

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Lehigh University

June 30, 2026 (with summarized comparative
financial information for June 30, 2025)

Contents

Page

Report of Independent Certified Public Accountants

3

Consolidated Financial Statements

Consolidated statements of financial position

5

Consolidated statement of activities

6

Consolidated statements of cash flows

7

Notes to consolidated financial statements

8

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Lehigh University

Report on the audit of the financial statements**Opinion**

We have audited the consolidated financial statements of Lehigh University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2026, 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, 2026, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other matter*Report on 2025 summarized comparative information*

We have previously audited the University's 2025 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated October 15, 2025. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2025 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, 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 financial statements are issued.

Auditor's responsibilities for the audit of the 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 auditor's 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 US 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 US 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.

Grant Thornton LLP

Philadelphia, Pennsylvania
October 20, 2026

Lehigh University

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,
(In thousands)

	<u>2026</u>	<u>2025</u>
ASSETS		
Cash and cash equivalents	\$ 45,725	\$ 58,659
Accounts receivable, net (Note 6)	16,988	21,047
Prepaid expenses and other assets	21,334	20,814
Contributions receivable, net (Note 8)	44,108	34,475
Notes receivable, net	9,720	9,416
Investments (Notes 3 and 5)	2,975,520	2,594,277
Funds held in trust by others	5,801	5,330
Property, plant, and equipment, net (Note 7)	788,002	795,272
	<u> </u>	<u> </u>
Total assets	<u>\$ 3,907,198</u>	<u>\$ 3,539,290</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 43,995	\$ 44,843
Deferred revenues	16,352	21,216
Annuity payment obligations	17,902	17,991
Other liabilities (Notes 11, 13, and 15)	96,496	96,547
Bonds and notes payable (Note 10)	545,808	553,759
	<u> </u>	<u> </u>
Total liabilities	<u>720,553</u>	<u>734,356</u>
 Net assets (Notes 4 and 9)		
Without donor restrictions	1,494,405	1,337,415
With donor restrictions	1,692,240	1,467,519
	<u> </u>	<u> </u>
Total net assets	<u>3,186,645</u>	<u>2,804,934</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 3,907,198</u>	<u>\$ 3,539,290</u>

The accompanying notes are an integral part of these consolidated financial statements.

Lehigh University

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2026
(with summarized comparative financial information for June 30, 2025)
(In thousands)

	Without Donor Restrictions	2026 With Donor Restrictions	Total	2025
Support and revenues				
Tuition and fees, net	\$ 271,936	\$ -	\$ 271,936	\$ 257,841
Federal grants and contracts	43,259	-	43,259	50,749
State and local grants and contracts	9,762	-	9,762	8,740
Private grants and contracts	5,022	-	5,022	4,477
Contributions	22,933	-	22,933	16,871
Investment return, net (Note 3)	117,564	-	117,564	113,564
Auxiliary enterprises, net	56,176	-	56,176	61,476
Independent operations (Note 1)	27,614	-	27,614	16,184
Other sources	12,705	-	12,705	12,700
Net assets released from restrictions	5,500	(5,500)	-	-
Total support and revenues	572,471	(5,500)	566,971	542,602
Expenses				
Salaries and wages	232,884	-	232,884	229,350
Employee benefits	79,306	-	79,306	79,388
Purchased services	49,543	-	49,543	58,293
Occupancy	46,229	-	46,229	46,420
Depreciation	45,908	-	45,908	44,200
Interest	16,577	-	16,577	17,458
Independent operations	18,569	-	18,569	16,024
Other business expenses	69,993	-	69,993	67,221
Total expenses (Note 12)	559,009	-	559,009	558,354
Operating income (loss)	13,462	(5,500)	7,962	(15,752)
Nonoperating activity				
Investment return, net (Note 3)				
University	132,020	189,982	322,002	128,700
Independent operations	10,295	-	10,295	523
Gifts and trusts	267	43,101	43,368	34,206
Net assets released from restrictions and changes in donor intent	3,136	(3,136)	-	-
Change in fair value of interest rate swaps (Note 11)	156	-	156	(1,880)
Changes in postretirement health benefits obligation other than net periodic benefit cost (Note 13)				
University	2,983	-	2,983	719
Independent operations	90	-	90	18
Net periodic benefit costs other than service costs (Note 13)				
University	(4,144)	-	(4,144)	(2,406)
Independent operations	(237)	-	(237)	(71)
Other	(1,038)	274	(764)	(2,554)
Nonoperating income	143,528	230,221	373,749	157,255
CHANGE IN NET ASSETS	156,990	224,721	381,711	141,503
Net assets at beginning of year	1,337,415	1,467,519	2,804,934	2,663,431
Net assets at end of year	\$ 1,494,405	\$ 1,692,240	\$ 3,186,645	\$ 2,804,934

The accompanying notes are an integral part of this consolidated financial statement.

Lehigh University

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,
(In thousands)

	2026	2025
Cash flows from operating activities:		
Change in net assets	\$ 381,711	\$ 141,502
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gifts and trusts restricted for long-term investment	(30,831)	(28,327)
Noncash contributions	-	(1,809)
Investment earnings restricted for long-term investment	(747)	(1,400)
Net realized and unrealized gains on investments	(441,217)	(222,973)
Change in fair value of interest rate swap agreements	(156)	2,990
Payment of annuity obligations	1,282	1,282
Other nonoperating activity	(21)	23
Depreciation and amortization	45,542	59,686
Independent operations provision for uncollectible accounts	528	1,243
University provision for uncollectible accounts	35	81
Change in operating assets and liabilities:		
Accounts receivable	4,437	1,392
Prepaid expenses and other assets	(364)	1,291
Contributions receivable	(9,633)	(2,530)
Accounts payable and accrued expenses	(1,900)	(7,870)
Deferred revenues	(4,864)	5,368
Annuity payment obligations	(89)	(9)
Deposits held for others	2	(4)
Accrued postretirement benefit cost	1,099	1,577
Other liabilities	128	(999)
Net cash used in operating activities	(55,058)	(49,486)
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	1,200,808	1,221,261
Purchases of investments	(1,140,150)	(1,147,909)
Student loans and other notes advanced	(1,188)	(1,012)
Independent operations loans advanced	(1,270)	(2,226)
Student loans and other notes collected	765	763
Independent operations loans collected	427	760
Purchase of land, buildings, and equipment	(40,008)	(77,404)
Net cash provided by (used in) investing activities	19,384	(5,767)
Cash flows from financing activities:		
Proceeds from bond issuance	-	125,425
Repayments on bonds	(6,180)	(70,095)
Gifts and trusts restricted for long-term investment	30,831	28,327
Investment earnings restricted for long-term investment	747	1,400
Decrease in refundable loan funds	(320)	(128)
Payment of annuity obligations	(1,282)	(1,282)
Net cash provided by financing activities	23,796	83,647
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(11,878)	28,394
Cash, cash equivalents, and restricted cash at beginning of year	59,005	30,611
Cash, cash equivalents, and restricted cash at end of year	\$ 47,127	\$ 59,005
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	\$ 45,725	\$ 58,659
Cash restricted for long-term investment purposes	1,402	346
Total cash, cash equivalents, and restricted cash shown above	\$ 47,127	\$ 59,005
Supplemental data:		
Cash paid for interest	\$ 19,313	\$ 20,107
Accounts payable and accrued expenses for property, plant, and equipment	3,098	2,046

The accompanying notes are an integral part of these consolidated financial statements.

Lehigh University
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2026 and 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 6,000 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 1,900 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 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 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 statements of financial position.

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.

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

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.

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.

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.

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 statements of financial position.

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

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

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 2027. These rates are also used for other sponsored programs except where separately negotiated. Indirect cost reimbursements from all sources totaled \$12.5 million and \$14.0 million in 2026 and 2025, respectively.

Outstanding amounts related to conditional federal grants not recognized as of June 30, 2026 were approximately \$52.1 million.

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 \$10.2 million and \$10.5 million as of June 30, 2026 and 2025, respectively, and are reported within investments in the consolidated statements 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.

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

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

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 2026 and 2025 were \$180.7 million and \$166.9 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.

Auxiliary Enterprises

Auxiliary enterprises revenue, primarily from room and board, is reported net of financial aid that effectively reduces the amount collected from students. Financial aid amounts offset against auxiliary enterprises revenue for 2026 and 2025 were \$7.3 million and \$5.8 million, respectively. Net room and board revenues are reported in the fiscal year in which the academic programs and services are delivered.

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.

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.

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 statements 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.

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 statement for the year ended June 30, 2025, from which the summarized information was derived.

Operating Leases

The University recognizes a right-of-use (ROU) 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

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

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.

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 unrelated business income in the accompanying consolidated financial statements. The University follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation. There were no changes to total assets, liabilities, net assets, revenues, expenses or changes in net assets as previously reported in the fiscal 2025 consolidated financial statements.

NOTE 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, are as follows (in thousands):

	2026	2025
Financial assets:		
Cash and cash equivalents	\$ 38,822	\$ 51,462
Accounts receivable, net	16,388	20,447
Contributions without donor restrictions due in one year or less	7,072	3,668
Investments not subject to donor restrictions or board designations	244,401	202,785
	306,683	278,362
Liquidity resources:		
Commercial paper, \$75 million authorized	75,000	75,000
Total available within one year	\$ 381,683	\$ 353,362

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 consolidated statements of financial position.

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

The University has a \$75 million taxable commercial paper program. The commercial paper program can be used for the interim financing of capital projects and to finance general operating costs of the University, if necessary. These secured taxable promissory notes can be issued in various amounts with maturities no greater than 270 days. At June 30, 2026 and 2025, there were no outstanding notes.

In June 2024, the University entered into a \$50.0 million revolving line of credit issued by The Northern Trust Company. The line of credit has an interest rate of 4.23% (term SOFR +.55%) as of June 30, 2026 and matures on June 13, 2028. As of June 30, 2026, the University has not drawn any amount against the available line of credit. The line of credit is secured by a pledge of, and security interest in, the University's gross revenues.

In addition, the University's governing board and senior management have designated \$671.2 million as of June 30, 2026 to function as endowment and \$329.4 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 (see Note 5, *Fair Value Measurements*).

Distributions from endowments with donor restrictions for the fiscal year ending June 30, 2027 are anticipated to be approximately \$53.9 million. Distributions from endowments without donor restrictions for the fiscal year ending June 30, 2027 are anticipated to be approximately \$42.0 million. Such distributions will be funded from fiscal year 2026 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.

NOTE 3 - INVESTMENTS

Investments by major class at June 30 are as follows (in thousands):

	2026	2025
Short-term investments	\$ 69,689	\$ 74,141
Fixed income investments:		
U.S. government	185,267	227,458
Corporate	107,504	84,223
Other	1	1
Corporate stocks	43,993	29,489
Mutual and exchange-traded funds	490,489	460,218
Real estate	43,991	41,742
Alternative investments:		
Public equity	561,248	430,119
Absolute return	573,547	453,544
Private investments	894,839	789,003
Life insurance and other investments	4,952	4,339
Total investments	<u>\$ 2,975,520</u>	<u>\$ 2,594,277</u>

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

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

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 are net of investment expenses.

	2026	2025
Investment earnings	\$ 21,351	\$ 23,223
Net realized and unrealized gains	418,215	219,041
	439,566	242,264
Independent operations	23,595	4,511
Total	\$ 463,161	\$ 246,775

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

	2026	2025
Operating:		
Endowment spending distribution	\$ 88,239	\$ 82,743
Spending distribution - other	14,169	13,510
Other investment earnings	15,156	17,311
	117,564	113,564
Independent operations	13,299	3,988
Total operating	130,863	117,552
Nonoperating:		
Endowment spending distribution	1,654	1,937
Other investment losses, net	(906)	(537)
Net realized and unrealized gains net of spending distribution	321,255	127,300
	322,003	128,700
Independent operations	10,295	523
Total nonoperating	332,298	129,223
Total investment return	\$ 463,161	\$ 246,775

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

NOTE 4 - ENDOWMENT NET ASSETS

The University's endowment consists of approximately 3,000 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).

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, are as follows (in thousands):

	2026	2025
Fair value of underwater endowment funds	\$ 45	\$ 260
Original endowment gift amounts	(3,180)	(3,002)
Underwater amounts	<u>\$ (3,135)</u>	<u>\$ (2,742)</u>

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 annual changes in the spending rate limited to a maximum decrease of 2% and a maximum increase of 5% relative to 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 4.2% and 4.5% for fiscal years 2026 and 2025, respectively.

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

Endowment net asset composition as of June 30, 2026 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds (corpus)	\$ -	\$ 699,830	\$ 699,830
Board-designated endowment funds (corpus)	236,808	-	236,808
Accumulated gains on endowment funds	434,390	869,752	1,304,142
	<u>\$ 671,198</u>	<u>\$ 1,569,582</u>	<u>\$ 2,240,780</u>
Total endowment net assets			

Endowment net asset composition as of June 30, 2025 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds (corpus)	\$ -	\$ 676,982	\$ 676,982
Board-designated endowment funds (corpus)	235,956	-	235,956
Accumulated gains on endowment funds	349,041	688,378	1,037,419
	<u>\$ 584,997</u>	<u>\$ 1,365,360</u>	<u>\$ 1,950,357</u>
Total endowment net assets			

Changes in endowment net assets for the years ended June 30, 2026 and 2025 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, June 30, 2024	\$ 552,285	\$ 1,271,274	\$ 1,823,559
Investment return, net	74,668	116,817	191,485
Contributions and other additions, net	59	21,399	21,458
Endowment distributions	(40,482)	(44,200)	(84,682)
Other changes	(1,533)	70	(1,463)
	<u>32,712</u>	<u>94,086</u>	<u>126,798</u>
Total change in endowment funds			
Net assets, June 30, 2025	584,997	1,365,360	1,950,357
Investment return, net	124,593	233,418	358,011
Contributions and other additions, net	1,757	21,508	23,265
Endowment distributions	(39,386)	(50,507)	(89,893)
Other changes	(763)	(197)	(960)
	<u>86,201</u>	<u>204,222</u>	<u>290,423</u>
Total change in endowment funds			
Net assets, June 30, 2026	<u>\$ 671,198</u>	<u>\$ 1,569,582</u>	<u>\$ 2,240,780</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

NOTE 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:

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.

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.

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.

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 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.

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

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.

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 consolidated statements of financial position.

The following table presents the University's fair value hierarchy for investments at June 30, 2026 (in thousands):

	Fair Value Measurements at Reporting Date Using			NAV	Total
	Level 1	Level 2	Level 3		
Short-term investments	\$ 69,689	\$ -	\$ -	\$ -	\$ 69,689
Fixed income investments:					
U.S. government	172,751	12,516	-	-	185,267
Corporate	-	107,504	-	-	107,504
Other	-	1	-	-	1
Corporate stocks	43,993	-	-	-	43,993
Mutual and exchange-traded funds	490,489	-	-	-	490,489
Real estate	-	43,991	-	-	43,991
Alternative investments:					
Public equity	-	-	-	561,248	561,248
Absolute return	-	-	-	573,547	573,547
Private investments	-	-	-	894,839	894,839
Life insurance and other	4,402	550	-	-	4,952
Total investments	<u>\$ 781,324</u>	<u>\$ 164,562</u>	<u>\$ -</u>	<u>\$ 2,029,634</u>	<u>\$ 2,975,520</u>

The following table presents the University's fair value hierarchy for investments at June 30, 2025 (in thousands):

	Fair Value Measurements at Reporting Date Using			NAV	Total
	Level 1	Level 2	Level 3		
Short-term investments	\$ 74,141	\$ -	\$ -	\$ -	\$ 74,141
Fixed income investments:					
U.S. government	212,523	14,935	-	-	227,458
Corporate	-	84,223	-	-	84,223
Other	-	1	-	-	1
Corporate stocks	29,489	-	-	-	29,489
Mutual and exchange-traded funds	460,218	-	-	-	460,218
Real estate	-	41,742	-	-	41,742
Alternative investments:					
Public equity	-	-	-	430,119	430,119
Absolute return	-	-	-	453,544	453,544
Private investments	-	-	-	789,003	789,003
Life insurance and other	4,297	42	-	-	4,339
Total investments	<u>\$ 780,668</u>	<u>\$ 140,943</u>	<u>\$ -</u>	<u>\$ 1,672,666</u>	<u>\$ 2,594,277</u>

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

The University held total fixed income and equity investments with a liquidity of 30 days or less of \$902 million at June 30, 2026. 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, 2026 (in thousands):

	Liquidity (in Days)				Unfunded Commitments (4)	Estimated Remaining Lives	Redemption Frequency	Redemption Notice Period
	Within 30	31-90	91-365	>365				
Alternative investments:								
Public equity (1)	\$ 211,839	\$ 48,100	\$ 37,811	\$ 262,710	\$ 400	N/A	Daily - Up to 3 years	0 - 60 days
	-	-	-	788	3,038	0 - 1 year	Generally not eligible	N/A
	211,839	48,100	37,811	263,498	3,438			
Absolute return (2)	64,394	85,801	96,821	265,590	512,606	N/A	Qtr - Up to 5 years	30 - 120 days
	-	-	-	60,941	51,119	1 - 5 years	Generally not eligible	N/A
	64,394	85,801	96,821	326,531	91,266			
Private investments (3)	-	34,390	-	860,449	894,839	1 - 12 years	Generally not eligible	N/A
Total alternative Investments	\$ 276,233	\$ 168,291	\$ 134,632	\$1,450,478	\$ 2,029,634			
					\$ 401,213			

- (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.

NOTE 6 - ACCOUNTS RECEIVABLE, NET

Accounts receivable at June 30 (net of allowances for credit losses) are as follows (in thousands):

	2026	2025
Accounts receivable, net:		
Student accounts	\$ 2,472	\$ 2,181
Grants and contracts	9,794	12,925
Investment income	2,609	2,563
Other	2,113	3,378
	<u>\$ 16,988</u>	<u>\$ 21,047</u>

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

Allowances for credit losses were \$1.4 million and \$1.8 million in 2026 and 2025, respectively.

NOTE 7 - PROPERTY, PLANT, AND EQUIPMENT, NET

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

	2026	2025
Land and improvements	\$ 122,144	\$ 117,913
Buildings and improvements	1,178,889	1,159,124
Furniture, equipment, books, and collections	269,100	265,912
Construction in progress	57,226	45,135
ROU asset	7,492	7,373
	1,634,851	1,595,457
Less: accumulated depreciation	(846,849)	(800,185)
Total	\$ 788,002	\$ 795,272

Depreciation expense totaled \$47.4 million and \$45.7 million for the years ended June 30, 2026 and 2025, respectively. Interest expense that was capitalized totaled \$0.9 million and \$0.8 million for the years ended June 30, 2026 and 2025, respectively.

NOTE 8 - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net 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 4.61%. Unconditional promises are expected to be realized in the following periods (in thousands):

	2026	2025
In one year or less	\$ 16,445	\$ 11,103
Between one year and five years	29,423	23,705
More than five years	3,805	3,942
	49,673	38,750
Less:		
Unamortized discount	(2,717)	(2,046)
Allowance for uncollectible accounts	(2,848)	(2,229)
	\$ 44,108	\$ 34,475

Outstanding promises to give that were conditional amounted to \$9.5 million and \$9.6 million as of June 30, 2026 and 2025, respectively.

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

NOTE 9 - NET ASSETS

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

	<u>2026</u>	<u>2025</u>
Undesignated	\$ 446,209	\$ 397,961
Board-designated endowment funds	671,198	584,997
Annuity and life income funds	3,624	3,554
Plant funds and capital project reserves	287,363	284,067
Independent operations	86,011	66,836
	<u>\$ 1,494,405</u>	<u>\$ 1,337,415</u>

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

	<u>2026</u>	<u>2025</u>
Contributions receivable	\$ 44,108	\$ 34,475
Loan funds	3,147	2,989
Annuity and life income funds	51,049	45,038
Endowment funds - corpus	699,830	676,982
Accumulated gains on endowment funds	869,752	688,378
Other - related to time and purpose restrictions	24,354	19,657
	<u>\$ 1,692,240</u>	<u>\$ 1,467,519</u>

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

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

NOTE 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 \$15.3 million and \$17.4 million at June 30, 2026 and 2025, respectively. Net unamortized bond issuance costs were \$2.7 million and \$3.0 million at June 30, 2026 and 2025, respectively. The following table presents bonds, loans, and notes payable at June 30 (in thousands):

	2026	2025
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 3.58% and 4.67% on June 30, 2026 and 2025, respectively	\$ -	\$ 1,400
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	28,256	28,430
Series 2016B bonds; tax-exempt variable rate revenue bonds, \$74,950 due serially from November 15, 2017 to November 15, 2039, variable rate of 1.92% and 4.57% on June 30, 2026 and 2025, respectively Bonds are supported with a standby bond purchase agreement, which expires August 31, 2029	69,112	69,783
Series 2016 taxable bonds; \$150,000 due serially from November 15, 2044 to November 15, 2046, fixed rate 3.48%	149,398	149,366
Series 2020 taxable bonds; 2.553% to 2.703% fixed rate bonds, \$170,000 due serially from November 15, 2040 to November 15, 2050	169,354	169,323
Series 2024 tax exempt bonds; 5.00% fixed rate bonds, \$125,425 due serially from November 15, 2024 to November 15, 2034	129,688	135,457
	<u>\$ 545,808</u>	<u>\$ 553,759</u>

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.

Under the terms of the loan agreements and the bond indentures, the University is required to maintain certain financial covenants. The University was in compliance with such covenants as of June 30, 2026 and 2025.

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

At June 30, 2026, the aggregate annual maturities of bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2027	\$ 5,415
2028	5,715
2029	6,010
2030	9,800
2031	9,905
Thereafter	<u>496,350</u>
Total long-term bonds payable	533,195
Unamortized issuance costs	(2,702)
Unamortized bond premium	<u>15,315</u>
	<u><u>\$ 545,808</u></u>

The Series 2016B bonds bear interest at a weekly rate determined by the remarketing agent. 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 2016B 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 2026.

NOTE 11 - INTEREST RATE SWAP AGREEMENTS

The University employs a derivative, primarily interest rate swap agreement, to manage interest rate risk associated with outstanding debt. The net fair value of the University's swap agreement is included in other assets or other liabilities in the consolidated statements of financial position, and was recorded as an asset of \$9.4 million and an asset of \$9.3 million at June 30, 2026 and 2025, respectively. The change in fair value of the interest rate swaps is reflected in nonoperating activity on the consolidated statement of activities and was \$0.2 million and (\$1.9) million for the years ended June 30, 2026 and 2025, respectively.

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

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	\$ -	4.530%	67% of USD 1-month	12/1/2030
2004 bonds	Wells Fargo	12/18/2008	-	1.953	LIBOR-BBA 67% of USD-Federal Funds	5/15/2034
2007 CPI bonds	JPMorgan Chase	2/1/2007	-	4.100	Variable rate based on CPI-U	various through 11/15/2025
2016B bonds	Wells Fargo	10/6/2016	69,250	1.148	70% of USD-Federal Funds	11/15/2039
			<u>\$ 69,250</u>			

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.

NOTE 12 - FUNCTIONAL ALLOCATION OF EXPENSES

The following table includes operating expenses by type and function for the year ended June 30, 2026 (in thousands):

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Independent Operations	Total
Salaries and wages	\$ 104,663	\$ 26,484	\$ 1,289	\$ 23,861	\$ 24,662	\$ 49,568	\$ 2,357	\$ 4,533	\$ 237,417
Employee benefits	35,665	6,392	320	8,531	8,455	19,088	855	1,299	80,605
Purchased services	4,229	9,369	452	3,683	3,858	13,179	14,773	2,238	51,781
Occupancy	12,700	3,414	308	3,874	3,808	6,619	15,506	1,173	47,402
Depreciation	12,199	11,682	386	3,279	4,136	6,355	7,871	1,504	47,412
Interest	7,462	1,895	91	1,690	1,755	3,513	171	-	16,577
Other expenses	21,513	2,725	842	14,712	8,827	8,665	12,709	7,822	77,815
	<u>\$ 198,431</u>	<u>\$ 61,961</u>	<u>\$ 3,688</u>	<u>\$ 59,630</u>	<u>\$ 55,501</u>	<u>\$ 106,987</u>	<u>\$ 54,242</u>	<u>\$ 18,569</u>	<u>\$ 559,009</u>

The following table includes operating expenses by type and function for the year ended June 30, 2025 (in thousands):

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Independent Operations	Total
Salaries and wages	\$ 101,413	\$ 28,105	\$ 1,300	\$ 23,191	\$ 24,565	\$ 48,412	\$ 2,364	\$ 4,201	\$ 233,551
Employee benefits	35,285	6,949	362	8,784	8,650	18,513	845	1,129	80,517
Purchased services	2,769	12,127	288	3,644	3,352	13,598	22,515	2,457	60,750
Occupancy	13,158	3,553	343	3,469	3,743	6,264	15,890	1,557	47,977
Depreciation	11,229	11,366	388	3,080	3,955	6,228	7,954	1,529	45,729
Interest	7,734	2,145	99	1,758	1,870	3,670	182	-	17,458
Other expenses	16,120	7,308	1,183	11,323	8,845	10,128	12,314	5,151	72,372
	<u>\$ 187,708</u>	<u>\$ 71,553</u>	<u>\$ 3,963</u>	<u>\$ 55,249</u>	<u>\$ 54,980</u>	<u>\$ 106,813</u>	<u>\$ 62,064</u>	<u>\$ 16,024</u>	<u>\$ 558,354</u>

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

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 \$13.8 million and \$13.6 million in 2026 and 2025, respectively, and are included in institutional support.

NOTE 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 2026, the University reimbursed retirees a maximum of \$126.88 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.

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

	2026	2025
Benefit obligation at beginning of year	\$ 46,691	\$ 45,114
Operating:		
Service cost	1,644	1,609
Benefits paid	(1,853)	(1,772)
Total operating	(209)	(163)
Nonoperating:		
Interest cost	2,654	2,477
Actuarial gain	1,727	-
Assumption changes	(3,073)	(737)
Total nonoperating gain	1,308	1,740
Benefit obligation at end of year	\$ 47,790	\$ 46,691

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

	2026	2025
Accumulated postretirement benefit obligation:		
Retirees	\$ 24,221	\$ 21,262
Fully eligible active plan participants	10,065	11,187
Other active plan participants	13,504	14,242
Accumulated postretirement benefit liability	\$ 47,790	\$ 46,691

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

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

	2026	2025
Discount rate for net periodic postretirement benefit cost	5.80%	5.60%
Discount rate for accumulated postretirement benefit obligation	5.95	5.80
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	8.00	8.00
Rate to which the cost trend rate is assumed to decline (ultimate rate)	5.00	5.00
Year that ultimate rate is reached	2027	2026

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

Fiscal Year Ending June 30:

2027	\$	2,028
2028		2,138
2029		2,254
2030		2,362
2031		2,478
2032 through 2036		14,477

NOTE 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 \$19.1 million and \$18.6 million in 2026 and 2025, respectively.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

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.

Lehigh University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2026 and 2025

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 2.46 years and were calculated using a weighted average discount rate of 3.00% resulting in a present value discount of approximately \$0.1 million. Operating leases ROU assets and liabilities as of June 30, 2026 were \$1.8 million and \$1.8 million, respectively and \$2.8 million and \$2.8 million at June 30, 2025, respectively.

	<u>2026</u>
Maturity analysis:	
Less than 1 year	\$ 752
1 to 2 years	722
2 to 3 years	<u>352</u>
 Total undiscounted lease liabilities, end of period	 <u><u>\$ 1,826</u></u>

Included in other liabilities is a finance obligation of \$40.7 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 statements of financial position. The finance obligation has a remaining term commensurate with the land lease which is 44 years as of June 30, 2026. The University amortizes the finance obligation to revenue as the related asset is being depreciated.

Other

Open commitments with general contractors, engineering firms, and other vendors related to the construction, renovation, and repair of certain facilities amounted to approximately \$6.6 million and \$19.7 million as of June 30, 2026 and 2025, respectively.

NOTE 16 - SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 20, 2026, the date the consolidated financial statements were issued, and concluded that there were no additional items requiring disclosure.