KPMG

LEHIGH UNIVERSITY

Consolidated Financial Statements and
Information on Federal Awards

June 30, 2013

(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:

We have audited the accompanying consolidated financial statements of Lehigh University (the University), which comprise the consolidated statement of financial position as of June 30, 2013 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Lehigh University's 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 22, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 expenditure of federal awards 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 14, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 on 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 the University's internal control over financial reporting and compliance.

KPMG LLP

Philadelphia, Pennsylvania
October 14, 2013

LEHIGH UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2013
(with comparative financial information for June 30, 2012)

(In thousands)

Assets		**2013**	**2012**
Cash and cash equivalents (note 1(c))	$	56,443	60,473
Accounts receivable, net (note 5)		15,378	17,557
Inventories		1,838	1,626
Prepaid expenses and other assets		6,591	6,649
Contributions receivable, net (note 8)		65,349	57,189
Notes receivable, net (note 6)		10,944	10,984
Investments (notes 2 and 4)		1,486,467	1,384,669
Funds held in trust by others		4,565	4,388
Land, buildings, and equipment, net (note 7)		360,135	353,454
Total assets	$	2,007,710	1,896,989
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	34,461	36,000
Deferred revenues		23,916	22,200
Annuity payment liability		18,606	21,056
Other liabilities (notes 10, 11, and 12)		47,353	53,089
Deposits held for others		1,505	1,609
Refundable federal student loan funds		2,486	2,580
Bonds, loans, and notes payable (note 10)		268,730	264,358
Total liabilities		397,057	400,892
Net assets (note 9):			
Unrestricted		775,381	708,638
Temporarily restricted		349,956	333,532
Permanently restricted		485,316	453,927
Total net assets		1,610,653	1,496,097
Total liabilities and net assets	$	2,007,710	1,896,989

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2013
(with comparative financial information for year ended June 30, 2012)

(In thousands)

		2013				
		Unrestricted	Temporarily restricted	Permanently restricted	Total	2012
Support and revenues:						
Tuition and fees, net (note 1(i))	$	165,736	—	—	165,736	158,300
Federal grants and contracts		33,893	—	—	33,893	32,121
State and local grants and contracts		7,136	—	—	7,136	7,362
Private grants and contracts		7,984	—	—	7,984	7,145
Contributions		13,366	—	—	13,366	10,735
Investment return (note 2)		70,748	—	—	70,748	69,875
Auxiliary enterprises		39,983	—	—	39,983	38,700
Independent operations (note 1(a))		9,528	—	—	9,528	15,278
Other sources		9,308	—	—	9,308	8,933
Gifts and trusts released from restrictions		1,909	(1,909)	—	—	—
Total support and revenues		359,591	(1,909)	—	357,682	348,449
Expenses:						
Instruction		131,003	—	—	131,003	129,795
Research		37,543	—	—	37,543	34,479
Public service		8,579	—	—	8,579	9,360
Academic support		29,220	—	—	29,220	29,438
Student services		31,418	—	—	31,418	29,034
Institutional support (note 15)		60,224	—	—	60,224	57,601
Auxiliary enterprises		33,961	—	—	33,961	31,948
Independent operations (note 1(a))		9,643	—	—	9,643	9,787
Total expenses		341,591	—	—	341,591	331,442
Operating income (loss)		18,000	(1,909)	—	16,091	17,007
Nonoperating activity:						
Investment return (note 2):						
University		27,569	17,512	3,225	48,306	(90,221)
Independent operations		455	—	—	455	(806)
Gifts and trusts		1,287	13,335	20,777	35,399	23,473
Gifts and trusts released from restrictions and changes in donor intent		10,440	(12,654)	2,214	—	—
Change in fair value of interest rate swaps (note 11)		6,071	—	—	6,071	(10,115)
Postretirement plan changes other than net periodic benefit costs (note 12):						
University		3,856	—	—	3,856	(1,101)
Independent operations		119	—	—	119	(35)
Other		(1,054)	140	5,173	4,259	(846)
Nonoperating income (loss)		48,743	18,333	31,389	98,465	(79,651)
Change in net assets		66,743	16,424	31,389	114,556	(62,644)
Net assets, beginning of year		708,638	333,532	453,927	1,496,097	1,558,741
Net assets, end of year	$	775,381	349,956	485,316	1,610,653	1,496,097

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2013
(with comparative financial information for year ended June 30, 2012)

(In thousands)

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	114,556	(62,644)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Gifts and trusts restricted for long-term investment		(26,832)	(20,485)
Noncash contributions		(14)	(3,316)
Investment earnings restricted for long-term investment		(714)	(1,284)
Net realized gains on investments		(29,242)	(39,162)
Net unrealized (gains) losses on investments		(77,541)	78,606
Change in fair value of swap agreements		(6,071)	10,115
Payment of annuity obligations		1,617	1,976
Other nonoperating activity		184	549
Depreciation and amortization		24,784	24,503
Independent operations provision for bad debts		1,243	1,298
University provision for bad debts		66	50
Change in operating assets and liabilities:			
Decrease in accounts receivable		1,749	1,506
Increase in inventories		(212)	(87)
(Increase) decrease in contributions receivable		(8,160)	11,368
(Decrease) increase in accounts payable and accrued expenses		(1,539)	2,264
Increase (decrease) in deferred revenues		1,716	(1,726)
Decrease in annuity payment liability		(2,450)	(547)
Decrease in deposits held for others		(104)	(603)
(Decrease) increase in accrued postretirement benefit cost		(1,651)	3,557
Increase in other assets		(72)	(514)
Increase (decrease) in other liabilities		1,198	(503)
Net cash (used in) provided by operating activities		(7,489)	4,921
Cash flows from investing activities:			
Proceeds from sale of investments		1,759,910	1,851,066
Purchases of investments		(1,755,101)	(1,851,828)
Student loans and other notes advanced		(1,565)	(1,492)
Independent operations loans advanced		(1,509)	(1,703)
Student loans and other notes collected		1,287	1,332
Independent operations loans collected		888	713
Purchase of land, buildings, and equipment		(30,611)	(31,535)
Net cash used in investing activities		(26,701)	(33,447)
Cash flows from financing activities:			
Proceeds from issuance of indebtedness		10,000	35,000
Repayments of principal of indebtedness		(5,675)	(7,926)
Gifts and trusts restricted for long-term investment		26,832	20,485
Investment earnings restricted for long-term investment		714	1,284
Decrease in refundable loan funds		(94)	(95)
Payment of annuity obligations		(1,617)	(1,976)
Net cash provided by financing activities		30,160	46,772
Net (decrease) increase in cash and cash equivalents		(4,030)	18,246
Cash and cash equivalents at beginning of year		60,473	42,227
Cash and cash equivalents at end of year	$	56,443	60,473
Supplemental data:			
Interest paid	$	8,651	8,516

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 as a predominantly technical school, the University now has approximately 4,900 undergraduates within its three major units – the College of Arts and Sciences, the College of Business and Economics, and the P.C. Rossin College of Engineering and Applied Science – and approximately 2,200 students enrolled in graduate programs offered through these colleges and in the College of Education.

In 2012, the University established a new subsidiary organization, LU Properties, LLC (LU Properties), a Pennsylvania limited liability company. LU Properties serves as Manager for twenty-three limited liability companies that were established in the same year as a result of a real estate gift. The University is the sole member of all of the aforementioned 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 activity in the University’s consolidated statement of activities.

The University is also the sole member of So-Beth Funding LLC (So-Beth Funding). 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 as institutional support in the University’s consolidated statement of activities.

The Ben Franklin Technology Partners of Northeastern PA (BFTP), Manufacturers Resource Center (MRC), and Lehigh and Northampton Counties Revolving Loan Fund (RLF) are also wholly owned subsidiaries of the University. The results of their operations are shown as independent operations in the University’s consolidated statement of activities.

BFTP is an entity that encourages public and private sector cooperation in stimulating economic growth. Since 2003, BFTP has provided funds to its clients under the terms of its early stage and established manufacturer loan programs. Considering the nature of the loans and collection history, BFTP has recorded an estimated allowance for doubtful collections.

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

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

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

(b) Basis of Presentation

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

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

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

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

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

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

(c) Cash Equivalents

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

(d) Inventories

Inventories are stated at the lower of cost or market.

(e) Investments

Investments are stated at fair value (see note 4).

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

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

(f) Contributions

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

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

(g) Split-Interest Agreements and Annuities Payable

The University's split-interest agreements with donors consist primarily of annuity, life income, and charitable trusts for which the University serves as trustee. A majority of the assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets and changes in the estimated present value of future cash outflows and other changes in the estimates of future benefits. The annuities payable represent the net present value of future cash outflows over the annuitant's life expectancy, as required by the annuity agreements. The net present value is calculated using a discount rate range of 1.78% to 7.5%. The University is required by the laws of certain states to register and maintain reserves against charitable gift annuities. Such reserves amounted to approximately $10.9 million as of June 30, 2013 and 2012, respectively, and are reported within investments in the consolidated statement of financial position.

(h) Land, Buildings, and Equipment

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

Buildings	50 to 60 years
Equipment	5 to 10 years
Other improvements	10 to 20 years

(i) Tuition and Fees

Tuition and fees are reported net of financial aid that effectively reduces the amount of tuition and fees collected from students. Financial aid amounts offset against gross tuition and fees for 2013 and 2012 were $75.5 million and $72.3 million, respectively.

(j) Asset Retirement Liabilities

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

(k) Deferred Revenues

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

(l) Use of Estimates

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

(m) Reclassifications

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to their presentation in the 2013 consolidated financial statements.

(Continued)

(n) Prior Year Summarized Financial Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2012, from which the summarized information was derived.

(2) Investments

Investments by major category at June 30, 2013 and 2012 are as follows (in thousands):

		2013	2012
Short-term investments	$	17,246	23,577
Fixed income investments:			
U.S. government		171,688	212,571
Corporate		129,685	93,305
Other		2,976	1,003
Corporate stocks		51,783	64,511
Mutual and exchange-traded funds		190,304	193,527
Real estate		7,555	3,479
Alternative investments:			
Global equity		215,015	142,417
Hedged equity		57,291	49,512
Hedged emerging market equity		56,547	44,876
Absolute return		221,191	211,402
Natural resources equity		10,365	9,872
Commodities		45,394	48,406
Developed market credit		21,867	14,911
Emerging market credit		24,934	37,541
Private investments		259,942	231,135
Life insurance and other investments		2,684	2,624
Total investments	$	1,486,467	1,384,669

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

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

The University is obligated under certain investment agreements to periodically advance additional funding up to contractual levels. At June 30, 2013 and 2012, the University had unfunded commitments of $162 million and $139 million, respectively. While it is uncertain as to when these commitments will be called since the agreements do not specify exact funding dates, it is likely that funding will occur over the next several years. Funds to meet these commitments will be generated from rebalancing the investment pool asset allocation, as well as donor gifts and existing cash.

The components of total investment return are reflected below (in thousands). Investment earnings at June 30, 2013 and 2012 are net of investment expenses of approximately $7.5 million and $7.0 million, respectively:

		2013	2012
Investment earnings	$	12,643	18,335
Net realized and unrealized gains (losses)		106,411	(38,681)
		119,054	(20,346)
Independent operations net realized and unrealized gains (losses)		372	(763)
Independent operations other investment earnings		318	881
Total	$	119,744	(20,228)

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

		2013	2012
Operating:			
Endowment spending distribution	$	57,817	56,060
Spending distribution – other		7,199	6,752
Other investment earnings		5,732	7,063
		70,748	69,875
Realized (losses) gains (independent operations)		(83)	43
Other investment earnings (independent operations)		318	881
Total operating		70,983	70,799
Nonoperating:			
Endowment spending distribution		1,121	1,122
Other investment (losses) earnings		(407)	162
Net realized and unrealized gains (losses) net of spending distribution		47,592	(91,505)
		48,306	(90,221)
Net unrealized gains (losses) (independent operations)		455	(806)
Total nonoperating		48,761	(91,027)
Total investment return	$	119,744	(20,228)

(3) Endowment Net Assets

The University's endowment consists of approximately 2,400 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments (board-designated). Net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

Consistent with governing law, the University has interpreted relevant law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary.

Commonwealth of Pennsylvania law permits the University to allocate to income each year a portion of the endowment net realized gains based on 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 net realized gains may be spent over time by the University. Therefore, in accordance with Commonwealth of Pennsylvania law regarding the investment of trust funds, gains on permanently restricted funds are classified as temporarily restricted net assets. Net realized and unrealized gains in excess of the spending policy are reflected as nonoperating investment return activity.

Endowment net asset composition as of June 30, 2013 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$ (17,480)	19,408	405,084	407,012
Board-designated endowment funds (corpus)	204,636	—	—	204,636
Accumulated gains on endowment funds	165,319	288,492	—	453,811
Total endowment net assets	$ 352,475	307,900	405,084	1,065,459

Endowment net asset composition as of June 30, 2012 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$ (25,080)	26,996	382,373	384,289
Board-designated endowment funds (corpus)	188,529	—	—	188,529
Accumulated gains on endowment funds	158,552	263,914	—	422,466
Total endowment net assets	$ 322,001	290,910	382,373	995,284

(Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. Deficiencies of this nature at June 30, 2013 and 2012 were $17.5 million and $25.1 million, respectively. Such deficiencies are recorded in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the new permanently restricted contributions.

Changes in endowment net assets for the year ended June 30, 2013 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2012	$ 322,001	290,910	382,373	995,284
Investment return:				
Investment income (loss)	14,381	12	(68)	14,325
Net appreciation	41,420	50,203	552	92,175
Total investment return	55,801	50,215	484	106,500
Contributions	4,168	100	22,431	26,699
Board designations/changes in donor intent	565	(244)	(204)	117
Amounts appropriated for expenditure:				
Endowment spending distribution	(28,826)	(30,112)	—	(58,938)
Endowment operating expense	(2,842)	(2,969)	—	(5,811)
Total amounts appropriated for expenditure	(31,668)	(33,081)	—	(64,749)
Change in other endowment liabilities	1,608	—	—	1,608
Total change in endowment funds	30,474	16,990	22,711	70,175
Net assets, June 30, 2013	$ 352,475	307,900	405,084	1,065,459

Changes in endowment net assets for the year ended June 30, 2012 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2011	$	333,199	331,592	367,154	1,031,945
Investment return:					
Investment income		16,266	11	709	16,986
Net (depreciation) appreciation		(27,051)	(11,115)	151	(38,015)
Total investment return		(10,785)	(11,104)	860	(21,029)
Contributions		3,039	—	14,449	17,488
Board designations/changes in donor intent		15,493	65	(90)	15,468
Amounts appropriated for expenditure:					
Endowment spending distribution		(30,354)	(26,828)	—	(57,182)
Endowment operating expense		(3,185)	(2,815)	—	(6,000)
Total amounts appropriated for expenditure		(33,539)	(29,643)	—	(63,182)
Change in other endowment liabilities		14,594	—	—	14,594
Total change in endowment funds		(11,198)	(40,682)	15,219	(36,661)
Net assets, June 30, 2012	$	322,001	290,910	382,373	995,284

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. The minimum increase of 0% was temporarily suspended in 2012.

Any income earned in excess of the spending limit is reinvested while funds may be withdrawn from investment return earned in prior years if income is less than the spending policy provision. This is designed to insulate investment policy from budgetary pressures, and to insulate program spending from fluctuations in capital markets. Average annual spending rates per share were 5.5% for both fiscal year 2013 and 2012. For the fiscal years ended June 30, 2013 and 2012, gains of approximately $58.8 million and $52.8 million, respectively, were included in endowment earnings distributed in accordance with the spending policy.

(Continued)

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.

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. 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.

(4) Fair Value Measurements

The three levels of the fair value hierarchy are described below. The hierarchy gives the highest priority to unadjusted quoted 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 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. Generally, University investments in redeemable investment funds and commingled investment funds that are fully redeemable in a period of 60 days or less from the measurement date, given timely notice under the terms of the investment fund, at net asset value or its equivalent, are classified as Level 2.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable. The University includes in this category investments which offer a calculated net asset value per share and investments that do not meet the liquidity criteria required of Level 2 investments.

The hierarchy requires the use of observable market data when available. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the measurement.

The following discussion describes the valuation methodologies used for assets and liabilities measured at fair value:

Short-term Assets and Liabilities

The carrying amount of student accounts receivable, accounts payable and accrued expenses, and the commercial paper component of the University's debt approximates fair value due to the short maturity of these financial instruments.

Contributions Receivable

The University values contributions receivable at fair value on the date the pledge is received using the present value of future cash flows as described in note 8 based on Level 3 inputs. Contributions receivable are not measured at fair value subsequent to this initial measurement, because the discount rate selected for each contribution remains constant over time.

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, 2013 and 2012, 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.

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.

Debt and Related Interest Rate Swaps

The fair value of variable rate revenue bonds, as disclosed in note 10, is based on current interest rates for bonds of similar ratings and maturities. The fair value of fixed rate bond debt is determined by discounting future cash flows of each instrument at rates that reflect, among other things, market interest rates and the University's credit standing. The inputs to fair value of the University's debt are Level 2 inputs.

The fair value of the University's rate swap liability is based on valuations provided by an independent party, taking into account current interest rates and the current creditworthiness of the swap counterparties, which are considered Level 2 inputs to fair value.

Investments

Fair value of equity securities has been determined from observable market 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 are recorded at the net asset value 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 net asset value of those investments. Alternative investments are generally classified as Level 2 or 3 based on factors that include pricing inputs as well as the University's ability to redeem its investment at or near the date of the consolidated statement of financial position.

The following table presents the University's fair value hierarchy for investments at June 30, 2013 (in thousands):

	Fair value measurements at reporting date using			
	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**2013**
Short-term investments	$ 17,246	—	—	17,246
Fixed income investments:				
U.S. government	114,716	56,972	—	171,688
Corporate	—	127,809	1,876	129,685
Other	—	2,976	—	2,976
Corporate stocks	51,783	—	—	51,783
Mutual and exchange-traded funds	135,243	55,061	—	190,304
Real estate	—	7,555	—	7,555
Alternative investments:				
Global equity	—	68,070	146,945	215,015
Hedged equity	—	43,363	13,928	57,291
Hedged emerging market equity	—	21,005	35,542	56,547
Absolute return	—	166,679	54,512	221,191
Natural resources equity	—	10,155	210	10,365
Commodities	—	45,394	—	45,394
Developed market credit	—	—	21,867	21,867
Emerging market credit	—	21,927	3,007	24,934
Private investments	—	—	259,942	259,942
Life insurance and other investments	2,669	15	—	2,684
Total investments	$ 321,657	626,981	537,829	1,486,467

The following table presents the University's fair value hierarchy for investments at June 30, 2012 (in thousands):

	Fair value measurements at reporting date using			
	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**2012**
Short-term investments	$ 23,577	—	—	23,577
Fixed income investments:				
U.S. government	130,039	82,532	—	212,571
Corporate	398	90,010	2,897	93,305
Other	—	1,003	—	1,003
Corporate stocks	64,511	—	—	64,511
Mutual and exchange-traded funds	112,623	80,904	—	193,527
Real estate	—	3,479	—	3,479
Alternative investments:				
Global equity	—	24,604	117,813	142,417
Hedged equity	—	27,981	21,531	49,512
Hedged emerging market equity	—	32,177	12,699	44,876
Absolute return	—	137,939	73,463	211,402
Natural resources equity	—	9,646	226	9,872
Commodities	—	48,406	—	48,406
Developed market credit	—	—	14,911	14,911
Emerging market credit	—	32,911	4,630	37,541
Private investments	—	—	231,135	231,135
Life insurance and other investments	2,601	23	—	2,624
Total investments	$ 333,749	571,615	479,305	1,384,669

The following table provides a reconciliation of the beginning and ending balances for investments in hierarchy Level 3 at June 30, 2013 (in thousands):

	Fair value measurements using significant unobservable inputs (Level 3)									
	Fixed income investments	**Global equity**	**Hedged equity**	**Hedged emerging market equity**	**Absolute return**	**Natural resources equity**	**Developed market credit**	**Emerging market credit**	**Private investments**	**Total**
Beginning balance	$ 2,897	117,813	21,531	12,699	73,463	226	14,911	4,630	231,135	479,305
Total realized/unrealized gains (losses)	95	18,357	3,428	4,843	7,302	(12)	3,795	203	16,204	54,215
Purchases	—	55,016	10,809	18,000	13,707	—	3,161	—	13,727	114,420
Sales and settlements	(1,116)	(44,241)	(10,000)	—	(17,943)	(4)	—	(1,826)	(1,124)	(76,254)
Transfer in and/or out of Level 3	—	—	(11,840)	—	(22,017)	—	—	—	—	(33,857)
Ending balance	$ 1,876	146,945	13,928	35,542	54,512	210	21,867	3,007	259,942	537,829
The amount of total gains or losses for the period attributable to the change in unrealized gains or losses related to assets still held at the reporting date	$ (199)	18,357	2,397	4,843	3,777	(15)	3,795	203	16,075	49,233

Transfers out of Level 3 to Level 2 of $33,857 for the year ended June 30, 2013 were recorded based on the redemption provisions of the investments. There were no transfers between Levels 1 and 2.

The following redemption table clarifies the nature, risk, and liquidity of the University's investments in alternative investment vehicles that calculate net asset value per share (or its equivalent) at June 30, 2013 (in thousands):

	Fair value	Estimated remaining lives	Unfunded commitments	Redemption frequency after end of initial restriction period	Redemption notice period
Global equity (1)	$ 215,015	N/A	—	daily-quarterly	25-90 days
Hedged equity (2)	57,291	N/A	—	quarterly-annually	30-60 days
Hedged emerging market equity (3)	56,547	N/A	—	monthly-quarterly	5-60 days
Absolute return (4)	221,191	N/A	—	monthly-annually	30-180 days
Natural resources equity (5)	10,365	N/A	—	daily or not eligible	—
Commodities (6)	45,394	N/A	—	monthly	35 days
Developed market credit (7)	21,867	3-7 years	2,300	not eligible	—
Emerging market credit (8)	24,934	4 years	2,298	monthly or not eligible	15 days
Private investments (9)	259,942	1-14 years	157,543	generally not eligible	—
Total	$ 912,546		$ 162,141		

(1) This category includes investments in both developed and emerging market equity funds. The portfolio's return is driven primarily by economic growth. Its primary objective is to capture returns of publicly traded equities on a global basis in order to provide long-term growth to the endowment. One investment representing approximately 22% of the total value in this category cannot be redeemed at June 30, 2013 because redemption is not allowed in the first 2 years after acquisition. The remaining restriction period for this investment is 6 months at June 30, 2013. Investments representing approximately 46% of the total value in this category cannot be redeemed at June 30, 2013 without penalty. The remaining restriction period for these investments generally ranges from 4 to 36 months at June 30, 2013.

(2) This category's return is driven by economic growth and manager skill. Its primary objective is to provide opportunity to profit from positive equity market cycles while offering protection during negative equity market cycles in order to provide long-term growth to the endowment.

(3) This category's return is driven by economic growth of the developing world and manager skill. Its primary objective is to capture the growth potential of emerging markets in a very risk controlled way so as to reduce the volatility of the returns typically associated with emerging market investing. These funds will also provide long term growth to the endowment. Investments representing approximately 27% of the total value in this category cannot be redeemed at June 30, 2013 because redemption is not allowed in the first 3 years after acquisition. The remaining restriction period for these investments is 6 months at June 30, 2013. One investment representing approximately 35% of the total value in this category cannot be redeemed at June 30, 2013 without penalty. The remaining restriction period for this investment is 6 months at June 30, 2013.

(4) 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 and bonds. These funds will also provide principal protection in equity sell-offs. One investment representing approximately 4% of the total value in this category cannot be redeemed at June 30, 2013 without penalty. The remaining restriction period for this investment is 7 months at June 30, 2013.

(5) Investment returns for this category are driven by a combination of global economic growth, as well as price appreciation of commodities. Funds gain indirect exposure to commodities and natural resources through liquid, publicly traded securities in order to provide long-term growth to the endowment as well as potential protection from unexpected inflation.

(6) This category's return is driven by supply/demand curves in the commodity markets which drive commodity prices. Its investment objective is to provide direct exposure to commodities and natural resources through liquid trading strategies in order to provide a diversifying return stream with historically low correlation to the returns of stocks and bonds, while providing principal protection in unexpected inflationary environments.

(7) This category's return is driven by a combination of changes in interest rates and credit spreads. Its objectives are to provide income, to mitigate overall portfolio volatility through its lower correlation to equity investments, and add yield over the U.S. Treasuries portfolio. These investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions. It is estimated that the underlying assets of these funds will be liquidated in 3 to 7 years.

(8) This category's return is driven by a combination of changes in emerging market interest rates, currencies, and credit spreads. Its objective is to provide income, to mitigate overall portfolio volatility through lower correlation to developed bond and equity investments, add yield over the U.S. Treasuries portfolio and provide a potential hedge against deterioration of the U.S. dollar. These investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions. It is estimated that the underlying assets of these funds will be liquidated in 4 years.

(9) This category includes investments in private equity, real estate, and oil and gas funds. Returns are driven primarily by economic growth. The primary objective of these funds is to provide diversification, inflation protection, and long-term returns in excess of publicly traded equity markets. All but one of these investments receives distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions. It is estimated that the underlying assets of these funds will be liquidated in 1 to 14 years. One investment representing approximately 6% of the total value of this category can be redeemed every 12 months at 50% of its value.

(5) Accounts Receivable

Accounts receivable at June 30, 2013 and 2012 (net of allowances for doubtful accounts) are as follows (in thousands):

		2013	2012
Accounts receivable, net:			
Student accounts	$	571	797
Grants and contracts		7,649	10,280
Investment income		2,049	2,302
Other		5,109	4,178
	$	15,378	17,557

Allowances for doubtful accounts were $2.2 million and $1.8 million in 2013 and 2012, respectively.

(6) Notes Receivable

Notes receivable at June 30, 2013 and 2012 (net of allowances for doubtful accounts) are as follows (in thousands):

		2013	2012
Notes receivable, net:			
Student loans	$	7,922	7,844
Notes issued by independent operations		1,899	2,113
Other		1,123	1,027
	$	10,944	10,984

Certain loans have been designated as impaired when, based upon current information and events, it is probable that the University will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income on student and other loans is recognized on a cash basis. Interest on notes issued by independent operations is fully reserved or recorded on a cash basis. For the years ended June 30, 2013 and 2012, there were no sales of notes receivable.

The following table provides additional detail concerning the University's notes receivable at June 30, 2013 and June 30, 2012 (in thousands):

		2013	2012
Student and other loans:			
Impaired receivable balance	$	329	317
Average balance impaired loans		323	295
Loans past due 90 days or more and not designated as impaired		499	509
Allowance for doubtful loans at beginning of year	$	271	271
Additions charged to bad debt expense		45	40
Write-downs charged against the allowance		(31)	(40)
Recoveries of amounts previously charged off		—	—
Allowance for doubtful accounts at end of year	$	285	271
Notes issued by independent operations:			
Impaired receivable balance	$	7,287	6,324
Average balance impaired loans		6,806	6,099
Loans past due 90 days or more and not designated as impaired		—	—
Allowance for doubtful loans at beginning of year	$	9,835	9,984
Additions charged to bad debt expense		1,025	1,572
Write-downs charged against the allowance		(222)	(1,339)
Recoveries of amounts previously charged off		(191)	(382)
Allowance for doubtful accounts at end of year	$	10,447	9,835

(7) Land, Buildings, and Equipment, Net

Land, buildings, and equipment are summarized as follows at June 30, 2013 and 2012 (in thousands):

		2013	2012
Land and improvements	$	51,263	49,992
Buildings		523,544	510,292
Furniture, equipment, books, and collections		183,515	179,878
Construction in progress		32,430	22,067
		790,752	762,229
Less accumulated depreciation		(430,617)	(408,775)
Total	$	360,135	353,454

Depreciation expense totaled $24.6 million and $24.3 million for the years ended June 30, 2013 and 2012, respectively.

(8) Contributions

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions arising from unconditional promises to give are recorded at fair value determined based on the present value of estimated future cash flows. Contributions receivable also include charitable remainder trusts where the University is not the trustee of the assets of the trust, but will receive a distribution upon its termination. The net present value of contributions receivable is calculated using a discount rate range of 1.78% to 5.23%. As of June 30, 2013, the University had outstanding pledges totaling $1.8 million that were conditional. Unconditional promises are expected to be realized in the following periods (in thousands):

		2013	2012
In one year or less	$	18,705	11,720
Between one year and five years		23,537	22,008
More than five years		28,096	28,631
		70,338	62,359
Less:			
Unamortized discount		(2,457)	(2,702)
Allowance for uncollectible amounts		(2,532)	(2,468)
	$	65,349	57,189

(9) Net Assets

Temporarily restricted net assets include the following at June 30, 2013 and 2012 (in thousands):

		2013	2012
Contributions receivable	$	20,344	20,456
Temporarily restricted endowment funds		19,173	26,721
Life income funds		3,228	2,852
Accumulated gains on permanent endowment funds		288,727	264,189
Other – related to time and purpose restrictions		18,484	19,314
	$	349,956	333,532

Based upon spending restrictions in effect as of June 30, 2013, accumulated gains on permanent endowment funds are designated for the following future spending purposes: scholarships and fellowships 32%, professorships and chairs 12%, student loans 4%, no purpose restrictions 41%, and other restrictions 11%.

Permanently restricted net assets include the following at June 30, 2013 and 2012 (in thousands):

		2013	2012
Contributions receivable	$	21,037	15,078
Permanent loan funds		13,922	12,673
Annuity and life income funds		45,273	43,803
Permanent endowment funds		405,084	382,373
	$	485,316	453,927

Included in life income funds are $1.3 million (temporarily restricted) and $22.6 million (permanently restricted) net assets classified as contributions receivable on the consolidated statement of financial position.

(10) Bonds, Loans, and Notes Payable

At June 30, 2013 and 2012, bonds, loans, and notes payable, including unamortized premiums and discounts, consisted of the following (in thousands):

		2013	2012
Taxable Commercial Paper Series A, up to $75 million, weighted average interest rate of 0.16% and 0.17% on June 30, 2013 and 2012, respectively; average duration of 89 days and 73 days on June 30, 2013 and 2012, respectively	$	30,000	20,000
Northampton County General Purpose Authority (NCGPA):			
Series 2000B bonds; tax-exempt variable rate revenue bonds, $25,000 due serially from December 1, 2003 to December 1, 2030, variable rates of 0.05% and 0.17% on June 30, 2013 and 2012, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2016		19,570	20,240
Series 2001 bonds; tax-exempt variable rate revenue bonds, $21,780 due serially from October 15, 2006 to October 15, 2019, variable rates of 0.05% and 0.17% on June 30, 2013 and 2012, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2016		18,520	20,860
Series 2004 bonds; tax-exempt index rate revenue bonds, $50,000 due serially from May 15, 2025 to May 15, 2034, rates of 0.76% and 0.17% on June 30, 2013 and 2012, respectively		50,000	50,000

		2013	2012
Series 2006A bonds; tax-exempt variable rate revenue bonds, $16,820 due serially from November 15, 2007 to November 15, 2021, variable rates of 0.04% and 0.17% on June 30, 2013 and 2012, respectively	$	14,865	16,240
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 2.65% and 3.83% on June 30, 2013 and 2012, respectively; $2,975 term bonds, 4.375%, due November 15, 2031; $26,335 term bonds, 4.5% due November 15, 2036: Term bonds are insured by MBIA Insurance Corporation		53,929	53,930
Series 2009 bonds; 5.00% to 5.50% tax-exempt revenue bonds, $66,165 due serially from November 15, 2029 to November 15, 2039		65,177	65,135
Taxable fixed rate term loan issued by Bank of America, N.A., up to $15,000, 2.61%, due December 23, 2018		14,400	14,832
Fixed rate term loan (converted from construction loan September 10, 2012) issued by Wells Fargo Bank as agent for Lehigh Valley Economic Development Corporation Loan Pool to Lehigh University subsidiary BFTP, $800 due serially from March 1, 2014 to March 1, 2017, balance due February 1, 2018, 3.5%		1,651	2,465
Mortgage issued by First Keystone National Bank assumed by Lehigh University subsidiary BFTP, $528 due serially from June 23, 2010 to September 23, 2025; five-year United States Treasury Rate in effect at September 10, 2015 and 2020 plus 3.25%		493	506
Interest free loan issued by Columbia Alliance for Economic Growth to Lehigh University subsidiary BFTP, $250 due serially from June 30, 2010 to June 30, 2016		125	150
	$	268,730	264,358

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. 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. Pursuant to the loan agreements, the University is required to establish rates and charges sufficient to provide, in each fiscal year, for the payment of the University's operating expenses and debt service on its long-term indebtedness. The University may incur additional indebtedness under certain conditions described in the loan agreements and the bond indentures.

BFTP debt was used for the renovation of a new business incubator facility, a building purchase, and other building renovations. The Wells Fargo loan is subject to a financial covenant requiring BFTP to maintain not less than two times the outstanding balance of the term loan in unencumbered liquid assets at all times.

At June 30, 2013, the aggregate annual maturities of long-term bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2014	$	5,220
2015		5,467
2016		5,689
2017		5,878
2018		6,961
Thereafter		210,519

The Series of 2000B, 2001, and 2006A bonds bear interest at a weekly rate determined by the remarketing agent. In February 2013 all outstanding Series 2004 bonds were converted to a ten year bank purchase and the prior standby bond purchase agreement was terminated. The Series 2004 bonds were converted from a weekly rate to a LIBOR index rate. The LIBOR Index Rate is 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. The bondholders have a right to tender bonds at interest rate reset dates. The University entered into separate standby bond purchase agreements with banks to provide liquidity in case of tender of the 2000B or 2001 bonds. These agreements expire prior to the maturity of the bonds and may be extended at the University's request. However, the banks have no obligation to agree to the extended purchase period.

The University serves as the liquidity facility for its 2006A bonds and the Commercial Paper program. As of June 30, 2013, Lehigh estimates that $66 million of liquid assets were available on a same day basis and an additional $145 million was available within 30 days.

The fair value of the University's tax-exempt debt, estimated based on current rates offered for similar issues with similar security, terms, and maturities, approximates $227 million and $236 million at June 30, 2013 and 2012, respectively.

As a component of the tax-exempt debt portfolio, the University entered into interest rate swap agreements that effectively convert certain variable rate revenue bond obligations to fixed rates or reduce the University's effective interest rate. As of June 30, 2013, the rate swaps are classified as Level 2 fair value financial instruments. Significant terms of each of the swap agreements are as follows (in thousands):

Series	Counterparty	Effective date	Current notional amount	University pays	University receives	Expiration date
2000B bonds	JPMorgan Chase Bank, N.A.	12/7/2000	$ 19,570	4.530%	67% of USD-1 month LIBOR-BBA	12/1/2030
2001 bonds	JPMorgan Chase Bank, N.A.	9/4/2001	18,520	4.400	67% of USD-1 month LIBOR-BBA	10/15/2019
2004 bonds	Wells Fargo Bank, N.A.	12/8/2008	50,000	1.953	67% of USD-3 month LIBOR-BBA	5/15/2034
2006A bonds	JPMorgan Chase Bank, N.A.	8/24/2006	14,885	3.392	67% of USD-1 month LIBOR-BBA	11/15/2021
2007 CPI bonds	JPMorgan Chase Bank, N.A.	2/1/2007	24,615	3.980 to 4.100	Variable rate based on CPI-U	various through 11/15/2025
2009 bonds	Wells Fargo Bank, N.A.	3/19/2009	66,165	USD-SIFMA Municipal Swap Index	67% of USD-3 month LIBOR-BBA plus 1%	11/15/2039
			$ 193,755			

(11) Derivative Instruments (In Millions)

The University employs derivatives, primarily interest rate swap agreements, to manage interest rate risk associated with outstanding debt.

	Balance sheet location	Location of gain (loss)	Fair value 2013	Fair value 2012	Amount of gain 2013	Amount of loss 2012
Interest Rate Swap Agreements	Other Liabilities	Nonoperating activity – Change in fair value of interest rate swaps	$ (4.8)	(10.9)	6.1	(10.1)

The University's interest rate swap agreements contain provisions that require the University's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the University's debt were to fall below investment grade, it would be a violation of these provisions, and the counterparties to the rate swap agreement could request next-day full collateralization on all rate swaps in net liability positions. To date, the University has not posted collateral for any rate swap agreements. If the credit-risk related contingent features underlying these agreements were triggered on June 30, 2013, the University would be required to post an additional $9.3 million of collateral to its counterparties.

(12) 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 2013, the University reimbursed retirees a maximum of $86.60 per month for premium expenses, or a total of $733,000 (as compared to $689,000 in fiscal year 2012). 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):

		2013	2012
Benefit obligation at beginning of year	$	37,397	33,840
Operating:			
Service cost		1,392	1,310
Interest cost		1,665	1,800
Benefits paid		(733)	(689)
Total operating		2,324	2,421
Nonoperating:			
Actuarial gain		(3,975)	(1,110)
Assumption changes		—	2,246
Total nonoperating		(3,975)	1,136
Benefit obligation at end of year	$	35,746	37,397

The following table sets forth the status of the plan, which is unfunded, at June 30, 2013 and 2012:

		2013	2012
Accumulated postretirement benefit obligation:			
Retirees	$	12,682	12,021
Fully eligible active plan participants		11,234	11,803
Other active plan participants		11,830	13,573
Total		35,746	37,397
Plan assets at fair value		—	—
Accumulated postretirement benefit liability	$	35,746	37,397

Weighted average assumptions for the years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Discount rate for net periodic postretirement benefit cost	4.50%	5.40%
Discount rate for accumulated postretirement benefit obligation	5.10	4.50
Maximum increase in reimbursement rate	lesser of medical CPI or 8%	lesser of medical CPI or 8%

Assumed healthcare cost trend rate at June 30, 2013 and 2012 is as follows:

	2013	2012
Healthcare cost trend rate assumed for next year	5.00%	5.00%
Rate to which the cost trend rate is assumed to decline (ultimate rate)	5.00	5.00
Year that ultimate rate is reached	N/A	N/A

Impact of 1% increase in assumed healthcare cost trend rates at June 30, 2013 and 2012 is as follows (in thousands):

		2013	2012
Increase in accumulated postretirement benefit obligation	$	6,268	7,438
Increase in net periodic postretirement benefit cost		776	711

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

Fiscal year ending June 30:		
2014	$	868
2015		939
2016		1,021
2017		1,127
2018		1,240
2019 through 2023		8,227

(13) Retirement Plans

The University provides pensions to substantially all salaried faculty and staff who are 35 years old or who have reached age 21 and completed two years of service under a noncontributory defined contribution plan with Teacher's Insurance and Annuity Association/College Retirement Equities Fund. Plan contributions vest immediately and are based on a percent of salary. Total pension expense for this plan totaled $12.5 million and $12.0 million in 2013 and 2012, respectively.

(14) Grants and Contracts

The University receives grant and contract revenue from various government agencies and private sources for the support of research, training, and other sponsored programs. Revenues associated with the direct costs of these programs are recognized as the related costs are incurred. Indirect cost reimbursements from federal agencies are based on predetermined rates negotiated with the University's cognizant agency, the Office of Naval Research, and are in effect through fiscal year 2013. These rates are also used for other sponsored programs except where separately negotiated. Indirect cost reimbursements from all sources totaled $9.3 million and $8.5 million in 2013 and 2012, respectively.

(15) Fund-Raising Costs

Fund-raising costs were approximately $8.9 million and $7.4 million in 2013 and 2012, respectively, and are included in institutional support in the consolidated statement of activities.

(16) Commitments and Contingencies

Open commitments for contracts with general contractors amounted to approximately $0.8 million and $3.9 million as of June 30, 2013 and 2012, respectively.

The University leases certain equipment and real property. These leases are classified as operating leases and have lease terms ranging from one to seven years. Total lease expense for both fiscal 2013 and 2012 was approximately $1.0 million.

(17) Related-Party Transactions

Certain members of the University's Board of Trustees and advisory committees are affiliated with firms that provide financial services to the University.

(18) Income Taxes

The University has been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. Accordingly, no provisions for income taxes have been made in the accompanying consolidated financial statements. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(19) Subsequent Events

The University has evaluated subsequent events through October 14, 2013, the date financial statements were issued, and identified no matters for disclosure.

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Program	Federal sponsor/project title	CFDA #	Pass-through award #	Pass-through entity	Direct	Pass-through	YTD activity
Financial Aid:							
	U.S. Department of Education						
	Federal Supplemental Education Opportunity Grant	84.007			$ 404,954	—	404,954
	Total CFDA	84.007			404,954	—	404,954
	Federal Perkins Loan Program	84.038			396,236	—	396,236
	Total CFDA	84.038			396,236	—	396,236
	Federal Work Study Program	84.033			453,568	—	453,568
	Total CFDA	84.033			453,568	—	453,568
	Federal Pell Grant Program	84.063			2,857,916	—	2,857,916
	Total CFDA	84.063			2,857,916	—	2,857,916
	Total Financial Aid				**4,112,674**	**—**	**4,112,674**
Research and Development:							
	U.S. Department of Commerce						
	Measurement and Engineering Research and Standards	11.609			5,586	—	5,586
	Total CFDA	11.609			5,586	—	5,586
	Total U.S. Department of Commerce				**5,586**	**—**	**5,586**
	DOD-Defense Threat Reduction Agency						
	Basic Scientific Research - Combating Weapons of Mass Destruction	12.351			318,927	—	318,927
	Total CFDA	12.351			318,927	—	318,927
	Total DOD-Defense Threat Reduction Agency				**318,927**	**—**	**318,927**
	DOD - U.S. Air Force						
	Air Force Defense Research Sciences Program	12.800			638,769	—	638,769
		12.800	W15QKN-09-9-1001	Science Applications International Corp (SAIC)	—	62,144	62,144
		12.800	FA8650-10-D-5011/0007	Dynalene Heat Transfer Fluids	—	17,737	17,737
		12.800	FA8650-09-D-5434	Azimuth Corporation	—	1,367	1,367
		12.800	FA8650-09-C-5406	Fibertek, Inc.	—	4,776	4,776
	Total CFDA	12.800			638,769	86,024	724,793
	Research and Technology Development	12.910	FA9550-12-1-0406	Temple University	—	105,702	105,702
	Total CFDA	12.910			—	105,702	105,702
	Total DOD - U.S. Air Force				**638,769**	**191,726**	**830,495**
	DOD-U.S. Army-Research Laboratory						
	Military Medical Research and Development	12.420			83,866	—	83,866
	Total CFDA	12.420			83,866	—	83,866
	Basic Scientific Research	12.431			72,050	—	72,050
		12.431	W911NF-07-D-004	Nano-C, Inc	—	100,577	100,577
		12.431	W15QKN-09-9-1001	Imperial Machine & Tool Co.	—	251	251
		12.431	W15QKN-09-9-1001	Medico Industries	—	(3,429)	(3,429)
		12.431	W911NF-12-2-0033	Steel Founders Society of America	—	22,261	22,261
	Total CFDA	12.431			72,050	119,660	191,710
	Research and Technology Development	12.910			136,863	—	136,863
	Total CFDA	12.910			136,863	—	136,863
	Total DOD-U.S. Army-Research Laboratory				**292,779**	**119,660**	**412,439**

(Continued)

Program	Federal sponsor/project title	CFDA #	Pass-through award #	Pass-through entity	Direct	Pass-through	YTD activity
	DOD - U.S. Navy						
	Basic and Applied Scientific Research	12.300			2,393,771	—	2,393,771
		12.300	N00014-10-1-0923	University Of Missouri-Rolla	—	76,615	76,615
		12.300	N00014-12-1-0495	University Of Missouri-Rolla	—	29,362	29,362
		12.300	N00014-12-M-0050	E-Harvest Systems	—	23,170	23,170
	Total CFDA	12.300			2,393,771	129,147	2,522,918
	Total DOD - U.S. Navy				**2,393,771**	**129,147**	**2,522,918**
	DOD-Defense Logistics Ageny						
	Defense Logistics Ageny	12.000	SP4701-11-D-0025	Advance Technology Institute	—	54,818	54,818
	Total CFDA	12.000			—	54,818	54,818
	Total DOD-Defense Logistics Ageny				**—**	**54,818**	**54,818**
	DOD-Defense Advanced Research Projects Agency						
	Basic and Applied Scientific Research	12.300	HQ0006-10-C-7262	MEMtronics, Inc	—	13,859	13,859
	Total CFDA	12.300			—	13,859	13,859
	Research and Technology Development	12.910	N66001-10-1-4006	University of California, San Diego	—	149,542	149,542
		12.910	HR0011-12-C-0035	The Boeing Company	—	42,594	42,594
		12.910	HR0011-08-C-0004	BBN Technologies Corp	—	162,333	162,333
		12.910	W911NF-11-C-0215	University of Maryland College Park	—	228,093	228,093
	Total CFDA	12.910			—	582,562	582,562
	Total DOD-Defense Advanced Research Projects Agency				**—**	**596,421**	**596,421**
	U.S. Dept of Energy						
	ARRA - Basic Energy Sciences University and Science Education	81.049			51,882	—	51,882
		81.049	DE-SC0001004	University of Delaware	—	138,441	138,441
	Total CFDA	81.049			51,882	138,441	190,323
	ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis (B)	81.122			249,866	—	249,866
	Total CFDA	81.122			249,866	—	249,866
	ARRA - Geologic Sequestration Training and Research Grant Program	81.133			(9)	—	(9)
	Total CFDA	81.133			(9)	—	(9)
	General Area	81.000	DE-AC52-06NA25396	Los Alamos National Lab	—	4,508	4,508
	Total CFDA	81.000			—	4,508	4,508
	Basic Energy Sciences University and Science Education	81.049			1,754,336	—	1,754,336
		81.049	DE-FG02-08ER64648	Marine Biological Laboratory	—	12,140	12,140
		81.049	DE-FC02-05ER54823	Lodestar Research Corp.	—	3,069	3,069
		81.049	DE-AC02-09CH11466	Princeton Plasma Physics Lab	—	47,691	47,691
		81.049	DE-SC00-01057	Carnegie Institute of Washington	—	42,250	42,250
		81.049	DE-FG02-08ER86345	Energy Research Company	—	70,753	70,753
		81.049	DE-FG02-08ER85195	FAR-TECH, Inc.	—	810	810
	Total CFDA	81.049			1,754,336	176,713	1,931,049
	Conservation Research and Development	81.086	DE-EE0001522	University of Florida	—	160,652	160,652
		81.086	DE-EE0001967	Odyssey Land Development Group, LLC	—	10,860	10,860
	Total CFDA	81.086			—	171,512	171,512

(Continued)

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Program	Federal sponsor/project title	CFDA #	Pass-through award #	Pass-through entity	Direct	Pass-through	YTD activity
	Renewable Energy Research and Developmen	81.087			159,022	—	159,022
	Total CFDA	81.087			159,022	—	159,022
	Fossil Energy Research and Development	81.089	DE-FG02-94ER61937	Massachusetts Institute of Technology	—	64,154	64,154
	Total CFDA	81.089			—	64,154	64,154
	Inertial Fusion Science_Support of Stockpile Stewardship	81.112			13,729	—	13,729
	Total CFDA	81.112			13,729	—	13,729
	Total U.S. Dept of Energy				**2,228,826**	**555,328**	**2,784,154**
	U.S. Department of Education						
	Graduate Assistance in Areas of National Need	84.200			141,666	—	141,666
	Total CFDA	84.200			141,666	—	141,666
	Education Research, Development and Dissemination	84.305	R305C090022	University of Nebraska Lincoln	—	256,698	256,698
		84.305	R305A110128	Temple University	—	35,815	35,815
	Total CFDA	84.305			—	292,513	292,513
	Research in Special Education	84.324			3,806,119	—	3,806,119
	Total CFDA	84.324			3,806,119	—	3,806,119
	Total U.S. Department of Education				**3,947,785**	**292,513**	**4,240,298**
	National Institutes of Health						
	ARRA - Trans-NIH Recovery Act Research Support	93.701			(45)	—	(45)
	Total ARRA CFDA	93.701			(45)	—	(45)
	Oral Diseases and Disorders Research	93.121	5 U01 DE017855-04	New York University	—	(56,769)	(56,769)
		93.121	5 U01 DE017855-05	New York University	—	11,208	11,208
	Total CFDA	93.121			—	(45,561)	(45,561)
	Research Related to Deafness and Communication Disorders	93.173			229,028	—	229,028
	Total CFDA	93.173			229,028	—	229,028
	Health Services Research and Development Grants	93.226	1R18HS018649-01A1	Lehigh Valley Health Network	—	79,519	79,519
	Total CFDA	93.226			—	79,519	79,519
	Mental Health Research Grants	93.242			1,643	—	1,643
		93.242	1R01MH099557-02	Universidad Central Del Varibe	—	54,739	54,739
		93.242	1R01MH094435-01A1	Univ. og North Carolina-Greebsboro	—	192,253	192,253
	Total CFDA	93.242			1,643	246,992	248,635
	Drug Abuse and Addiction Research Programs	93.279	2R01DA032950-05A1	University of Washington		62,267	62,267
	Total CFDA	93.279			—	62,267	62,267
	Discovery and Applied Resh for Tech Innovations to Imp Human Health	93.286			205,118	—	205,118
	Total CFDA	93.286			205,118	—	205,118
	Minority Health and Health Disparities Research	93.307	R01MD005902	University of Arizona	—	153,435	153,435
	Total CFDA	93.307			—	153,435	153,435
	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visit	93.615			114,308	—	114,308
	Total CFDA	93.615			114,308	—	114,308
	Cardiovascular Diseases Research	93.837			122,111	—	122,111
	Total CFDA	93.837			122,111	—	122,111

(Continued)

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Program	Federal sponsor/project title	CFDA #	Pass-through award #	Pass-through entity	Direct	Pass-through	YTD activity
	Arthritis Musculoskeletal and Skin Diseases Research	93.846	1U54AR055073-07	University of Med. & Dent. of NJ	—	330,229	330,229
	Total CFDA	93.846			—	330,229	330,229
	Allergy Immunology and Transplantation Research	93.855	1R41AI091049-01	deTect Bioscience, LLC	—	110,779	110,779
	Total CFDA	93.855			—	110,779	110,779
	Pharmacology Physiology and Biological Chemistry	93.859			1,513,018	—	1,513,018
	Total CFDA	93.859			1,513,018	—	1,513,018
	Child Health and Human Development Extramural Research	93.865			332,479	—	332,479
	Total CFDA	93.865			332,479	—	332,479
	Medical Library Assistance	93.879			69,997	—	69,997
	Total CFDA	93.879			69,997	—	69,997
	Total National Institutes of Health				**2,587,657**	**937,660**	**3,525,317**
	U.S. Department of Interior						
	Cooperative Endangered Species Conservation Fund	15.615	TX E150-R	Texas Parks and Wildlife Department	—	26,710	26,710
	Total CFDA	15.615			—	26,710	26,710
	Total U.S. Department of Interior				**—**	**26,710**	**26,710**
	U.S. Department of Transportation						
	National Recreational Trails Funding Program	20.219			467,606	—	467,606
	Total CFDA	20.219			467,606	—	467,606
	Highway Research and Development Program (B)	20.200	DTFH61-10-D-00017	Professionl Service Industries, Inc	—	58,513	58,513
	Total CFDA	20.200			—	58,513	58,513
	Highway Planning and Construction	20.205	F-FY10-047-L560	PA State Assoc. of Township Supervisors	—	5,310	5,310
	Total CFDA	20.205			—	5,310	5,310
	Total U.S. Department of Transportation				**467,606**	**63,823**	**531,429**
	National Aeronautics and Space Administration						
	National Aeronautics and Space Administration	43.NNX10AJ20G			24,978	—	24,978
		43.NNX10AP14H			31,863	—	31,863
		43.000	NNX11CB80C	ArkLight, Inc.	—	125,673	125,673
	Total CFDA	43.000			56,841	125,673	182,514
	State Grants for Assistive Technology	43.001			14,757	—	14,757
		43.001	NNX11AR14G	Cornell University	—	18,501	18,501
		43.001	NNX10AK74H	PA Space Grant Consortium	—	4,398	4,398
	Total CFDA	43.001			14,757	22,899	37,656
	Total National Aeronautics and Space Administration				**71,598**	**148,572**	**220,170**
	National Science Foundation						
	ARRA - Trans-NSF Recovery Act Research Support	47.082			1,235,407	—	1,235,407
		47.082	CMMI-0927743	Lafayette College	—	113,107	113,107
	Total ARRA CFDA	47.082			1,235,407	113,107	1,348,514
	Engineering Grants	47.041			2,961,844	—	2,961,844
		47.041	CMMI-0927178	Purdue University	—	950,842	950,842
		47.041	CMMI-1041666	University of Hawaii	—	77,849	77,849

(Continued)

Program	Federal sponsor/project title	CFDA #	Pass-through award #	Pass-through entity	Direct	Pass-through	YTD activity
		47.041	CMMI-1041598	University of Notre Dame	—	188,786	188,786
		47.041	CMMI-1135033	University of Arizona	—	206,633	206,633
		47.041	IIP-1256080	Love Park Robotics, Inc.	—	8,453	8,453
		47.041	IIP-1142560	Love Park Robotics, Inc.	—	1,209	1,209
		47.041	IIP-0650163	Univ of Massachusetts Dartmouth	—	10,180	10,180
	Total CFDA	47.041			2,961,844	1,443,952	4,405,796
	Mathematical and Physical Sciences	47.049			2,277,448	—	2,277,448
		47.049	DMR-0520425	Carnegie Mellon University	—	14,544	14,544
		47.049	CHE-0848788	Vanderbilt University	—	51,955	51,955
	Total CFDA	47.049			2,277,448	66,499	2,343,947
	Geosciences	47.050			912,454	—	912,454
		47.050	EAR-0733069	The IRIS Consortium	—	18,096	18,096
	Total CFDA	47.050			912,454	18,096	930,550
	Computer and Information Science and Engineering	47.070			1,013,907	—	1,013,907
		47.070	IIS-0916152	Ursinus College	—	33,198	33,198
	Total CFDA	47.070			1,013,907	33,198	1,047,105
	Biological Sciences	47.074			66,851	—	66,851
		47.074	EF#-1137306	Massachusetts Institute of Technology	—	153,325	153,325
	Total CFDA	47.074			66,851	153,325	220,176
	Social Behavioral and Economic Sciences	47.075			266,049	—	266,049
		47.075	SES-0938099	University of Calif - Santa Barbara	—	39,335	39,335
	Total CFDA	47.075			266,049	39,335	305,384
	Education and Human Resources	47.076			724,687	—	724,687
	Total CFDA	47.076			724,687	—	724,687
	Polar Programs	47.078			116,102	—	116,102
	Total CFDA	47.078			116,102	—	116,102
	International Science and Engineering (OISE) (B)	47.079			19,963	—	19,963
		47.079	OISE-9531011	U.S. Civilian Research & Development Foundation	—	3,705	3,705
	Total CFDA	47.079			19,963	3,705	23,668
	Office of Cyberinfrastructure (B)	47.080			60,042	—	60,042
	Total CFDA	47.080			60,042	—	60,042
	Total National Science Foundation				**9,654,754**	**1,871,217**	**11,525,971**
	National Security Agency						
	Mathematical Sciences Grants Program	12.901			1,661	—	1,661
	Total CFDA	12.901			1,661	—	1,661
	Total National Security Agency				**1,661**	**—**	**1,661**
	Total Research And Development				**22,609,719**	**4,987,595**	**27,597,314**
Other Clustered Programs:							
	Medical Assistance Cluster:						
	National Institutes of Health						
	Medical Assisstance Program	93.778	MPI#100004942	State of Pennsylvania	—	1,912,109	1,912,109
	Total CFDA	93.778			—	1,912,109	1,912,109
	Total NIH Medical Assistance				**—**	**1,912,109**	**1,912,109**

(Continued)

Program	Federal sponsor/project title	CFDA #	Pass-through award #	Pass-through entity	Direct	Pass-through	YTD activity
	Public Works And Economic Development Cluster:						
	Department of Commerce (Revolving Loan Fund)						
	Special Economic Development and Adjustment Assistance	11.307			379,516	—	379,516
	Total CFDA	11.307			379,516	—	379,516
	Total Department of Commerce				**379,516**	**—**	**379,516**
	Total Other Clustered Programs				**379,516**	**1,912,109**	**2,291,625**
Other:							
	Department of Agriculture						
	Child and Adult Care Food Program	10.558	300-48-383-0	PA-Department of Education	—	8,043	8,043
	Total CFDA	10.558			—	8,043	8,043
	Total Department of Agriculture				**—**	**8,043**	**8,043**
	National Endowment for the Humanities						
	Promotion of the Humanities Challenge Grants	45.13			449,471	—	449,471
	Total CFDA	45.13			449,471	—	449,471
	Total National Endowment for the Humanities				**449,471**	—	**449,471**
	DOD-Defense Logistics Agency						
	Defense Logistics Agency	12.000	SP4800-11-2-1136	University of Pennsylvania	—	7,713	7,713
		12.000	SP4800-12-2-1236	University of Pennsylvania	—	58,362	58,362
	Total CFDA	12.000			—	66,075	66,075
	Sub Total DOD-DLA				—	**66,075**	**66,075**
	U.S. Dept of Energy						
	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance (B)	81.117			258,763	—	258,763
	Total CFDA	81.117			258,763	—	258,763
	Sub Total U.S. Dept of Energy				**258,763**	—	**258,763**
	Small Business Administration						
	Small Business Development Centers	59.037	1-603001Z-0146	University of Pennsylvania	—	44,136	44,136
		59.037	SBAH2-12-B-0036	University of Pennsylvania	—	66,282	66,282
		59.037	SBAH2-12-B-0056	University of Pennsylvania	—	171,583	171,583
	Total CFDA	59.037			—	282,001	282,001
	State Trade and Export Promotion Pilot Grant Program	59.061	SBAHQ-11-IT-0054	Duquesne University	—	12,900	12,900
		59.061	SBAHQ-11-IT-0054	PA Dept of Comm. & Econ. Devlp.	—	25,488	25,488
	Total CFDA	59.061			—	38,388	38,388
	Entrepreneurial Development Disaster Assistance (Disaster Relief Appropriations Act)	59.064	SBAHQ-13-B-0077	University of Pennsylvania	—	17,145	17,145
	Total CFDA	59.064			—	17,145	17,145
	Sub Total SBA				—	**337,534**	**337,534**
	U.S. Department of Education						
	Spec Educ Personnel Prep to Improve Serv & Results for Child with Disab	84.325			413,920	—	413,920
	Total CFDA	84.325			413,920	—	413,920
	School Leadership	84.363			783,383	—	783,383
		84.363	U363A080083	School District Of Philadelphia	—	255,636	255,636
	Total CFDA	84.363			783,383	255,636	1,039,019
	Undergraduate International Studies and Foreign Language	84.016			6,478	—	6,478
	Total CFDA	84.016			6,478	—	6,478
	Sub Total U.S. Dept of Educ				**1,203,781**	**255,636**	**1,459,417**

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LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Program	Federal sponsor/project title	CFDA #	Pass-through award #	Pass-through entity	Direct	Pass-through	YTD activity
	U.S. Environmental Protection Agency						
	Congressionally Mandated Projects	66.202	EM-83484801-0	Tufts Univ. School of Veterinary Med.	—	48,145	48,145
	Total CFDA	66.202			—	48,145	48,145
	Sub Total U.S. Environmental Protection Agency				**—**	**48,145**	**48,145**
	National Institutes of Health						
	Head Start	93.600			20,392	—	20,392
	Total CFDA	93.600			20,392	—	20,392
	Sub Total National Institutes of Health				**20,392**	**—**	**20,392**
	US-Department of State						
	Public Diplomacy Programs	19.040			8,609	—	8,609
	Total CFDA	19.040			8,609	—	8,609
	Professional Exchanges-Annual Open Grant (B)	19.415			34,438	—	34,438
	Total CFDA	19.415			34,438	—	34,438
	Sub Total U.S.-Department of State				**43,047**	**—**	**43,047**
	U.S. Department of Agriculture						
	Food and Agricultural Sciences National Needs Graduate	10.210	2011-38420-20058	Texas A&M Research Foundation	—	13,908	13,908
	Total CFDA	10.210			—	13,908	13,908
	Total U.S. Department of Agriculture				—	**13,908**	**13,908**
	U.S. Department of Commerce						
	Special Economic Development and Adjustment Assistance	11.307			34,777	—	34,777
	Total CFDA	11.307			34,777	—	34,777
	Total U.S. Department of Commerce				**34,777**	**—**	**34,777**
	DOD - U.S. Air Force						
	Air Defense Research Sciences Program	12.800			274,377	—	274,377
	Total CFDA	12.800			274,377	—	274,377
	Total U.S. Air Force				274,377	—	274,377
	DOD - U.S. Navy						
	Basic and Applied Scientific Research	12.300			47,952	—	47,952
	Total CFDA	12.300			47,952	—	47,952
	Total U.S. Navy				47,952	—	47,952
	Total Other				**2,332,560**	**729,341**	**3,061,901**
	Grand Total				**$ 29,434,469**	**7,629,045**	**37,063,514**

LEHIGH UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs administered by Lehigh University (the University) for the year ended June 30, 2013. Expenditures are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. The schedule of expenditures of federal awards does not present the activity for the University's subsidiaries Manufacturers Resource Center and Ben Franklin Technology Partners of Northeastern Pennsylvania that expended $588,003 and $233,369 in federal awards, respectively, because these subsidiaries submit separate audit reports in accordance with OMB Circular A-133.

(2) Federal Perkins Loan Program

In addition to the federal expenditures reported for the Perkins Loan Program, Lehigh University also made loans under this program in the amount of $293,016 for the year ended June 30, 2013. These loans were funded from the principal and interest that was repaid to the University from prior year loans. There were no federal or institutional capital contributions for the year ended June 30, 2013. The outstanding balance of Federal Perkins Loans at June 30, 2013 was $2,580,072. The University claimed $103,220 in administrative costs for the Perkins Loan Program during the year ended June 30, 2013.

(3) Direct Loans

Direct Loans are made by the Secretary of Education. The University is responsible for the performance of certain administrative duties under the Federal Direct Student Loans Program (CFDA #84.268) including origination and disbursement of loans. A summary of these loans, which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2013, follows:

Stafford loans	$	16,722,465
PLUS loans		7,276,802
Total direct loans	$	23,999,267

(4) Revolving Loan Fund

The Lehigh and Northampton Counties Revolving Loan Fund (RFL) has as its principal activity to provide capital (in the form of loans) to new and existing businesses for the purpose of creating and retaining permanent private sector jobs. No new federal or other funding was received during the year ended June 30, 2013. At June 30, 2013, the assets of the fund were as follows:

Cash and investments	$	217,658
Loans receivable		299,171
Total RLF assets	$	516,829

The RLF expended $14,483 on administrative expenses for the year ended June 30, 2013. The federal portion of the RLF is 71.43%. The total expenditures reported on the schedule of expenditures of federal awards (SEFA) is $379,516, which is 71.43% of both the RLF's assets at June 30, 2013 and the RLF's administrative expenses for the year ended June 30, 2013.

(5) Subrecipient Expenditures

Of the federal expenditures presented in the schedule, Lehigh University provided federal awards to subrecipients as follows for the year ended June 30, 2013:

Program title	Federal CFDA #		Amount provided to subrecipients
DOD-Navy-Chicago	12.300	$	704,633
Department of Energy	81.049		68,648
ARRA – Department of Energy	81.122		77,588
Department of Education	84.324		2,384,209
	84.325		31,105
	84.363		81,241
Total Department of Education			2,496,555
Department of Health and Human Services	93.879		17,764
	93.615		26,321
	93.865		18,450
			62,535
Department of Transportation	20.219		322,599
Department of Transportation Passthrough	20.200		3,432
ARRA – National Science Foundation	47.082		171,010
National Science Foundation Passthrough	47.041		42,000
National Science Foundation	47.041		3,263
Total National Science Foundation			45,263
Grand total		$	3,952,263

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 the 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, the consolidated financial statements of Lehigh University (the University), which comprise the consolidated statement of financial position as of June 30, 2013, 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 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the 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 Lehigh 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 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 Lehigh University's consolidated financial statements 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 determination of consolidated financial statement amounts. 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 Lehigh 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 14, 2013

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

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 Circular A-133 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, 2013. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The University's consolidated financial statements include the operations of the Manufacturer's Resource Center and the Ben Franklin Technology Partners of Northeastern Pennsylvania that received $588,003 and $233,369 in federal awards, respectively, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2013. Our audit, described below, did not include the operations of these entities because they submit separate audit reports in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lehigh 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2013.

Report on Internal Control Over Compliance

Management of Lehigh 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 OMB Circular A-133, 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Philadelphia, Pennsylvania
March 11, 2014

LEHIGH UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part I – Summary of Auditors' Results

1. The independent auditors' report on the consolidated financial statements expressed an unmodified opinion.

2. Significant deficiencies or material weaknesses in internal control over financial reporting – **None reported.**

3. No instances of noncompliance considered material to the consolidated financial statements were disclosed by the audit.

4. Significant deficiencies in internal control over compliance with requirements applicable to major federal awards program – **None reported.**

   Material weaknesses in internal control over compliance with requirements applicable to major federal awards program – **None.**

5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unmodified opinion.

6. The audit disclosed findings required to be reported under Section 510(a) of OMB Circular A-133 – **None.**

7. The University's major programs were as follows:

   - Research and Development Cluster (various CFDA numbers)
   - Medical Assistance Cluster (CFDA #93.778)

8. The dollar threshold used to distinguish between Type A and Type B programs is $1,900,495.

9. The University qualified as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II – Financial Statement Findings Section

No matters to report.

Part III – Findings and Questioned Costs Related to Federal Awards

No matters to report.