net asset value (NAV) as a practical expedient to fair value (notes 3 and 5).

Unrealized and realized gains and losses on investments, net of spending policy, are included in nonoperating investment return in the consolidated statement of activities.

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The University's investments are exposed to various risks such as interest rate, currency, 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.

(e) Contributions and Government Grants

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 promises to give.

Unconditional contributions, gifts, and grants with no purpose or time restrictions are reported as revenues without donor restrictions. Contributions made towards long-lived assets are held as donor restricted until the asset is completed and placed into service. At such time, the contribution is considered to be released from restriction and reclassified to net assets without donor restrictions. Contributions that are released from restriction within the year received are classified as net assets without donor restrictions. Gifts of noncash assets are recorded at their fair value.

A contribution, gift, or grant is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until they become unconditional, that is, when the barrier(s) in the agreement are overcome.

Grants from federal and state government agencies are included as federal and state grants and contracts in the consolidated statement of activities and are recognized as qualifying expenses are incurred.

The University receives grants and contracts 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 2023. These rates are also used for other sponsored programs except where separately negotiated. Indirect cost reimbursements from all sources totaled $12.6 million and $11.6 million in 2023 and 2022, respectively.

Outstanding amounts related to conditional federal grants not recognized as of June 30, 2023 were approximately $55.8 million.

(f) 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 1.23% to 7.50%. The University is required by the laws of certain states to register and maintain reserves against charitable gift annuities. Such required reserves amounted to approximately $10.7 million and $10.9 million as of June 30, 2023 and 2022, respectively, and are reported within investments in the consolidated statement of financial position. Actual reserves meet or exceed the requirements and are invested in accordance with the laws of the state in which the University offers gift annuities.

(g) Property, Plant, and Equipment

Property, plant, 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 or collections. Depreciable assets and lives generally are as follows:

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

(h) Tuition and Fees

Tuition and fees are reported net of financial aid that effectively reduces the amount of tuition and fees collected from students. Net tuition and fees are recorded as revenue during the year that the related academic services are rendered. Financial aid amounts offset against gross tuition and fees for 2023 and 2022 were $138.6 million and $131.7 million, respectively. Generally, students who adjust their course load or withdraw completely prior to completion of 60% of the semester may receive a full or partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized.

(i) Auxiliary Enterprises

Auxiliary enterprises revenue, primarily from room and board, is reported net of financial aid that effectively reduces the amount collected from students. Net room and board revenues are reported in the fiscal year in which the academic programs and services are delivered.

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(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

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

(l) Use of Estimates

The preparation of the University's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated statement of financial position and the reported amounts of revenue and expense included in the consolidated statement of activities. Actual results could differ from such estimates.

(m) Prior Year Summarized Financial Information

The consolidated statement of activities includes 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, 2022, from which the summarized information was derived.

(n) Operating Leases

The University recognizes a right-of-use asset and a lease liability for all leases with an initial term greater than 12 months at the lease commencement date. Lease liabilities represent the present value of the future lease payments over the expected lease term, which includes options to extend or terminate the lease when it is reasonably certain those options will be exercised. The present value of the lease liability is determined using a risk-free rate at lease inception. The University recognizes lease expense on a straight-line basis over the lease term. The University determines if an arrangement is or contains a lease at contract inception. Where an arrangement is a lease, the University determines if it is an operating lease or a finance lease.

(o) 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. There was no provision for income taxes due on

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unrelated business income in the accompanying consolidated financial statements. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2023 and 2022 there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(2) Financial Assets and Liquidity Resources

Financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, at June 30, 2023 and 2022 are as follows (in thousands):

		2023	2022
Financial assets:			
Cash and cash equivalents	$	24,621	40,188
Accounts receivable, net		18,638	19,118
Contributions without donor restrictions due in one year or less		4,462	5,840
Investments not subject to donor restrictions or board designations		229,722	240,575
		277,443	305,721
Liquidity resources:			
Commercial paper, $75 million authorized		75,000	75,000
Total available within one year	$	352,443	380,721

The University manages its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments. The University has both operating reserves and physical plant renewal and replacement reserves set aside to be drawn upon to meet its operating and contractual obligations. The reserves are held in the cash and cash equivalents line on the statement of financial position.

In addition, the University's governing board and senior management have designated $516.9 million as of June 30, 2023 to function as endowment and $229.4 million as long-term investments. Although the University does not intend to spend from its board-designated investments other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, these funds could be made available, if necessary. However, both the donor restricted and board-designated endowments contain investments with provisions that limit or prevent liquidation that would reduce the total investments that could be made available (note 5).

Distributions from endowments with donor restrictions for the fiscal year ending June 30, 2024 are anticipated to be approximately $40.3 million. Such distributions will be funded from fiscal year 2023 net investment return and from endowment investment return earned in prior years if income is less than the University's spending policy. Note 4, *Endowment Net Assets*, provides additional information about the University's endowment spending policy.

(3) Investments

Investments by major class at June 30, 2023 and 2022 are as follows (in thousands):

		2023	2022
Short-term investments	$	39,420	227,445
Fixed income investments:			
U.S. government		166,413	98,264
Corporate		101,253	126,210
Other		1	1
Corporate stocks		80,012	19,245
Mutual and exchange-traded funds		276,886	176,906
Real estate		41,508	38,357
Alternative investments:			
Public equity		461,077	476,738
Absolute return		505,175	432,560
Private investments		664,430	670,812
Life insurance and other investments		3,908	3,807
Total investments	$	2,340,083	2,270,345

The University's investments are comprised of the assets of the University's endowment, real estate held for investment purposes, 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 5, *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 components of total investment return are reflected below (in thousands). Investment earnings for the years ended June 30, 2023 and 2022 are net of investment expenses.

		2023	2022
Investment earnings	$	22,800	13,272
Net realized and unrealized (losses) gains		127,092	(66,339)
		149,892	(53,067)
Independent operations		3,563	(209)
Total	$	153,455	(53,276)

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

		2023	2022
Operating:			
Endowment spending distribution	$	72,942	69,102
Spending distribution – other		12,277	11,701
Other investment earnings		11,403	4,521
		96,622	85,324
Independent operations		1,695	7,164
Total operating		98,317	92,488
Nonoperating:			
Endowment spending distribution		1,871	1,248
Other investment (losses), net		(195)	(191)
Net realized and unrealized gains (losses), net of spending distribution		51,594	(139,448)
		53,270	(138,391)
Independent operations		1,868	(7,373)
Total nonoperating		55,138	(145,764)
Total investment return	$	153,455	(53,276)

(4) Endowment Net Assets

The University’s endowment consists of approximately 2,900 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).

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From time to time, the fair value of assets associated with donor restricted endowment funds may fall below the original gift amount. Deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the new donor restricted contributions.

Underwater donor restricted endowment funds at June 30, 2023 and 2022 are as follows (in thousands):

		2023	**2022**
Fair value of underwater endowment funds	$	15,889	12,530
Original endowment gift amounts		18,971	17,450
Underwater amounts	$	(3,082)	(4,920)

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.

The University has an endowment spending policy based on 5% of a three-year moving average market value with a minimum increase of -2% per year and a maximum increase of 5% 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 4.4% and 4.0% for fiscal years 2023 and 2022, respectively.

(Continued)

Endowment net asset composition as of June 30, 2023 (in thousands):

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds (corpus)	$ —	633,500	633,500
Board-designated endowment funds (corpus)	233,358	—	233,358
Accumulated gains on endowment funds	283,560	552,004	835,564
Total endowment net assets	$ 516,918	1,185,504	1,702,422

Endowment net asset composition as of June 30, 2022 (in thousands):

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds (corpus)	$ —	608,810	608,810
Board-designated endowment funds (corpus)	231,663	—	231,663
Accumulated gains on endowment funds	269,909	524,246	794,155
Total endowment net assets	$ 501,572	1,133,056	1,634,628

Changes in endowment net assets for the years ended June 30, 2023 and 2022 (in thousands):

	Without donor restrictions	With donor restrictions	Total
Net assets, June 30, 2021	$ 528,187	1,183,815	1,712,002
Investment return, net	13,447	(54,183)	(40,736)
Contributions and other additions, net	69	23,894	23,963
Endowment distributions	(50,270)	(20,080)	(70,350)
Other changes	10,139	(390)	9,749
Total change in endowment funds	(26,615)	(50,759)	(77,374)

(Continued)

		Without donor restrictions	With donor restrictions	Total
Net assets, June 30, 2022	$	501,572	1,133,056	1,634,628
Investment return, net		48,968	68,517	117,485
Contributions and other additions, net		414	23,687	24,101
Endowment distributions		(35,136)	(39,677)	(74,813)
Other changes		1,100	(79)	1,021
Total change in endowment funds		15,346	52,448	67,794
Net assets, June 30, 2023	$	516,918	1,185,504	1,702,422

(5) 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) 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, 2023 and 2022, 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.

(b) 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.

(c) Interest Rate Swaps

The fair value of the University's interest rate swap obligation 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.

(d) Investments

Fair value of equity securities (short-term investments, corporate stocks, mutual and exchange-traded funds) has been determined from observable market or published quotations, when available. Fair value for fixed income investments and certain real estate funds are 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, 2023 (in thousands):

	Fair value measurements at reporting date using				
	Level 1	Level 2	Level 3	NAV	Total
Short-term investments	$ 39,420	—	—	—	39,420
Fixed income investments:					
U.S. government	147,424	18,989	—	—	166,413
Corporate	—	101,253	—	—	101,253
Other	—	1	—	—	1
Corporate stocks	80,012	—	—	—	80,012
Mutual and exchange-traded funds	276,886	—	—	—	276,886
Real estate	—	41,508	—	—	41,508
Alternative investments:					
Public equity	—	—	—	461,077	461,077
Absolute return	—	—	—	505,175	505,175
Private investments	—	—	—	664,430	664,430
Life insurance and other	3,899	9	—	—	3,908
Total investments	$ 547,641	161,760	—	1,630,682	2,340,083

The following table presents the University's fair value hierarchy for investments at June 30, 2022 (in thousands):

	Fair value measurements at reporting date using				
	Level 1	Level 2	Level 3	NAV	Total
Short-term investments	$ 227,445	—	—	—	227,445
Fixed income investments:					
U.S. government	80,463	17,801	—	—	98,264
Corporate	—	126,210	—	—	126,210
Other	—	1	—	—	1
Corporate stocks	19,245	—	—	—	19,245
Mutual and exchange-traded funds	176,906	—	—	—	176,906
Real estate	—	38,357	—	—	38,357
Alternative investments:					
Public equity	—	—	—	476,738	476,738
Absolute return	—	—	—	432,560	432,560
Private investments	—	—	—	670,812	670,812
Life insurance and other	3,798	9	—	—	3,807
Total investments	$ 507,857	182,378	—	1,580,110	2,270,345

The University held total fixed income and equity investments with a liquidity of 30 days or less of $668 million at June 30, 2023. 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, 2023 (in thousands):

	Liquidity (in days)					Unfunded commitments (4)	Estimated remaining lives	Redemption frequency	Redemption notice period
	Within 30	31-90	91-365	>365	Total				
Alternative investments:									
Public Equity (1)	$ 146,664	130,703	140,593	21,474	439,434	4,700	N/A	Daily – Up to 3 years	0 – 120 days
	—	—	—	21,643	21,643	3,038	0 – 2 Years	Generally not eligible	N/A
	146,664	130,703	140,593	43,117	461,077	7,738			
Absolute Return (2)	—	103,802	140,382	128,400	372,584	35,003	N/A	Qtr – Up to 2 years	60 – 90 days
	—	—	—	132,591	132,591	17,896	1 – 3 Years	Generally not eligible	N/A
	—	103,802	140,382	260,991	505,175	52,899			
Private Investments (3)	—	311	1,030	663,089	664,430	273,249	1 – 9 Years	Generally not eligible	N/A
Total alternative investments	$ 146,664	234,816	282,005	967,197	1,630,682	333,886			

(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.

(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.

(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.

(4) The University is obligated under certain investment agreements to periodically advance additional funding up to contractual levels. 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 will be generated from rebalancing the investment pool asset allocation, as well as donor gifts and existing cash.

(6) Accounts Receivable, Net

Accounts receivable at June 30, 2023 and 2022 (net of allowances for doubtful accounts) are as follows (in thousands):

		2023	2022
Accounts receivable, net:			
Student accounts	$	2,159	2,272
Grants and contracts		9,842	9,815
Investment income		4,127	1,888
Other		3,109	5,743
	$	19,237	19,718

Allowances for doubtful accounts were $1.9 million and $2.2 million in 2023 and 2022, respectively.

(7) Property, Plant, and Equipment, Net

Property, plant, and equipment is summarized as follows at June 30, 2023 and 2022 (in thousands):

		2023	2022
Land and improvements	$	110,764	104,096
Buildings and improvements		1,049,749	1,007,704
Furniture, equipment, books, and collections		248,521	241,234
Construction in progress		55,979	49,649
Right-of-use asset		7,492	6,958
		1,472,505	1,409,641
Less accumulated depreciation		(725,379)	(684,202)
Total	$	747,126	725,439

Depreciation expense totaled $43.0 million and $40.0 million for the years ended June 30, 2023 and 2022, respectively. Interest expense that was capitalized totaled $0.5 million and $3.0 million for the years ended June 30, 2023 and 2022, respectively.

(Continued)

(8) Contributions Receivable, Net

Contributions receivable includes unconditional promises to give and 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 1.26% to 4.10%. Unconditional promises are expected to be realized in the following periods (in thousands):

		2023	2022
In one year or less	$	7,822	11,426
Between one year and five years		12,363	16,368
More than five years		2,343	3,403
		22,528	31,197
Less:			
Unamortized discount		(513)	(714)
Allowance for uncollectible accounts		(1,204)	(1,599)
	$	20,811	28,884

Outstanding promises to give that were conditional amounted to $10.2 million and $10.3 million as of June 30, 2023 and 2022, respectively.

(9) Net Assets

Net assets without donor restrictions include the following at June 30, 2023 and 2022 (in thousands):

		2023	2022
Undesignated	$	384,744	367,328
Board designated endowment funds		516,918	501,572
Annuity and life income funds		3,380	3,410
Plant funds and capital project reserves		275,502	263,201
Independent operations		63,071	62,698
	$	1,243,615	1,198,209

(Continued)

Net assets with donor restrictions include the following at June 30, 2023 and 2022 (in thousands):

	2023	2022
Contributions receivable	$ 20,811	28,884
Loan funds	3,278	3,122
Annuity and life income funds	33,601	37,008
Endowment funds – corpus	633,500	608,810
Accumulated gains on endowment funds	552,004	524,246
Other – related to time and purpose restrictions	18,632	33,990
	$ 1,261,826	1,236,060

Donor restricted endowment funds are restricted for scholarships, fellowships, professorships, chairs and other academic and research purposes.

(10) Bonds and Notes Payable

Bonds, loans, and notes payable are reported net of any unamortized premiums, discounts, or issuance costs. Net unamortized premiums were $2.2 million and $2.4 million at June 30, 2023 and 2022, respectively. Net unamortized bond issuance costs were $1.9 million and $2.0 million at June 30, 2023 and 2022, respectively. The following table presents bonds, loans, and notes payable at June 30, 2023 and 2022 (in thousands):

	2023	2022
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 3.97% and .86% on June 30, 2023 and 2022, respectively; bonds are supported with a standby bond purchase agreement, which expires on November 30, 2025	$ 10,761	11,833
Series 2004 bonds; tax-exempt index rate revenue bonds, $50,000 due serially from May 15, 2025 to May 15, 2034, rates of 4.78% and .94% on June 30, 2023 and 2022, respectively	49,869	49,850

		2023	2022
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 6.17% and 9.73% on June 30, 2023 and 2022 respectively	$	12,512	17,748
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		28,779	28,953
Series 2016B bonds; tax-exempt variable rate revenue bonds, $74,950 due serially from November 15, 2017 to November 15, 2039, variable rate of 4.39% and 1.07% on June 30, 2023 and 2022, respectively		71,080	71,710
Series 2016 taxable bonds; $150,000 due serially from November 15, 2044 to November 15, 2046, fixed rate 3.48%		149,304	149,273
Series 2020 taxable bonds; 2.553% to 2.703% fixed rate bonds, $170,000 due serially from November 15, 2040 to November 15, 2050		169,257	169,225
	$	491,562	498,592

The series 2016 and 2020 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.

At June 30, 2023, the aggregate annual maturities of bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2024	$	7,240
2025		11,075
2026		7,025
2027		6,215
2028		6,470
Thereafter		453,260
Total long-term bonds payable		491,285
Unamortized issuance costs		(1,914)
Unamortized bond premium		2,190
	$	491,561

The Series of 2000B bonds bear interest at a weekly rate determined by the remarketing agent. Effective December 2, 2019, the Series 2004 bonds bear interest based upon a Federal Funds 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 a separate standby bond purchase agreement to provide liquidity in case of tender of the 2000B bonds. This agreement expires prior to the maturity of the bonds and may be extended at the University’s request. However, the bank has no obligation to agree to the extended purchase period.

The University serves as the liquidity facility for its Commercial Paper program, however no commercial paper was issued during fiscal year 2023.

(11) Interest Rate Swap Agreements

The University employs derivatives, primarily interest rate swap agreements, to manage interest rate risk associated with outstanding debt. 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 an asset of $11.0 million and an asset of $6.5 million at June 30, 2023 and 2022, respectively. The change in fair value of the interest rate swaps is reflected in nonoperating activity on the statement of activities and was $4.5 million and $14.3 million for the years ended June 30, 2023 and 2022, respectively.

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	12/7/2000	$ 10,790	4.530 %	67% of USD-1-month LIBOR-BBA	12/1/2030
2004 bonds	Wells Fargo	12/18/2008	50,000	1.953	67% of USD-Federal Funds	5/15/2034
2007 CPI bonds	JPMorgan Chase	2/1/2007	12,520	4.040 to 4.100	Variable rate based on CPI-U	various through 11/15/2025
2016B bonds	Wells Fargo	10/6/2016	71,260	1.148	70% of USD-Federal Funds	11/15/2039
			$ 144,570			

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.

(12) Functional Allocation of Expenses

The following table includes operating expenses by type and function for the year ended June 30, 2023 (in thousands):

	Instruction	Research	Public service	Academic support	Student services	Institutional support	Auxiliary enterprises	Independent operations	Total
Salaries and wages	$ 93,385	25,387	1,261	19,590	19,557	41,375	4,303	3,997	208,855
Employee benefits	31,036	5,378	326	7,221	6,024	14,904	1,260	954	67,103
Purchased services	2,756	8,384	246	3,112	3,183	9,863	18,929	2,113	48,586
Occupancy	11,597	3,064	454	3,195	3,069	5,493	13,344	1,183	41,399
Depreciation	10,259	10,766	360	3,333	3,566	5,685	7,464	1,602	43,035
Interest	8,664	2,365	115	1,798	1,801	3,796	403	—	18,942
Other expenses	14,713	9,151	1,060	10,125	10,901	7,148	9,366	4,669	67,133
	$ 172,410	64,495	3,822	48,374	48,101	88,264	55,069	14,518	495,053

The following table includes operating expenses by type and function for the year ended June 30, 2022 (in thousands):

	Instruction	Research	Public service	Academic support	Student services	Institutional support	Auxiliary enterprises	Independent operations	Total
Salaries and wages	$ 89,150	24,007	1,271	17,318	17,970	37,164	3,809	3,898	194,587
Employee benefits	30,051	5,301	341	6,355	5,602	13,366	1,161	1,026	63,203
Purchased services	2,314	7,263	414	1,986	2,142	10,967	16,352	1,933	43,371
Occupancy	11,081	3,121	360	2,858	2,986	5,190	11,570	993	38,159
Depreciation	9,723	8,318	341	3,360	3,529	5,480	7,537	1,673	39,961
Interest	6,341	1,728	91	1,218	1,268	2,614	274	—	13,534
Other expenses	13,304	9,527	1,374	8,314	9,989	10,164	7,955	1,509	62,136
	$ 161,964	59,265	4,192	41,409	43,486	84,945	48,658	11,032	454,951

The consolidated financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include employee benefits, interest, and certain occupancy expenses, which are allocated on the basis of salary and wage expense.

Fund-raising costs were approximately $11.4 million and $10.8 million in 2023 and 2022, respectively, and are included in institutional support.

(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 2023, the University reimbursed retirees a maximum of $113.60 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 date of hire. 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):

		2023	2022
Benefit obligation at beginning of year	$	49,999	60,801
Operating:			
Service cost		2,064	2,648
Benefits paid		(1,605)	(1,508)
Total operating		459	1,140
Nonoperating:			
Interest cost		2,414	1,984
Actuarial gain		—	(1,169)
Assumption changes		(3,829)	(12,757)
Total nonoperating loss (gain)		(1,415)	(11,942)
Benefit obligation at end of year	$	49,043	49,999

The following table sets forth the status of the plan, which is unfunded, at June 30, 2023 and 2022:

		2023	2022
Accumulated postretirement benefit obligation:			
Retirees	$	17,937	19,327
Fully eligible active plan participants		13,444	13,846
Other active plan participants		17,662	16,826
Accumulated postretirement benefit liability	$	49,043	49,999

(Continued)

Weighted average assumptions as of and for the years ended June 30, 2023 and 2022 are as follows:

	2023	2022
Discount rate for net periodic postretirement benefit cost	4.90 %	3.30 %
Discount rate for accumulated postretirement benefit obligation	5.25	4.90
Maximum increase in reimbursement rate	lesser of medical CPI or 8%	lesser of medical CPI or 8%
Healthcare cost trend rate assumed for next year	6.00	5.00
Rate to which the cost trend rate is assumed to decline (ultimate rate)	5.00	5.00
Year that ultimate rate is reached	N/A	N/A

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

Fiscal year ending June 30:		
2024	$	1,549
2025		1,657
2026		1,764
2027		1,881
2028		1,998
2029 through 2033		12,059

(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. The plan features base contributions from the University and voluntary employee contributions with a University match. Total expense for this plan was $16.6 million and $16.0 million in 2023 and 2022, respectively.

(15) Related Parties

Members of the University’s Board of Trustees and senior University officers may, from time to time, be associated, either directly or indirectly, with parties doing business with the University. University policy requires that all material information regarding any such relationship between the University and a trustee, officer, their immediate families and household members, or an entity in which they have a significant relationship, is properly disclosed to the University’s Corporate Secretary and Internal Audit. The University conducts annual reviews of disclosed potential and actual conflicts of interest with all trustees, officers, faculty, and staff. Each trustee and employee must review the University Conflict of Interest Policy and confirm their agreement to abide by the Policy, including through disclosure of potential or actual conflicts of interest identified to the best of their knowledge. Disclosed potential or actual conflicts of interest are reviewed and resolved by the Corporate Secretary and Director of Internal Audit and/or the Board Chair (in the case of trustees) or the supervisor of the employee. No such disclosed potential or actual conflicts of interest are considered to be material to the consolidated financial statements.

(16) Commitments and Contingencies

(a) Litigation

The University is party to various legal actions and claims arising in the ordinary course of operations. While it is not feasible to predict the ultimate outcome of such matters, management is of the opinion that the resolution of such matters will not have a material adverse effect on the University's consolidated financial position or changes in net assets.

(b) Operating Leases and Other Financing Obligations

The University leases certain equipment and real property. These leases are classified as operating leases. These leases have a weighted average remaining lease term of 4.85 years and were calculated using a weighted average discount rate of 2.80%. Operating leases right-of-use assets and liabilities as of June 30, 2023 were $4.9 million and $4.9 million, respectively and $5.3 million and $5.3 million at June 30, 2022, respectively.

Maturity analysis:		
Less than 1 year	$	1,163
1 to 2 years		1,152
2 to 3 years		1,090
3 to 4 years		752
4 to 5 years		722
5 to 10 years		352
More than 10 years		—
Total undiscounted lease liabilities, end of period	$	5,231

Included in other liabilities is a finance obligation of $43.5 million related to the construction of a student housing residence facility on the University's land. The related construction costs are capitalized and, depreciated, and included in property, plant, and equipment, net on the consolidated statement of financial position. The finance obligation has a remaining term commensurate with the land lease which is 47 years as of June 30, 2023. The University amortizes the finance obligation to revenue as the related asset is being depreciated.

(c) Other

Open commitments with general contractors, engineering firms, and other vendors related to the construction, renovation, and repair of certain facilities amounted to approximately $25.0 million and $28.7 million as of June 30, 2023 and 2022, respectively.

(17) Subsequent Events

The University has evaluated subsequent events through October 10, 2023, the date the consolidated financial statements were issued, and concluded that there are no additional items requiring disclosure.