LEHIGH UNIVERSITY

Consolidated Financial Statements and
Information of Federal Awards

June 30, 2021
(with summarized comparative financial information for June 30, 2020)

(With Independent Auditors' Reports 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 Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lehigh University and its subsidiaries (the University), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehigh University and its subsidiaries as of June 30, 2021, 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.

Report on Summarized Comparative Information

We have previously audited the University's 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 28, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedule of financial responsibility data as of and for the year ended June 30, 2021, is presented for purposes of additional analysis, as required by the US Department of Education, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of financial responsibility data is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated October 21, 2021 except as to Note 17, which is as of September 23, 2022, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lehigh University and its subsidiaries' internal control over financial reporting and compliance.

KPMG LLP

Philadelphia, Pennsylvania
October 21, 2021, except as to note 17 and our report on the supplementary schedule of financial responsibility data, which are as of September 23, 2022

LEHIGH UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2021
(with summarized comparative financial information for June 30, 2020)

(In thousands)

Assets		**2021**	**2020**
Cash and cash equivalents	$	54,709	70,603
Accounts receivable, net (note 6)		18,479	13,035
Prepaid expenses and other assets		6,609	6,120
Contributions receivable, net (note 8)		35,074	41,126
Notes receivable, net		9,217	9,708
Investments (notes 3 and 5)		2,419,105	1,841,856
Funds held in trust by others		5,941	4,846
Property, plant, and equipment, net (note 7)		671,421	606,937
Total assets	$	3,220,555	2,594,231
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	44,971	47,440
Deferred revenues		14,180	16,910
Annuity payment obligations		18,076	17,634
Other liabilities (notes 11, 13, and 15)		121,405	132,894
Bonds, loans, and notes payable (note 10)		505,244	362,491
Total liabilities		703,876	577,369
Net assets (notes 4 and 9):			
Without donor restrictions		1,212,498	992,596
With donor restrictions		1,304,181	1,024,266
Total net assets		2,516,679	2,016,862
Total liabilities and net assets	$	3,220,555	2,594,231

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2021
(with summarized comparative financial information for year ended June 30, 2020)

(In thousands)

	2021 Without Donor Restrictions	2021 With Donor Restrictions	2021 Total	2020
Support and revenues:				
Tuition and fees, net	$ 199,110	—	199,110	207,775
Federal grants and contracts	41,825	—	41,825	32,192
State and local grants and contracts	9,303	—	9,303	7,333
Private grants and contracts	3,801	—	3,801	4,400
Contributions	13,011	—	13,011	11,923
Investment return, net (note 3)	85,497	—	85,497	89,462
Auxiliary enterprises, net	21,296	—	21,296	35,299
Independent operations (note 1(a))	13,149	—	13,149	8,442
Other sources	3,668	—	3,668	9,010
Net assets released from restrictions	3,359	(3,359)	—	—
Total support and revenues	394,019	(3,359)	390,660	405,836
Expenses:				
Salaries and wages	185,972	—	185,972	182,140
Employee benefits	44,727	—	44,727	58,250
Purchased services	30,144	—	30,144	32,591
Occupancy	30,217	—	30,217	32,204
Depreciation	34,300	—	34,300	31,731
Interest	11,937	—	11,937	11,088
Independent operations	11,127	—	11,127	10,650
Other business expenses	42,222	—	42,222	47,493
Total expenses (note 12)	390,646	—	390,646	406,147
Operating income (loss)	3,373	(3,359)	14	(311)
Nonoperating activity:				
Investment return, net (note 3):				
University	192,276	267,927	460,203	(53,929)
Independent operations	5,573	—	5,573	2,517
Gifts and trusts	2,930	20,702	23,632	29,273
Net assets released from restrictions and changes in donor intent	5,817	(5,817)	—	—
Change in fair value of interest rate swaps (note 11)	11,732	—	11,732	(15,101)
Changes in postretirement health benefits obligation other than net periodic benefit cost (note 13):				
University	1,618	—	1,618	(4,378)
Independent operations	46	—	46	(132)
Net periodic benefit costs other than service costs (note 13):				
University	(1,850)	—	(1,850)	(1,952)
Independent operations	(57)	—	(57)	(61)
Other	(1,556)	462	(1,094)	(1,850)
Nonoperating income	216,529	283,274	499,803	(45,613)
Change in net assets	219,902	279,915	499,817	(45,924)
Net assets at beginning of year	992,596	1,024,266	2,016,862	2,062,786
Net assets at end of year	$ 1,212,498	1,304,181	2,516,679	2,016,862

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2021
(with summarized comparative financial information for year ended June 30, 2020)

(In thousands)

		2021	2020
Cash flows from operating activities:			
Change in net assets	$	499,817	(45,924)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Gifts and trusts restricted for long-term investment		(26,832)	(26,726)
Noncash contributions		(2,093)	(2,561)
Investment earnings restricted for long-term investment		(1,056)	860
Net realized and unrealized gains on investments		(541,918)	(32,281)
Change in fair value of interest rate swap agreements		(11,732)	15,101
Payment of annuity obligations		1,316	1,369
Other nonoperating activity		387	2,750
Depreciation and amortization		35,414	33,067
Independent operations provision for uncollectible accounts		630	1,558
University provision for uncollectible accounts		120	177
Change in operating assets and liabilities:			
Change in accounts receivable		(5,269)	(230)
Change in contributions receivable		6,052	448
Change in accounts payable and accrued expenses		6,323	(1,042)
Change in deferred revenues		(2,730)	(1,682)
Change in annuity payment obligations		442	(484)
Change in deposits held for others		(24)	(91)
Change in accrued postretirement benefit cost		1,462	7,103
Change in prepaid expenses and other assets		(489)	3,763
Change in other liabilities		85	(324)
Net cash used in operating activities		(40,095)	(45,149)
Cash flows from investing activities:			
Proceeds from sale and maturity of investments		1,164,083	1,166,327
Purchases of investments		(1,201,059)	(1,024,898)
Student loans and other notes advanced		(655)	(1,243)
Independent operations loans advanced		(1,329)	(1,806)
Student loans and other notes collected		1,093	1,276
Independent operations loans collected		439	436
Purchase of land, buildings, and equipment		(99,642)	(94,012)
Decrease in accounts payable and accrued expenses for property, plant, and equipment		(8,792)	(1,227)
Net cash (used in) provided by investing activities		(145,862)	44,853
Cash flows from financing activities:			
Issuance (repayments) of principal of indebtedness		143,645	(6,160)
Gifts and trusts restricted for long-term investment		26,832	26,726
Investment earnings restricted for long-term investment		1,056	(860)
Decrease in refundable loan funds		(350)	(537)
Payment of annuity obligations		(1,316)	(1,368)
Payment of employee retirement obligations		(31)	(2,511)
Net cash provided by financing activities		169,836	15,290
Net (decrease) increase in cash and cash equivalents		(16,121)	14,994
Cash, cash equivalents, and restricted cash at beginning of year		70,780	55,786
Cash, cash equivalents, and restricted cash at end of year	$	54,659	70,780
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		54,709	70,603
Cash restricted for long-term investment purposes		(50)	177
Total cash, cash equivalents, and restricted cash shown above	$	54,659	70,780
Supplemental data:			
Cash paid for interest	$	14,599	13,496
Increase in other liabilities for property, plant, and equipment		—	6,166

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 5,200 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) and So-Beth Funding LLC (So-Beth Funding). South River, a Pennsylvania limited liability company, was formed to own and develop certain real estate properties in the local community. The results of South River's operations appear in note 12, *Functional Allocation of Expenses*.

So-Beth Funding was formed to improve the condition of residential properties and quality of property management in the South Bethlehem community in order to create a more attractive and safe neighborhood for University students and the greater community. The results of So-Beth Funding's operations appear primarily as investment return in the University's consolidated statement of activities.

The Ben Franklin Technology Partners of Northeastern PA (BFTP) 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 appropriate line items of the consolidated statement of financial position.

(b) Basis of Presentation

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

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 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 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 available for use. 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.

Contributions from federal and state government agencies are included as federal and state grants and contracts in the consolidated statement of activities.

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 2021. These rates are also used for other sponsored programs except where separately negotiated. Indirect cost reimbursements from all sources totaled $9.8 million and $9.2 million in 2021 and 2020, respectively.

Outstanding amounts related to conditional federal grants not recognized as of June 30, 2021 were approximately $54.6 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

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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 1.27% 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 $10.9 million and $11.5 million as of June 30, 2021 and 2020, 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. These assets are managed internally in a conservative and disciplined manner.

(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 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 2021 and 2020 were $113.7 million and $115.2 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.

(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

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

(k) Deferred Revenues

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

(l) Use of Estimates

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

(m) Reclassifications

Certain 2020 amounts have been reclassified to conform to their presentation in the 2021 consolidated financial statements.

(n) Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). ASU 2016-02 requires recognition of rights and obligations arising from lease contracts as assets and liabilities on the consolidated statements of financial position and requires expanded qualitative and quantitative disclosures. The University adopted ASU 2016-02 on the modified retrospective basis effective July 1, 2020. The University's right-of-use assets and lease liabilities for operating leases at adoption were $7.1 million and are included within property, plant, and equipment and accounts payable and accrued expenses, respectively, in the consolidated statement of financial position.

(o) 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, 2020, from which the summarized information was derived.

(p) Risks and Uncertainties

While the full impact of the COVID-19 pandemic on the University cannot be predicted at this time, the continued spread of the outbreak could have an adverse impact on the University's financial position.

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The extent of the impact will depend on future developments beyond the control of the University, including the duration and spread of the outbreak, any additional restrictions and advisories imposed by the federal and state governments, the continued effects of the pandemic on the financial markets, and higher education generally, and the continued effects of the pandemic on the economy overall, all of which are highly uncertain and cannot be predicted. During fiscal 2021, the University operated under a modified campus posture, utilizing a hybrid education model, de-densified residence and dining facilities, and on-campus core campus-based activities. Beginning July 1, 2021, the University is operating under a transitional campus posture, with instruction predominately in person, increased residence and dining facility density, and the transition of other campus-based activities to on-campus with flexible arrangements. The University provided emergency financial aid to students under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) totaling $2.3 million and $1.3 million during the years ended June 30, 2021 and 2020, respectively. The University recognized revenue from federal and other governmental funding related to the COVID-19 pandemic totaling $8.4 million and $1.8 million during the years ended June 30, 2021 and 2020, respectively, which is included in Federal Grants and Contracts on the consolidated statement of activities. While future impacts of the COVID-19 pandemic cannot be quantified at this time, the University continues to monitor legislative developments, future relief funding opportunities and directives from federal, state and local governments and, if necessary, is prepared to take additional measures to ensure the health and welfare of the University.

(q) Operating Leases

The University accounts for leases in accordance with Topic 842, *Leases*. 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. Subsequently, if the arrangement is modified, the University reevaluates the classification. 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.

(r) 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. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2021 and 2020 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, 2021 and 2020 are as follows (in thousands):

		2021	2020
Financial assets:			
Cash and cash equivalents	$	46,119	62,410
Accounts receivable, net		17,879	12,435
Contributions without donor restrictions due in one year or less		5,921	6,724
Investments not subject to donor restrictions or board designations		289,978	191,506
		359,897	273,075
Liquidity resources:			
Commercial paper, $75 million authorized, paid in full on September 17, 2020		75,000	55,000
Revolving line of credit from JPMorgan Chase Bank, was not renewed in 2021		—	50,000
Total available within one year	$	434,897	378,075

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 $528.2 million as of June 30, 2021 to function as endowment and $272.4 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, 2022 are anticipated to be approximately $36.5 million. Such distributions will be funded from fiscal year 2022 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.

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(3) Investments

Investments by major class at June 30, 2021 and 2020 are as follows (in thousands):

		2021	2020
Short-term investments	$	103,019	81,132
Fixed income investments:			
U.S. government		168,664	174,553
Corporate		168,176	76,609
Other		2,066	2,976
Corporate stocks		25,249	17,919
Mutual and exchange-traded funds		229,509	126,454
Real estate		29,719	29,719
Alternative investments:			
Public equity		726,318	605,994
Absolute return		328,713	314,628
Private investments		633,665	408,059
Life insurance and other investments		4,007	3,813
Total investments	$	2,419,105	1,841,856

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, 2021 and 2020 are net of investment expenses.

		2021	2020
Investment earnings	$	13,691	6,033
Net realized and unrealized gains		532,009	29,500
		545,700	35,533
Independent operations		10,147	3,115
Total	$	555,847	38,648

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

		2021	2020
Operating:			
Endowment spending distribution	$	68,383	67,726
Spending distribution – other		11,729	11,759
Other investment earnings		5,385	9,977
		85,497	89,462
Independent operations		4,574	598
Total operating		90,071	90,060
Nonoperating:			
Endowment spending distribution		1,138	982
Other investment losses (net)		(82)	(1,842)
Net realized and unrealized gains (losses), net of spending distribution		459,147	(53,069)
		460,203	(53,929)
Independent operations		5,573	2,517
Total nonoperating		465,776	(51,412)
Total investment return	$	555,847	38,648

(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 or senior management to function as endowments (board-designated). Net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

From time to time, the fair value of assets associated with 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, 2021 and 2020 are as follows (in thousands):

		2021	2020
Fair value of underwater endowment funds	$	368	157,199
Original endowment gift amounts		2,571	167,689
Underwater amounts	$	(2,203)	(10,490)

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. Net gains in excess of the spending policy are reflected as nonoperating investment return activity.

The University has an endowment spending policy based on 5% of a three-year moving average market value with a minimum increase of 0% per year and a maximum increase of 10% per year over the prior year's spending rate.

Any income earned in excess of the spending limit is reinvested while funds may be withdrawn from investment return earned in prior years if income is less than the spending policy provision. This is designed to insulate investment policy from budgetary pressures, and to insulate program spending from fluctuations in capital markets. Average annual spending rates per share were 4.6% and 5.0% for fiscal years 2021 and 2020, respectively.

(Continued)

Endowment net asset composition as of June 30, 2021 (in thousands):

		Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds (corpus)	$	—	585,793	585,793
Board-designated endowment funds (corpus)		220,573	—	220,573
Accumulated gains on endowment funds		307,614	598,022	905,636
Total endowment net assets	$	528,187	1,183,815	1,712,002

Endowment net asset composition as of June 30, 2020 (in thousands):

		Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds (corpus)	$	—	565,864	565,864
Board-designated endowment funds (corpus)		219,348	—	219,348
Accumulated gains on endowment funds		177,025	342,073	519,098
Total endowment net assets	$	396,373	907,937	1,304,310

Changes in endowment net assets for the years ended June 30, 2021 and 2020 (in thousands):

		Without Donor Restrictions	With Donor Restrictions	Total
Net assets, June 30, 2019	$	422,558	932,232	1,354,790
Investment return, net		8,802	4,273	13,075
Contributions and other additions, net		(437)	12,390	11,953
Endowment distributions		(27,750)	(40,958)	(68,708)
Other changes		(6,800)	—	(6,800)
Total change in endowment funds		(26,185)	(24,295)	(50,480)
Net assets, June 30, 2020		396,373	907,937	1,304,310
Investment return, net		164,620	294,114	458,734
Contributions and other additions, net		172	17,818	17,990
Endowment distributions		(33,567)	(35,892)	(69,459)
Other changes		589	(162)	427
Total change in endowment funds		131,814	275,878	407,692
Net assets, June 30, 2021	$	528,187	1,183,815	1,712,002

(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.

(Continued)

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, 2021 and 2020, 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 has been determined from observable market or published quotations, when available. Fair value for fixed maturity securities is based upon prices provided by the University's investment managers and custodian banks. Both the investment managers and the custodian banks use a variety of pricing sources to determine fixed maturity market valuations.

Estimated fair value of alternative investments that are not readily marketable is recorded at the NAV as provided by external investment managers as a practical expedient for fair value. The University reviews and evaluates the values provided by external investment managers and agrees with the valuation methods and assumptions used in determining the NAV of those investments.

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

The following table presents the University's fair value hierarchy for investments at June 30, 2021 (in thousands):

	Fair value measurements at reporting date using				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Short-term investments	$ 103,019	—	—	—	103,019
Fixed income investments:					
U.S. government	148,564	20,100	—	—	168,664
Corporate	—	168,176	—	—	168,176
Other	—	2,066	—	—	2,066
Corporate stocks	25,249	—	—	—	25,249
Mutual and exchange-traded funds	229,509	—	—	—	229,509
Real estate		29,719	—	—	29,719
Alternative investments:					
Public equity	—	—	—	726,318	726,318
Absolute return	—	—	—	328,713	328,713
Private investments	—	—	—	633,665	633,665
Life insurance and other	3,999	8	—	—	4,007
Total investments	$ 510,340	220,069	—	1,688,696	2,419,105

The following table presents the University's fair value hierarchy for investments at June 30, 2020 (in thousands):

	Fair value measurements at reporting date using				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Short-term investments	$ 81,132	—	—	—	81,132
Fixed income investments:					
U.S. government	145,896	28,657	—	—	174,553
Corporate	—	76,609	—	—	76,609
Other	—	2,976	—	—	2,976
Corporate stocks	17,919	—	—	—	17,919
Mutual and exchange-traded funds	126,454	—	—	—	126,454
Real estate	—	29,719	—	—	29,719
Alternative investments:					
Public equity	14,938	—	—	591,056	605,994
Absolute return	—	—	—	314,628	314,628
Private investments	—	—	—	408,059	408,059
Life insurance and other	3,803	10	—	—	3,813
Total investments	$ 390,142	137,971	—	1,313,743	1,841,856

(Continued)

The University held total fixed income and equity investments with a liquidity of 30 days of less of $730 million at June 30, 2021. 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, 2021 (in thousands):

	Liquidity (in days)					Unfunded commitments (4)	Estimated remaining lives	Redemption frequency
	Within 30	31-90	91-365	>365	Total			
Alternative investments:								
Public Equity (1)	$ 331,231	200,628	149,856	26,705	708,420	—	N/A	Daily – Up to 3 Years
	—	—	—	17,898	17,898	40,727	0-3 Years	Generally not eligible
	331,231	200,628	149,856	44,603	726,318	40,727		
Absolute Return (2)	—	72,485	81,258	90,416	244,159	—	N/A	Qtr – Up to 2 Years
	—	—	—	84,554	84,554	112,292	1-10 Years	Generally not eligible
	—	72,485	81,258	174,970	328,713	112,292		
Private Investments (3)	—	—	790	632,875	633,665	301,728	1-9 Years	Generally not eligible
Total alternative investments	$ 331,231	273,113	231,904	852,448	1,688,696	454,747		

(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, 2021 and 2020 (net of allowances for doubtful accounts) are as follows (in thousands):

		2021	2020
Accounts receivable, net:			
Student accounts	$	1,774	2,426
Grants and contracts		8,684	7,141
Investment income		1,423	1,439
Other		6,598	2,029
	$	18,479	13,035

Allowances for doubtful accounts were $2.9 million and $3.0 million in 2021 and 2020, respectively.

(7) Property, Plant, and Equipment, Net

Property, plant, and equipment is summarized as follows at June 30, 2021 and 2020 (in thousands):

		2021	2020
Land and improvements	$	79,820	72,400
Buildings and improvements		882,091	798,082
Furniture, equipment, books, and collections		234,376	226,735
Construction in progress		113,563	119,199
Right-of-use asset		6,938	—
		1,316,788	1,216,416
Less accumulated depreciation		(645,367)	(609,479)
Total	$	671,421	606,937

Depreciation expense totaled $36.0 million and $33.4 million for the years ended June 30, 2021 and 2020, respectively. Interest expense that was capitalized totaled $3.2 million and $2.1 million for the years ended June 30, 2021 and 2020, respectively.

(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):

		2021	2020
In one year or less	$	14,625	16,711
Between one year and five years		19,845	22,920
More than five years		3,535	5,269
		38,005	44,900
Less:			
Unamortized discount		(992)	(1,481)
Allowance for uncollectible accounts		(1,939)	(2,293)
	$	35,074	41,126

Outstanding promises to give that were conditional amounted to $10.7 million and $8.4 million as of June 30, 2021 and 2020, respectively.

(9) Net Assets

Net assets without donor restrictions include the following at June 30, 2021 and 2020 (in thousands):

		2021	2020
Undesignated	$	375,720	310,706
Board designated endowment funds		528,187	396,373
Annuity and life income funds		3,560	3,158
Plant funds and capital project reserves		239,483	224,395
Independent operations		65,548	57,964
	$	1,212,498	992,596

Net assets with donor restrictions include the following at June 30, 2021 and 2020 (in thousands):

		2021	2020
Contributions receivable	$	35,074	41,126
Loan funds		2,971	2,823
Annuity and life income funds		39,857	31,808
Endowment funds- corpus		585,793	565,864
Accumulated gains on endowment funds		598,022	342,073
Other – related to time and purpose restrictions		42,464	40,572
	$	1,304,181	1,024,266

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

(10) Bonds, Loans, and Notes Payable

Bonds, loans, and notes payable are reported net of any unamortized premiums, discounts, or issuance costs. Net unamortized premiums were $2.6 million and $2.7 million at June 30, 2021 and 2020, respectively. Net unamortized bond issuance costs were $2.2 million and $1.5 million at June 30, 2021 and 2020, respectively. The following table presents bonds, loans, and notes payable at June 30, 2021 and 2020 (in thousands):

		2021	2020
Taxable Commercial Paper Series A, up to $75 million, paid in full on September 17, 2020	$	—	20,000
Northampton County General Purpose Authority (NCGPA):			
Series 2000B bonds; tax-exempt variable rate revenue bonds, $25,000 due serially from December 1, 2003 to December 1, 2030, variable rates of .05% and .10% on June 30, 2021 and 2020, respectively; bonds are supported with a standby bond purchase agreement, which expires on November 30, 2025		12,855	13,826
Series 2004 bonds; tax-exempt index rate revenue bonds, $50,000 due serially from May 15, 2025 to May 15, 2034, rates of .74% and .76% on June 30, 2021 and 2020, respectively		49,832	49,813
Series 2006A bonds; tax-exempt variable rate revenue bonds, $16,820 due serially from November 15, 2007 to November 15, 2021, variable rates of .05% and .03% on June 30, 2021 and 2020, respectively		1,899	3,732

		2021	2020
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 3.80% and 2.33% on June 30, 2021 and 2020 respectively	$	20,766	23,672
Series 2016A bonds; 4.00% to 5.00% tax-exempt fixed rate revenue bonds, $26,715 due serially from November 15, 2026 to November 15, 2036		29,127	29,301
Series 2016B bonds; tax-exempt variable rate revenue bonds, $74,950 due serially from November 15, 2017 to November 15, 2039, variable rate of .88% and .90% on June 30, 2021 and 2020, respectively		72,331	72,936
Series 2016 taxable bonds; $150,000 due serially from November 15, 2044 to November 15, 2046, fixed rate 3.48%		149,241	149,211
Series 2020 taxable bonds; 2.553% to 2.703% fixed rate bonds, $170,000 due serially from November 15, 2040 to November 15, 2050		169,193	—
	$	505,244	362,491

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

Proceeds from all tax-exempt bonds, loans, and notes were used by the University to purchase land and buildings, construct or renovate facilities, upgrade computing and information service facilities, purchase equipment, and finance certain completed facilities.

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

Payment of all outstanding tax-exempt bonds is secured by separate loan agreements between the University and the Northampton County General Purpose Authority (NCGPA). Each loan agreement is a general obligation of the University for which it has pledged its full faith and credit. In addition, the University has granted NCGPA a security interest in the University’s gross revenues as defined in each loan agreement. In accordance with the NCGPA loan agreements, the University established rates and charges sufficient to provide, in each fiscal year, for the payment of the University’s operating expenses and debt service on its long-term indebtedness. The University may incur additional indebtedness under certain conditions described in the loan agreements and the bond indentures.

At June 30, 2021, the aggregate annual maturities of bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2022	$	6,595
2023		6,970
2024		7,240
2025		11,075
2026		7,025
Thereafter		465,945
Total long-term bonds payable		504,850
Unamortized issuance costs		(2,165)
Unamortized bond premium		2,559
	$	505,244

The Series of 2000B and 2006A 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 2006A bonds and the Commercial Paper program. As of June 30, 2021, the University estimates that $35.7 million of liquid assets were available on a same day basis and an additional $60.4 million was available within 7 days.

On April 21, 2020 the University obtained a $50 million revolving line of credit from JPMorgan Chase Bank, N.A. (JPM). The JPM Line of Credit had a term of one-year. The JPM Line of Credit was a general obligation of the University secured by the gross revenues of the University on a parity with that granted under the University's covenants in its various existing financing documents executed in connection with the University's long-term debt. The University opted not to renew this line when it expired on April 20, 2021.

On August 19, 2020, the University issued $170,000,000 aggregate principal amount of its Series 2020 taxable bonds (the Bonds). The Bonds are secured by a pledge of, and security interest in, the University's gross revenues. The proceeds of the Bonds will be used to finance current and future capital projects consistent with the University's capital plan and any other purpose duly authorized by the University.

(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 a liability of $7.9 million and $19.6 million at June 30, 2021 and 2020, respectively. The change in fair value of the interest rate swaps is reflected in nonoperating activity on the statement of activities and was $11.7 million and $(15.1) million for the years ended June 30, 2021 and 2020, 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	$ 12,900	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
2006A bonds	JPMorgan Chase	8/24/2006	1,900	3.392	67% of USD-1-month LIBOR-BBA	11/15/2021
2007 CPI bonds	JPMorgan Chase	2/1/2007	20,795	3.980 to 4.530	Variable rate based on CPI-U	various through 11/15/2025
2016B bonds	Wells Fargo	10/6/2016	72,540	1.148	70% of USD-Federal Funds	11/15/2039
			158,135			

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, 2021 (in thousands):

	Instruction	Research	Public service	Academic support	Student services	Institutional support	Auxiliary enterprises	Independent operations	Total
Salaries and wages	$ 90,368	20,794	1,202	14,549	16,128	39,423	3,508	3,638	189,610
Employee benefits	22,910	3,199	241	4,079	3,901	9,532	865	1,035	45,762
Purchased services	1,600	4,954	231	1,362	2,116	10,779	9,102	1,541	31,685
Occupancy	9,515	2,154	275	2,140	2,302	5,364	8,467	1,150	31,367
Depreciation	10,182	5,269	298	3,285	3,288	5,781	6,197	1,682	35,982
Interest	5,813	1,356	77	926	1,028	2,509	228	—	11,937
Other expenses	8,728	6,320	663	7,143	4,080	8,246	7,042	2,081	44,303
	$ 149,116	44,046	2,987	33,484	32,843	81,634	35,409	11,127	390,646

The following table includes operating expenses by type and function for the year ended June 30, 2020 (in thousands):

	Instruction	Research	Public service	Academic support	Student services	Institutional support	Auxiliary enterprises	Independent operations	Total
Salaries and wages	$ 88,877	19,379	808	15,295	17,094	36,705	3,982	3,486	185,626
Employee benefits	29,308	4,020	225	5,600	5,306	12,609	1,182	1,059	59,309
Purchased services	2,271	5,080	169	1,810	1,753	10,318	11,190	1,500	34,091
Occupancy	9,216	1,983	211	2,135	2,261	4,601	11,797	675	32,879
Depreciation	9,844	5,017	215	3,487	3,283	5,561	4,324	1,657	33,388
Interest	5,379	1,207	51	920	1,031	2,207	293	—	11,088
Other expenses	11,916	7,228	941	8,463	8,128	3,617	7,200	2,273	49,766
	$ 156,811	43,914	2,620	37,710	38,856	75,618	39,968	10,650	406,147

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 $10.1 million and $11.7 million in 2021 and 2020, 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 2021, the University reimbursed retirees a maximum of $109.15 per month for premium expenses. The maximum monthly reimbursement amount will increase each year at the lesser of medical Consumer Price Index (CPI) or 8%. These postretirement medical benefits accrue from the later of date of hire or age 30. The University uses a July 1 measurement date for its plan. Summarized plan information is stated below (in thousands).

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

		2021	2020
Benefit obligation at beginning of year	$	59,339	52,236
Operating:			
Service cost		2,664	1,893
Benefits paid		(1,445)	(1,313)
Total operating		1,219	580
Nonoperating:			
Interest cost		1,907	2,013
Actuarial gain		—	(661)
Assumption changes		(1,664)	5,171
Total nonoperating loss (gain)		243	6,523
Benefit obligation at end of year	$	60,801	59,339

The following table sets forth the status of the plan, which is unfunded, at June 30, 2021 and 2020:

		2021	2020
Accumulated postretirement benefit obligation:			
Retirees	$	20,680	21,689
Fully eligible active plan participants		15,915	15,910
Other active plan participants		24,206	21,740
Total		60,801	59,339
Plan assets at fair value		—	—
Accumulated postretirement benefit liability	$	60,801	59,339

Weighted average assumptions as of and for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Discount rate for net periodic postretirement benefit cost	3.25 %	3.90 %
Discount rate for accumulated postretirement benefit obligation	3.30	3.25
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	4.50	4.50
Rate to which the cost trend rate is assumed to decline (ultimate rate)	4.50	4.50
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:		
2022	$	1,452
2023		1,547
2024		1,637
2025		1,735
2026		1,846
2027 through 2030		11,121

(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 $0 million and $15.2 million in 2021 and 2020, respectively. The University suspended its matching contribution in fiscal year 2021 in response to COVID 19. The University reinstated its matching contribution, effective July 1, 2021.

(15) 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 6.82 years and were calculated using a weighted average discount rate of 2.75%. Operating leases right-of-use assets and liabilities as of June 30, 2021 were $6.2 million and $6.2 million, respectively.

		2021
Maturity Analysis:		
Less than 1 year	$	1,057
1 to 2 years		1,030
2 to 3 years		1,006
3 to 4 years		997
4 to 5 years		951
5 to 10 years		1,759
More than 10 years		—
Total undiscounted lease liabilities, end of period	$	6,800

Included in other liabilities is a finance obligation of $45.4 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 49 years as of June 30, 2021. 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 $77.0 million and $25.0 million as of June 30, 2021 and 2020, respectively.

(16) Subsequent Events

The University has evaluated subsequent events through October 21, 2021, the date the consolidated financial statements were issued, and concluded that there are no additional items requiring disclosure.

(17) Department of Education

(A) Financial Responsibility Data

The University participates in federal Title IV student financial assistance programs, which requires the University to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score is based on three ratios: Primary Reserve, Equity, and Net Income. These ratios utilize the following financial data of the University, which are not otherwise presented in the consolidated financial statements or other notes to the consolidated financial statements, as of and for the year ended June 30, 2021.

	Required Input per Standards	Ratio Use	Input Amount	Related financial statement amount not used as input on supplementary schedule
(a)	PPE, Net – Pre-Implementation	Primary Reserve	$ 379,693	
	PPE, Net – Post-Implementation with outstanding debt for original purchase	Primary Reserve	39,283	
	PPE, Net – Post-Implementation without outstanding debt for original purchase		138,882	
	Construction in progress	Primary Reserve	113,563	
	Net property, plant and equipment	Not Applicable		$ 671,421

Property, plant, and equipment, net – pre-implementation represents the June 30, 2021 carrying value of assets placed in service prior to July 1, 2019.

Property plant, and equipment, net post-implementation with outstanding debt represents the June 30, 2021 carrying value of assets placed in service after July 1, 2019, which have been funded with debt.

Property, plant, and equipment, net – post-implementation without outstanding debt for original purchase represents the June 30, 2021 carrying value of assets placed in service after July 1, 2019, which was not funded with debt.

Construction in progress – post-implementation represent fixed assets that have not yet been placed into service.

(b)	Long-Term Debt – pre-implementation	Primary Reserve	336,081	
	Long-Term Debt – post-implementation	Not Applicable	169,163	
	All long-term debt obtained for long-term purposes	Not Applicable		$ 505,244

	Required Input per standards	Ratio Use	Input Amount	Related financial statement amount not used as input on supplementary schedule
(c)	Annuity and life income funds with donor restrictions	Not Applicable		35,502
	Contributions receivable	Not Applicable		13,163
	Endowment funds-corpus	Not Applicable		585,793
	Term endowments	Not Applicable		(9,687)
	Loan funds	Not Applicable		2,971
	Net assets with donor restrictions: restricted in perpetuity	Primary Reserve	$ 627,742	
(d)	Endowment funds-corpus	Not Applicable		585,793
	Permanent endowment funds	Not Applicable		(576,106)
	Term endowments	Primary Reserve	9,687	
(e)	Annuity and life income funds with donor restrictions	Not Applicable		39,857
	Permanent annuity and life income funds with donor restrictions	Not Applicable		(35,502)
	Annuity and life income funds with donor restrictions	Primary Reserve	$ 4,355	
(f)	All expenses and losses without donor restrictions	Not Applicable		390,646
	Change in value of interest rate swaps	Not Applicable		(11,732)
	Net periodic benefit costs other than service costs	Not Applicable		1,850
	Net periodic benefit costs other than service costs - independent ops	Not Applicable		57
	Other	Not Applicable		1,556
	Total expenses and losses without donor restrictions	Primary Reserve	$ 382,377	
(g)	Total support and revenues without donor restrictions (including investment return – operating)	Not Applicable		394,019
	Investment return – Non-operating	Not Applicable		192,276
	Investment return – Non-operating – Indpendent operations	Not Applicable		5,573
	Gifts and trusts – non-operating	Not Applicable		2,930
	Total revenues and gains without donor restrictions	Net Income	$ 594,798	

(B) 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 the Director of 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.

LEHIGH UNIVERSITY

Supplementary Schedule of Financial Responsibility Data

Year ended June 30, 2021

(In thousands)

Data Element	Location in consolidate financial statements or related notes		Amount used as ratio input
Primary reserve ratio			
Numerator: Expendable Net assets			
Net assets without donor restrictions	Consolidated Statement of Financial Position	$	1,212,498
Net assets with donor restrictions	Consolidated Statement of Financial Position		1,304,181
Net assets with donor restrictions: restricted in perpetuity	Footnote 17 (c)		627,743
Term endowments	Footnote 17 (d)		9,687
Annuities and life income funds with donor restrictions	Footnote 17 (e)		4,355
Property, plant, and equipment, net – pre-implementation	Footnote 17 (a)		379,693
Property, plant, and equipment, net – post-implementation with outstanding debt for original purchase	Footnote 17 (a)		39,283
Property, plant, and equipment, net – post-implementation without outstanding debt for original purchase	Footnote 17 (a)		138,882
Construction in progress – post-implementation	Footnote 17 (a)		113,563
Post-employment and defined benefit plan liabilities	Footnote 14		60,801
Long-term debt	Footnote 17 (b)		505,244
Denominator: Total Expenses without Donor Restrictions and without Donor Restrictions			
All expenses and losses without donor restrictions	Footnote 17 (f)		382,377
Equity Ratio			
Numerator: Modified Net assets			
Net assets without donor restrictions	Consolidated Statement of Financial Position		1,212,498
Net assets with donor restrictions	Consolidated Statement of Financial Position		1,304,181
Denominator: Modified assets			
Total assets	Consolidated Statement of Financial Position		3,220,555
Net Income Ratio			
Numerator: Change in net assets without donor restrictions	Consolidated Statement of Activities		219,902
Denominator: Total revenues and gains without donor restrictions	Footnote 17 (g)		594,798

See accompanying Independent Auditors' Report.

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Program: Federal sponsor/project title	Assistance Listing Number (ALN)	Pass-through entity identifying number	Pass-through Entity	Passed through to subrecipients	Total expenditures
Student Financial Assistance Cluster					
U.S. Department of Education:					
Federal Supplemental Education Opportunity Grant	84.007			$ —	543,951
Federal Perkins Loan Program	84.038			—	1,436,829
Federal Work Study Program	84.033			—	636,746
Federal Pell Grant Program	84.063			—	4,929,867
Federal Direct Loan Program	84.268			—	18,817,459
Total Student Financial Assistance Cluster				—	26,364,852
Research and Development Cluster:					
Department of Agriculture:					
Agriculture and Food Research Initiative (AFRI)	10.310			—	19
Department of Commerce					
Ocean Exploration	11.011			4,869	62,951
Golf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology	11.451			—	11,371
Center for Sponsored Coastal Ocean Research_Coastal Ocean Program	11.478			59,691	299,511
Department of Defense – Air Force:					
Air Force Defense Research Sciences Program	12.800			105,653	382,164
Air Force Defense Research Sciences Program	12.800	FA9550-17-1-0367	Virginia Polytechnic Institute and State University	—	61,702
Subtotal 12.800				105,653	443,866
Department of Defense – Army-Research Laboratory:					
Basic Scientific Research	12.431			—	687,463
Basic, Applied, and Advanced Research in Science and Engineering	12.630	W911NF-12-2-0022	Johns Hopkins University	—	95,387
Department of Defense – Navy:					
Basic and Applied Scientific Research	12.300			216,369	1,102,007
Basic and Applied Scientific Research	12.300	N00014-19-1-2688	University of Missouri-Columbia	—	142,655
Basic and Applied Scientific Research	12.300	N00014-18-1-2407	University of Utah	—	24,384
Basic and Applied Scientific Research	12.300	N00014-16-1-2515	University of Virginia	—	4,570
Basic and Applied Scientific Research	12.300	N00014-21-1-2210	University of Virginia	—	16,168
Subtotal 12.300				216,369	1,289,784
Research and Technology Development	12.910	N660012014045	University of Virginia	—	11,912
Department of Education:					
Education Research, Development and Dissemination	84.305			198,276	416,404
Education Research, Development and Dissemination	84.305	R305A160080	University of Minnesota	—	2,043
Subtotal 84.305				198,276	418,447
Research in Special Education	84.324			91,364	653,218
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325			—	76,947

(Continued)

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Program: Federal sponsor/project title	Assistance Listing Number (ALN)	Pass-through entity identifying number	Pass-through Entity	Passed through to subrecipients	Total expenditures
Department of Energy:					
Office of Science Financial Assistance Program	81.049			$ —	1,490,574
Office of Science Financial Assistance Program	81.049	DE-SC0017232	Advanced Cooling Technologies, Inc.	—	745
Office of Science Financial Assistance Program	81.049	DE-SC0019664	Advanced Cooling Technologies, Inc.	—	63,440
Office of Science Financial Assistance Program	81.049	DE-SC0020865	Energy Research Company	—	124,312
Office of Science Financial Assistance Program	81.049	DE-SC0012577	Georgia Institute of Technology	—	280,243
Office of Science Financial Assistance Program	81.049	DE-SC0019711	Precision Combustion Incorporated	—	27,473
Office of Science Financial Assistance Program	81.049	DE-SC0012673	Stony Brook University	—	54,327
Subtotal 81.049				—	2,041,114
University Coal Research	81.057	DE-FE0031903	University of North Carolina	—	28,772
Renewable Energy Research and Development	81.087			—	495,795
Fossil Energy Research and Development	81.089			233,827	660,213
Fossil Energy Research and Development	81.089	DE-FE0031931	Illinois Institute of Technology	—	54,546
Fossil Energy Research and Development	81.089	DE-FE0031869	North Carolina State University	—	78,826
Fossil Energy Research and Development	81.089	DE-FE0031886	The University of North Carolina at Chapel Hill	—	207,360
Fossil Energy Research and Development	81.089	DE-FE0031673	Trustees of the University of Pennsylvania	—	58,359
Subtotal 81.089				233,827	1,059,304
Stewardship Science Grant Program	81.112			—	550
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117			—	234,106
National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program Institutions (MSI) Program	81.123	DE-AC52-07NA27344	Lawrence Livermore National Laboratory	—	20,663
Advanced Research Projects Agency – Energy	81.135			165,521	187,349
Department of Interior:					
Water Desalination Research and Development	15.506			—	35,534
National Cooperative Geologic Mapping	15.810			—	17,441
Department of State:					
AEECA/ESF PD Programs	19.900	SUZ800-18-CA-0001	American Councils	—	2,319
Department of Transportation:					
Highway Research and Development Program (B)	20.200			26,290	26,290
University Transportation Centers Program	20.701	69A3551847103	The Pennsylvania State University	—	269,454
Transportation Planning, Research and Education (B)	20.931	69A3551747118	Colorado School of Mines	—	276,580
Transportation Planning, Research and Education (B)	20.931	DTFH6114D00048	Colorado School of Mines	—	44,564
Subtotal 20.931				—	321,144
National Aeronautics and Space Administration:					
Science	43.001			—	13,729
Science	43.001	80NSSC18M094	Penn State University	—	131,390
Subtotal 43.001				—	145,119
Education	43.008	80NSSC20M0097	Penn State University	—	4,538

(Continued)

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Program: Federal sponsor/project title	Assistance Listing Number (ALN)	Pass-through entity identifying number	Pass-through Entity	Passed through to subrecipients	Total expenditures
National Institutes of Health:					
Oral Diseases and Disorders Research	93.121			$ —	101,575
Research Related to Deafness and Communication Disorders	93.173			72,121	188,839
Alcohol Research Programs	93.273			31,537	40,124
Drug Abuse and Addiction Research Programs	93.279			152,381	883,796
Drug Abuse and Addiction Research Programs	93.279	5R01DA043567-04	Dignity Health – St. Joseph's Hospital and Medical Center	—	145,040
Subtotal 93.279				152,381	1,028,836
Trans-NIH Research Support	93.310	1OT2OD030535-01	Emory University	—	167,033
Cardiovascular Diseases Research	93.837			—	513,525
Blood Diseases and Resources Research	93.839			31,599	464,171
Blood Diseases and Resources Research	93.839	5R01HL082808-15	Emory University	—	85,021
Subtotal 93.839				31,599	549,192
Arthritis Musculoskeletal and Skin Diseases Research	93.846	5U54AR055073-14	Rutgers University	—	229
Arthritis Musculoskeletal and Skin Diseases Research	93.846	5U54AR055073-15	Rutgers University	—	448,308
Subtotal 93.846				—	448,537
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			—	240,114
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	1R01NS116176-01	Brown University	—	104,419
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	1R21NS096948-03	Massachusetts General Hospital	—	42,360
Subtotal 93.853				—	386,893
Allergy and Infectious Diseases Research	93.855			—	78,590
Biomedical Research and Research Training	93.859			167,725	2,824,173
Biomedical Research and Research Training	93.859	1R01GM120537-01A1	Arizona State University	—	(9)
Biomedical Research and Research Training	93.859	5R01GM118530-05	Brown University	—	2,494
Biomedical Research and Research Training	93.859	2R01GM087544-10	Scripps Research Institute	—	10,106
Biomedical Research and Research Training	93.859	5R01GM103899-08	Trustees of the University of Pennsylvania	—	72,741
Biomedical Research and Research Training	93.859	3U24GM132013-02S2	University of Pittsburgh	—	50,660
Subtotal 93.859				167,725	2,960,165
Child Health and Human Development Extramural Research	93.865			6,526	173,344
Child Health and Human Development Extramural Research	93.865	R21HD095234	Cleveland Clinic	—	61,456
Child Health and Human Development Extramural Research	93.865	1R15HD087937-01A1	Lafayette College	—	10,864
Subtotal 93.865				6,526	245,664
Aging Research	93.866	5U24AG041689-08	Trustees of the University of Pennsylvania	—	38,195
Vision Research	93.867			—	20,827
National Science Foundation:					
Engineering Grants	47.041			135,024	4,978,271
Engineering Grants	47.041	IIP-1831220	Dynalene, Inc.	—	54,191
Engineering Grants	47.041	CMMI-16628616	University of Arizona	—	1,705
Engineering Grants	47.041	CBET-1821389	University of Virginia	—	191,513
Engineering Grants	47.041	EFMA-1832795	Yale University	—	87,365
Subtotal 47.041				135,024	5,313,045

(Continued)

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Program: Federal sponsor/project title	Assistance Listing Number (ALN)	Pass-through entity identifying number	Pass-through Entity	Passed through to subrecipients	Total expenditures
Mathematical and Physical Sciences	47.049			$ —	1,904,740
Mathematical and Physical Sciences	47.049	DMR-1922111	Georgia Institute of Technology	—	4,025
Mathematical and Physical Sciences	47.049	DMR-1720530	Trustees of the University of Pennsylvania	—	25,352
Subtotal 47.049				—	1,934,117
Geosciences	47.050			19,791	657,451
Geosciences	47.050	EAR-1624280	University of California, San Diego	—	25,713
Subtotal 47.050				19,791	683,164
Computer and Information Science and Engineering	47.070			70,654	2,109,169
Computer and Information Science and Engineering	47.070	CCF-1734706	Computing Research Assoc	—	126,451
Computer and Information Science and Engineering	47.070	CCF-2030859	Computing Research Assoc	—	103,275
Computer and Information Science and Engineering	47.070	IIS-1704458	Johns Hopkins University	—	37,674
Subtotal 47.070				70,654	2,376,569
Biological Sciences	47.074			—	623,333
Biological Sciences	47.074	DBI-2014217	University of Colorado Boulder	—	92,840
Subtotal 47.074				—	716,173
Social Behavioral and Economic Sciences	47.075			—	64,433
Education and Human Resources	47.076			85,194	523,535
Education and Human Resources	47.076	DGE-1835307	Worcester Polytechnic Institute	—	84,984
Subtotal 47.076				85,194	608,519
Office of International Science and Engineering	47.079	OISE-1743701	Kansas State University	—	5,288
Office of Integrative Activities	47.083	OISE-1545903	Boise State University	—	35,350
Total Research And Development Cluster				1,874,412	27,445,021
Other programs:					
Department of Defense – Defense Logistics Agency:					
Procurement Technical Assistance	12.002	SP4800-19-2-1931	Kutztown University of Pennsylvania	—	1,217
Procurement Technical Assistance	12.002	SP4800-20-2-2036	Kutztown University of Pennsylvania	—	70,573
Subtotal 12.002				—	71,790
U.S. Department of Education:					
Educational Stabilization Fund:					
Higher Education Emergency Relief Fund – Student Aid	84.425E			—	2,075,743
Higher Education Emergency Relief Fund – Institutional Portion	84.425F			—	4,698,097
Subtotal 84.425				—	6,773,840
Graduate Assistance in Areas of National Need	84.200			—	17,000
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	84.367	S367A180051	PA-Department of Education	—	154,193
Department of State:					
Academic Exchange Programs – Undergraduate Programs	19.009	S-ECAGD-18-CA-0022	IREX	—	22,811
Department of Transportation:					
Recreactional Trails Program	20.219			19,770	20,874

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Program: Federal sponsor/project title	Assistance Listing Number (ALN)	Pass-through entity identifying number	Pass-through Entity	Passed through to subrecipients	Total expenditures
Department of Treasury:					
Coronavirus Relief Fund	21.019			$ —	116,199
Institute of Museum & Library Services					
Museums for America	45.301			—	24,468
National Endowment for the Humanities:					
Promotion of the Humanities Challenge Grants	45.130			—	339,034
Promotion of the Humanities Teaching and Learning Resources and Curriculum Development	45.162			15,125	31,692
National Endowment of the Arts:					
Promotion of the Arts Partnership Agreements	45.025	1855974-61-19	PA-Council on the Arts	—	1,930
National Institutes of Health:					
Head Start	93.600			—	15,590
Small Business Administration:					
Small Business Development Centers	59.037			—	223,558
Small Business Development Centers	59.037	SBAHQ19B0027	Kutztown University of Pennsylvania	—	27,079
Small Business Development Centers	59.037	SBAHQ20B0057	Kutztown University of Pennsylvania	—	369,135
Small Business Development Centers	59.037	SBA20210406	Kutztown University of Pennsylvania	—	5,829
Subtotal 59.037				—	625,601
Total other programs				34,895	8,215,022
Total expenditures of federal awards				$ 1,909,307	62,024,895

LEHIGH UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Lehigh University (the University) under programs of the federal government for the year ended June 30, 2021 in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the University. The schedule of expenditures of federal awards does not present the activity for the University's subsidiaries Manufacturers Resource Center that expended $859,038 in federal awards and submits a separate audit report in accordance with the Uniform Guidance and Ben Franklin Technology Partners that expended $99,699 in federal awards and did not meet the Uniform Guidance threshold to conduct a separate audit.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Indirect Cost Rate

The University has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(4) Federal Perkins Loan Program

Perkins loans are administered directly by the University, and balances and transactions relating to Perkins loans are included in the University's consolidated financial statements. Perkins loan expenditures reported on the Schedule include the balance of outstanding loans at June 30, 2020, and the administrative cost allowance claimed during the year ended June 30, 2021 of $78,985. The outstanding balance of Federal Perkins Loans at June 30, 2021 was $1,436,829.

There were no federal or institutional capital contributions to the Perkins revolving loan fund for the year ended June 30, 2021.

(5) Direct Loans

Direct Loans are made by the Secretary of Education, and therefore balances and transactions relating to Direct Loans are not included in the University's consolidated financial statements. The University is responsible for the performance of certain administrative duties under the Direct Loan program, including origination and disbursement of loans.

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Lehigh University:

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lehigh University and its subsidiaries (the University), which comprise the consolidated statement of financial position as of June 30, 2021 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 21, 2021, except as to Note 17, which is as of September 23, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended June 30, 2021, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements as of and for the year ended June 30, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Philadelphia, Pennsylvania
October 21, 2021, except as to Note 17, which is as of September 23, 2022.

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
Lehigh University:

Report on Compliance for Each Major Federal Program

We have audited Lehigh University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2021. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The University's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses or the corrective action plan.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002, that we consider to be significant deficiencies.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The University's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses or the corrective action plan.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the University as of and for the year ended June 30, 2021, and have issued our report thereon dated October 21, 2021, except as to note 17, which is as of September 23, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Philadelphia, Pennsylvania
September 23, 2022

LEHIGH UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Section I - Summary of Auditors' Results

a. Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

b. Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None Reported**

c. Noncompliance material to the consolidated financial statements: **No**

d. Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: **No**
- Significant deficiencies: **Yes – Finding Nos. 2021-001 and 2021-002**

e. Type of report issued on compliance for major programs: **Unmodified**

f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**

g. Major programs:

- Research and Development Cluster – various assistance listing numbers (ALN)
- COVID-19: Education Stabilization Fund – Higher Education Emergency Relief Fund (HEERF), ALN 84.425E and 84.425F

h. Dollar threshold used to distinguish between Type A and Type B programs: **$1,860,747**

i. Auditee qualified as a low-risk auditee: **Yes**

Section II - Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

Section III - Findings and Questioned Costs Relating to Federal Awards

Finding 2021-001

Federal Agency:	Various
Program Name:	Research and Development Cluster
Assistance Listing Number:	Various
Federal Award Year:	Programs active between July 1, 2020 – June 30, 2021
Compliance requirement:	Subrecipient Monitoring
Finding Type:	Significant Deficiency

Criteria

In accordance with 2 CFR 200.332(d), all pass-through entities must:

Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals. Pass-through entity monitoring of the subrecipient must include:

- Reviewing financial and programmatic (performance and special reports) required by the pass-through entity (PTE).
- Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
- Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.
- The pass-through entity is responsible for resolving audit findings specifically related to the subaward and not responsible for resolving crosscutting findings. If a subrecipient has a current Single Audit report posted in the Federal Audit Clearinghouse and has not otherwise been excluded from receipt of Federal funding (*e.g.,* has been debarred or suspended), the pass-through entity may rely on the subrecipient’s cognizant audit agency or cognizant oversight agency to perform audit follow-up and make management decisions related to cross-cutting findings in accordance with section 2 CFR 200.513(a)(3)(vii). Such reliance does not eliminate the responsibility of the pass-through entity to issue subawards that conform to agency and award-specific requirements, to manage risk through ongoing subaward monitoring, and to monitor the status of the findings that are specifically related to the subaward.

In accordance with 2 CFR 200.332(d), all pass-through entities must verify that every subrecipient is audited as required by Subpart F of 2 CFR 200.500 when it is expected that the subrecipient’s Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in 2 CFR 200.501.

In accordance with 2 CFR 200.521(c) and (d): the pass-through entity must be responsible for issuing a management decision for audit findings that relate to Federal awards it makes to subrecipients. The Federal awarding agency or pass-through entity responsible for issuing a management decision must do so within six months of acceptance of the audit report by the Federal Audit Clearinghouse (FAC).

In accordance with 2 CFR 200.501(h), since 2 CFR Part 200 does not make Subpart F applicable to for-profit subrecipients, the PTE is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients for the subaward. The agreement with the for-profit subrecipient must describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits.

Condition, including Perspective

Lehigh University passed through $1,874,412 to its subrecipients in the research and development cluster (R&D cluster), which represents approximately 7% of total R&D cluster expenditures for the year ended June 30, 2021. As a pass-through entity, Lehigh University's Office of Research and Special Projects (ORSP) is responsible for monitoring the activities and compliance of its subrecipients. Monitoring includes reviewing the compliance audit reports from its subrecipients as they become available through the federal audit clearinghouse to ascertain the existence of non-compliance and appropriate follow-up with the subrecipient to ensure timely and appropriate corrective action is taken to remediate the finding(s).

Our procedures performed on a sample of 8 subrecipients determined that the Office of Research and Special Projects (ORSP) did not complete the review of their compliance reports within six months of acceptance of the audit report by the FAC. Further inquiry with the ORSP revealed that none of its subrecipient compliance reports were reviewed within the six month period after acceptance by the FAC.

Cause and Effect

The ORSP lost two full time personnel in summer of 2020, one of whom was responsible for the review of the subrecipient compliance reports and issuing the management decision for any audit findings. That position was not filled until the December 2021 and no one else in ORSP completed these reviews during this timeframe.

The lack of monitoring subrecipients timely could result in continuing to pass-through federal monies to a subrecipient who is not in compliance with federal compliance. Noncompliance by a subrecipient that is not identified and addressed timely could jeopardize the University's receipt of future federal awards and public reputation.

Questioned Costs

No questioned costs were identified.

Statistical Sample

The sample was not intended to be, and was not, a statistically valid sample.

Repeat Finding

This is not a repeat finding from prior year.

Recommendation

We recommend that Lehigh University strengthen its processes and controls to ensure the review of its subrecipient's compliance reports is completed within six months of acceptance of the audit report by the FAC.

Views of Responsible Officials

Lehigh University accepts this finding. The review of fiscal year 2021 has been conducted and is complete except for the review of those institutions who have not submitted their fiscal year 2021 audit reports to the Federal Audit Clearinghouse.

Finding 2021-002

Federal Agency:	U.S. Department of Education
Program Name:	COVID-19: Education Stabilization Fund - Higher Education Emergency Relief Fund (HEERF)
Assistance Listing Number:	84.425E and 84.425F
Federal Award Year:	Funding periods between April 28, 2020 through January 16, 2022
Compliance requirement:	Reporting
Finding Type:	Significant Deficiency

Criteria

The terms and conditions for HEERF recipients include the following reporting provisions:

Quarterly Public Reporting for (a)(1) Institutional Portion, (a)(2), and (a)(3) funds (Assistance Listings 84.425F, 84.425J, 84.425K, 84.425L, 84.425M, 84.425N, 84.425S, as applicable):

The CARES, CRRSAA, and ARP institutional quarterly portion reporting requirements involve publicly posting completed forms on the institution's website. The forms must be conspicuously posted on the institution's primary website on the same page the reports of the IHE's activities as to the emergency financial aid grants to students (Student Aid Portion) are posted. A new, separate form must be posted covering aggregate amounts spent for HEERF I, HEERF II, and HEERF III funds each quarterly reporting period (September 30, December 31, March 31, June 30), concluding after an institution has expended and liquidated all (a)(1) Institutional Portion, (a)(2), and (a)(3) funds and checks the "final report" box. IHEs must post this quarterly report form no later than 10 days after the end of each calendar quarter (October 10, January 10, April 10, July 10) apart from the first report, which was due October 30, 2020, and the report covering the first quarter of 2021, which is due July 10, 2021.

Quarterly Public Reporting for (a)(1) Student Aid Portion (Assistance Listings 84.425E):

For CARES, beginning on May 6, 2020, ED required institutions that received a HEERF I Section 18004(a)(1) Student Aid Portion award to publicly post certain information on their website no later than 30 days after award, and update that information every 45 days thereafter (by posting a new report). On August 31, 2020, ED revised the EA by decreasing the frequency of reporting after the initial 30-day period from every 45 days thereafter to every calendar quarter. Grantees posting a 45-day report on or after August 31, 2020, should instead post a report every calendar quarter, with the first calendar quarter report due by October 10, 2020 and covering the period from after their last 45-day or 30-day report through the end of the calendar quarter on September 30, 2020. Institutions must publicly post their report as soon as possible, but no later than 30 days after the publication of the notice or 30 days after the date ED first obligated funds under HEERF I, II, or III to the institution for Emergency Financial Aid Grants to Students, whichever comes later. The report must be updated no later than 10 days after the end of each calendar quarter (September 30, and December 31, March 31, June 30).

- Key Line Items – The following are identified as critical information for the Quarterly Public Reporting for Student Aid Portion:

    1. The total amount of Emergency Financial Aid Grants distributed to students under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms as of the date of submission (i.e., as of the initial report and every calendar quarter thereafter).

2. The estimated total number of students at the institution that are eligible to receive Emergency Financial Aid Grants to Students under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms.

3. The total number of students who have received an Emergency Financial Aid Grant to students under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms.

4. The method(s) used by the institution to determine which students receive Emergency Financial Aid Grants and how much they would receive under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms.

Condition, including Perspective

Lehigh University is responsible for adhering to the HEERF reporting requirements as disclosed in the terms and conditions of the award. The University is expected to have a system of internal controls that supports the timely filing of complete and accurate quarterly reports.

Our procedures discovered that none of the University's quarterly reports were completed and the University's website was not updated to disclose how the HEERF funds received were disbursed during the year ended June 30, 2021. The University has updated its website for the use of the HEERF funds and submitted all of the quarterly reports for its fiscal 2021 year in September 2022. The amounts expended that were not reported timely for the institutional portions of HEERF II and III totaled $3,342,669 and $1,355,428, respectively, and the student portions of HEERF I and II totaled $387,177 and $1,896,421, respectively.

Cause and Effect

There was a personnel change and reorganization of the designated team members charged with overseeing HEERF reporting requirements during the beginning of the 2021 fiscal year. There were not controls in place to ensure the HEERF reporting requirements were being performed timely subsequent to this reorganization.

The failure to submit the HEERF quarterly reports and publicly disclose details of how these funds were spent on the University's website timely could jeopardize the receipt of additional federal funding and negatively impact the University's reputation.

Questioned Costs

No questioned costs were identified.

Statistical Sample

The sample was not intended to be, and was not, a statistically valid sample.

Repeat Finding

This is not a repeat finding from prior year.

Recommendation

We recommend that Lehigh University strengthen its processes and controls to ensure the filing of its HEERF quarterly reports is submitted timely and the use of these funds and other required information are reported on the University's website for public disclosure in a timely manner.

Views of Responsible Officials

Lehigh University accepts this finding.

Although the HEERF annual reporting was submitted on time, the institutional quarterly reporting was not submitted on time. In September 2022, outstanding institutional quarterly reports were submitted. All institutional quarterly reports are currently disclosed on the University webpage.

Student portions of HEERF are required to be posted to the institution's webpage no later than 10 days after the end of each calendar quarter. Lehigh was late in posting these reports.