LEHIGH UNIVERSITY

Consolidated Financial Statements and
Information on Federal Awards

June 30, 2015

(With Independent Auditors' Reports Thereon)

LEHIGH UNIVERSITY

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KPMG

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
Lehigh University:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lehigh University (the University), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehigh University as of June 30, 2015, 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 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2015 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 Lehigh University's internal control over financial reporting and compliance.

KPMG LLP

Philadelphia, Pennsylvania
October 20, 2015

LEHIGH UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2015
(with comparative financial information for June 30, 2014)

(In thousands)

Assets		**2015**	**2014**
Cash and cash equivalents (note 1(c))	$	28,626	49,927
Accounts receivable, net (note 5)		15,961	16,097
Inventories		1,752	1,797
Prepaid expenses and other assets		6,018	7,476
Contributions receivable, net (note 8)		56,688	70,150
Notes receivable, net (note 6)		13,140	12,996
Investments (notes 2 and 4)		1,662,156	1,640,541
Funds held in trust by others		4,615	4,884
Land, buildings, and equipment, net (note 7)		391,763	364,746
Total assets	$	2,180,719	2,168,614
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	42,399	40,042
Deferred revenues		22,550	25,210
Annuity payment liability		18,786	18,953
Other liabilities (notes 10, 11, and 13)		47,838	50,374
Deposits held for others		1,348	1,361
Refundable federal student loan funds		2,289	2,390
Bonds, loans, and notes payable (note 10)		282,467	263,223
Total liabilities		417,677	401,553
Net assets (notes 3 and 9):			
Unrestricted		881,797	853,706
Temporarily restricted		374,325	399,439
Permanently restricted		506,920	513,916
Total net assets		1,763,042	1,767,061
Total liabilities and net assets	$	2,180,719	2,168,614

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2015
(with summarized comparative financial information for year ended June 30, 2014)

(In thousands)

	2015				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2014**
Support and revenues:					
Tuition and fees, net (note 1(i))	$ 180,099	—	—	180,099	173,767
Federal grants and contracts	27,085	—	—	27,085	28,649
State and local grants and contracts	7,255	—	—	7,255	7,255
Private grants and contracts	6,026	—	—	6,026	6,428
Contributions	12,141	—	—	12,141	16,645
Investment return (note 2)	77,949	—	—	77,949	73,709
Auxiliary enterprises	42,063	—	—	42,063	40,861
Independent operations (note 1(a))	10,087	—	—	10,087	10,534
Other sources	10,145	—	—	10,145	9,458
Gifts and trusts released from restrictions	5,649	(5,649)	—	—	—
Total support and revenues	378,499	(5,649)	—	372,850	367,306
Expenses:					
Instruction	141,789	—	—	141,789	136,261
Research	40,459	—	—	40,459	39,935
Public service	3,244	—	—	3,244	3,790
Academic support	32,416	—	—	32,416	31,304
Student services	36,320	—	—	36,320	32,501
Institutional support (note 16)	67,264	—	—	67,264	61,597
Auxiliary enterprises	36,039	—	—	36,039	35,356
Independent operations (note 1(a))	10,195	—	—	10,195	9,740
Total expenses (note 12)	367,726	—	—	367,726	350,484
Operating income (loss)	10,773	(5,649)	—	5,124	16,822
Nonoperating activity:					
Investment return (note 2):					
University	(15,444)	(16,706)	472	(31,678)	108,758
Independent operations	(1,095)	—	—	(1,095)	93
Gifts and trusts	3,937	3,857	12,421	20,215	30,621
Gifts and trusts released from restrictions and changes in donor intent	14,612	(6,422)	(8,190)	—	—
Change in fair value of interest rate swaps (note 11)	984	—	—	984	774
Postretirement plan changes other than net periodic benefit costs (note 13):					
University	4,383	—	—	4,383	(2,755)
Independent operations	129	—	—	129	(98)
Other	9,812	(194)	(11,699)	(2,081)	2,193
Nonoperating income (loss)	17,318	(19,465)	(6,996)	(9,143)	139,586
Change in net assets	28,091	(25,114)	(6,996)	(4,019)	156,408
Net assets, beginning of year	853,706	399,439	513,916	1,767,061	1,610,653
Net assets, end of year	$ 881,797	374,325	506,920	1,763,042	1,767,061

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2015
(with comparative financial information for year ended June 30, 2014)

(In thousands)

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	(4,019)	156,408
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Gifts and trusts restricted for long-term investment		(26,483)	(26,757)
Noncash contributions		(1,914)	(33)
Investment earnings restricted for long-term investment		(343)	(649)
Net realized gains on investments		(86,355)	(49,872)
Net unrealized losses (gains) on investments		58,816	(123,305)
Change in fair value of rate swap liabilities		(791)	(774)
Payment of annuity obligations		1,341	1,301
Other nonoperating activity		476	29
Depreciation and amortization		26,455	24,955
Independent operations provision for bad debts		1,020	519
University provision for bad debts		92	63
Change in operating assets and liabilities:			
Increase in accounts receivable		(89)	(635)
Decrease in inventories		45	41
Decrease (increase) in contributions receivable		13,462	(4,801)
Increase in accounts payable and accrued expenses		2,357	5,581
(Decrease) increase in deferred revenues		(2,660)	1,294
(Decrease) increase in annuity payment liability		(167)	347
Decrease in deposits held for others		(13)	(144)
(Decrease) increase in accrued postretirement benefit cost		(1,926)	5,048
Decrease (increase) in other assets		1,338	(1,005)
Increase (decrease) in other liabilities		142	(123)
Net cash used in operating activities		(19,216)	(12,512)
Cash flows from investing activities:			
Proceeds from sale of investments		1,526,565	1,497,715
Purchases of investments		(1,520,371)	(1,478,931)
Student loans and other notes advanced		(1,304)	(3,525)
Independent operations loans advanced		(2,032)	(1,477)
Student loans and other notes collected		1,299	1,346
Independent operations loans collected		972	872
Purchase of land, buildings, and equipment		(51,797)	(30,459)
Net cash used in investing activities		(46,668)	(14,459)
Cash flows from financing activities:			
Proceeds from issuance of indebtedness		25,000	—
Repayments of principal of indebtedness		(5,801)	(5,554)
Gifts and trusts restricted for long-term investment		26,483	26,757
Investment earnings restricted for long-term investment		343	649
Decrease in refundable loan funds		(101)	(96)
Payment of annuity obligations		(1,341)	(1,301)
Net cash provided by financing activities		44,583	20,455
Net decrease in cash and cash equivalents		(21,301)	(6,516)
Cash and cash equivalents at beginning of year		49,927	56,443
Cash and cash equivalents at end of year	$	28,626	49,927
Supplemental data:			
Interest paid	$	10,053	10,256

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Lehigh University (the University), an independent, nondenominational, coeducational university, is incorporated in the Commonwealth of Pennsylvania as a nonprofit corporation and is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The University is accredited by the Middle States Association of Colleges and Schools.

Founded in 1865, the University has approximately 5,100 undergraduates within its three major units – the College of Arts and Sciences, the College of Business and Economics, and the P.C. Rossin College of Engineering and Applied Science – and approximately 2,100 students enrolled in graduate programs offered through these colleges and in the College of Education.

The University's subsidiary organization, LU Properties, LLC (LU Properties), a Pennsylvania limited liability company, serves as Manager for twenty-three limited liability companies that were established as a result of a real estate gift. The University is the sole member of all of the limited liability companies. As Manager, LU Properties is responsible for the strategic and operational aspects of the real estate investment. The results of their operations are shown as nonoperating investment return in the University's consolidated statement of activities.

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. BFTP provides 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 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, gains and losses on investments net of the University's spending policy, and certain postretirement benefits-related changes in net assets.

(c) Cash Equivalents

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

(d) Inventories

Inventories are stated at the lower of cost or market.

(e) Investments

Investments are stated at fair value or net asset value as a practical expedient to fair value (see note 4).

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

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 1.57% to 7.5%. The University is required by the laws of certain states to register and maintain reserves against charitable gift annuities. Such reserves amounted to approximately \$11.4 million and \$11.0 million as of June 30, 2015 and 2014, 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 2015 and 2014 were $82.5 million and $78.7 million, respectively.

(j) Asset Retirement Liabilities

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

(k) Deferred Revenues

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

(l) Use of Estimates

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

(m) Reclassifications

Certain 2014 amounts have been reclassified to conform to their presentation in the 2015 consolidated financial statements.

(n) Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-07 (ASU 2015-07), *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share as a practical expedient. It also removes the requirement to make certain disclosures for all investments valued using NAV as a practical expedient. The University has elected to early adopt ASU 2015-07 as permitted, and presentation in note 4 has been applied retrospectively.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. The University plans to adopt ASU No. 2015-03, which is required to be adopted for periods beginning after December 15, 2015 for its fiscal year ending June 30, 2016. The impact of adoption will be the reclassification of bond issuance costs, which totaled $1.6 million at June 30, 2015.

(o) 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, 2014, from which the summarized information was derived.

(2) Investments

Investments by major category at June 30, 2015 and 2014 are as follows (in thousands):

		2015	2014
Short-term investments	$	6,100	54,401
Fixed income investments:			
U.S. government		161,952	185,327
Corporate		116,678	124,720
Other		6,905	6,927
Corporate stocks		19,863	49,968
Mutual and exchange-traded funds		239,284	184,253
Real estate		19,926	11,131
Alternative investments:			
Global equity		405,279	333,649
Hedged equity		65,323	50,343
Absolute return		273,305	290,005
Natural resources equity		28,650	35,743
Developed market credit		16,036	23,832
Private investments		299,720	287,149
Life insurance and other investments		3,135	3,093
Total investments	$	1,662,156	1,640,541

The University's investments are comprised of the assets of the University's endowment, assets supporting certain split interest agreements, and other investments for general operating purposes. Investments are reported at fair value or net asset value as a practical expedient to fair value note 4, Fair Value Measurements, provides additional information about inputs used to determine fair value and about investments reported at net asset 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, 2015 and 2014, the University had unfunded commitments of $155 million and $159 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.

(Continued)

The components of total investment return are reflected below (in thousands). Investment earnings at both June 30, 2015 and 2014 are net of investment expenses of approximately $9.1 million:

		2015	2014
Investment earnings	$	18,077	10,246
Net realized and unrealized gains		28,194	172,221
		46,271	182,467
Independent operations – net realized and unrealized (losses) gains		(655)	956
Independent operations – other investment earnings		816	1,388
Total	$	46,432	184,811

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

		2015	2014
Operating:			
Endowment spending distribution	$	61,574	59,605
Spending distribution – other		9,916	8,054
Other investment earnings		6,459	6,050
		77,949	73,709
Independent operations – realized gains		440	863
Independent operations – other investment earnings		816	1,388
Total operating		79,205	75,960
Nonoperating:			
Endowment spending distribution		326	1,121
Other investment gains (losses)		17	(472)
Net realized and unrealized (losses) gains net of spending distribution		(32,021)	108,109
		(31,678)	108,758
Independent operations – net unrealized (losses) gains		(1,095)	93
Total nonoperating		(32,773)	108,851
Total investment return	$	46,432	184,811

(3) Endowment Net Assets

The University's endowment consists of approximately 2,600 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.

The University has interpreted relevant law as requiring the preservation of the original fair value of permanently restricted endowment funds as of the gift date, absent explicit donor stipulations to the contrary. From time to time, the fair value of assets associated with these funds may fall below the original fair value amount. Deficiencies of this nature at June 30, 2015 and 2014 were $10.5 million and $8.0 million, respectively. Such deficiencies are recorded as a decrease to unrestricted net assets and an increase to temporarily restricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the new permanently restricted contributions.

Endowment funds include funds actively managed by the University as part of a single commingled investment pool as well as a limited number of individual funds that are separately invested or held in trust by others. The principal financial objective of the endowment pool is that the real purchasing power of the endowment principal should be preserved, and if possible enhanced, to help ensure the University's financial future. The productivity of the endowment pool must strike a balance between the preservation of principal in real terms for perpetuity and supporting a spending policy that sustains the educational mission of the University.

The Prudent Investor Rule of the Commonwealth of Pennsylvania views investment prudence on the part of the fiduciary from the standpoint of the total portfolio. Therefore, any reasonable investment may be considered for endowment pool assets as long as the risk and return tradeoff of the entire portfolio is prudent. The University's investment policy includes a target asset allocation, well diversified among suitable asset classes that is expected to generate, on average, the level of expected return necessary to meet endowment objectives at a responsible level of volatility consistent with achieving that return. To monitor the effectiveness of the investment strategy of the endowment pool, performance goals are established to exceed the expected real rate of return, established benchmark indices, and the median return of comparable endowment funds.

Commonwealth of Pennsylvania law permits the University to allocate to operating income a minimum of 2% and a maximum of 7% of a three-year moving average of the market value of the endowed assets. Unless the terms of the gift instrument state otherwise, accumulated endowment gains may be spent over time by the University. Therefore, in accordance with Commonwealth of Pennsylvania law regarding the investment of trust funds, gains on permanently restricted funds are classified as temporarily restricted net assets until appropriated under the spending policy. Net gains in excess of the spending policy are reflected as nonoperating investment return activity.

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

(Continued)

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 5.2% for both fiscal year 2015 and 2014. For the fiscal years ended June 30, 2015 and 2014, gains of approximately $60.2 million and $64.1 million, respectively, were included in endowment earnings distributed in accordance with the spending policy.

Endowment net asset composition as of June 30, 2015 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$ (10,543)	13,808	435,221	438,486
Board-designated endowment funds (corpus)	230,654	—	—	230,654
Accumulated gains on endowment funds	175,149	323,879	—	499,028
Total endowment net assets	$ 395,260	337,687	435,221	1,168,168

Endowment net asset composition as of June 30, 2014 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$ (7,955)	11,040	426,330	429,415
Board-designated endowment funds (corpus)	213,687	—	—	213,687
Accumulated gains on endowment funds	186,413	341,675	—	528,088
Total endowment net assets	$ 392,145	352,715	426,330	1,171,190

(Continued)

Changes in endowment net assets for the year ended June 30, 2015 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2014	$	392,145	352,715	426,330	1,171,190
Investment return:					
Investment income		21,870	22	2,235	24,127
Net appreciation		4,949	15,544	116	20,609
Total investment return		26,819	15,566	2,351	44,736
Contributions		1,283	25	16,258	17,566
Board designations/changes in donor intent		9,811	1,697	(9,718)	1,790
Amounts appropriated for expenditure:					
Endowment spending distribution		(32,903)	(28,997)	—	(61,900)
Endowment operating expense		(3,766)	(3,319)	—	(7,085)
Total amounts appropriated for expenditure		(36,669)	(32,316)	—	(68,985)
Change in other endowment liabilities		1,871	—	—	1,871
Total change in endowment funds		3,115	(15,028)	8,891	(3,022)
Net assets, June 30, 2015	$	395,260	337,687	435,221	1,168,168

(Continued)

Changes in endowment net assets for the year ended June 30, 2014 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2013	$ 352,475	307,900	405,084	1,065,459
Investment return:				
Investment income	12,185	38	367	12,590
Net appreciation	61,160	79,738	314	141,212
Total investment return	73,345	79,776	681	153,802
Contributions	4,547	1,054	20,265	25,866
Board designations/changes in donor intent	(1,560)	(71)	300	(1,331)
Amounts appropriated for expenditure:				
Endowment spending distribution	(28,499)	(32,227)	—	(60,726)
Endowment operating expense	(3,286)	(3,717)	—	(7,003)
Total amounts appropriated for expenditure	(31,785)	(35,944)	—	(67,729)
Change in other endowment liabilities	(4,877)	—	—	(4,877)
Total change in endowment funds	39,670	44,815	21,246	105,731
Net assets, June 30, 2014	$ 392,145	352,715	426,330	1,171,190

(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.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

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

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

(a) Short-Term Assets and Liabilities

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

(b) Notes Receivable

Notes receivable are carried at face value less an allowance for doubtful accounts. A reasonable estimate of the fair value of loans receivable under student loan programs is not practical to determine because the federally sponsored loans are subject to significant government restrictions as to marketability, interest rates, and repayment terms. Because of the early stage nature of the companies to which program loans are provided by BFTP and the lack of a secondary market for such securities, it is not practical to determine their fair value.

(c) Contributions Receivable

The University values contributions receivable at fair value on the date the pledge is received using the present value of future cash flows 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.

(d) Funds Held in Trust by Others

Funds held in trust by others are held and administered by outside trustees, with the University deriving income or a residual interest from the assets of such funds. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence. As of June 30, 2015 and 2014, 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.

(Continued)

(e) Split-Interest Agreements

Depending on the type of agreement, fair value measurements for split-interest agreements are performed either at inception or on a recurring basis. Fair value of the residual gift is generally based on the present value of expected future cash flows including payments to beneficiaries and investment return, and Level 3 inputs include the life expectancy of the donor and other beneficiaries as well as financial assumptions.

(f) 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.

(g) 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.

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

The following table presents the University's fair value hierarchy for investments at June 30, 2015 (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)**	**Total**
Short-term investments	$ 6,100	—	—	6,100
Fixed income investments:				
U.S. government	106,657	55,295	—	161,952
Corporate	—	115,965	713	116,678
Other	—	6,905	—	6,905
Corporate stocks	19,863	—	—	19,863
Mutual and exchange-traded funds	239,284	—	—	239,284
Real estate	—	19,926	—	19,926
Natural resources equity	252	—	—	252
Life insurance and other investments	3,108	27	—	3,135
Total investments in fair value hierarchy	$ 375,264	198,118	713	574,095
Investments measured at net asset value per share (or its equivalent)				
Global equity				405,279
Hedged equity				65,323
Absolute return				273,305
Natural resources equity				28,398
Developed market credit				16,036
Private investments				299,720
Total investments measured at net asset value per share (or its equivalent)				1,088,061
Total investments				$ 1,662,156

The following table presents the University's fair value hierarchy for investments at June 30, 2014 (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)	Total
Short-term investments	$ 54,401	—	—	54,401
Fixed income investments:				
U.S. government	123,418	61,909	—	185,327
Corporate	—	123,931	789	124,720
Other	—	6,927	—	6,927
Corporate stocks	49,968	—	—	49,968
Mutual and exchange-traded funds	115,937	68,316	—	184,253
Real estate	—	11,131	—	11,131
Natural resources equity	1,394	—	—	1,394
Life insurance and other investments	3,068	25	—	3,093
Total investments in fair value hierarchy	$ 348,186	272,239	789	621,214
Investments measured at net asset value per share (or its equivalent)				
Global equity				333,649
Hedged equity				50,343
Absolute return				290,005
Natural resources equity				34,349
Developed market credit				23,832
Private investments				287,149
Total investments measured at net asset value per share (or its equivalent)				1,019,327
Total investments				$ 1,640,541

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, 2015 (in thousands):

		Fair value	Estimated remaining lives		Unfunded commitments	Redemption frequency after end of initial restriction period	Redemption notice period
Global equity (1)	$	405,279	N/A	$	—	daily-quarterly	5–90 days
Hedged equity (2)		65,323	N/A		—	quarterly-annually	45–80 days
Absolute return (3)		273,305	N/A		16,661	various or not eligible	30–180 days
Natural resources equity (4)		28,398	N/A		—	various or not eligible	35 days
Developed market credit (5)		16,036	1–5 years		4,692	not eligible	—
Private investments (6)		299,720	1–13 years		133,596	generally not eligible	—
Total	$	1,088,061		$	154,949		

(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 the returns of publicly traded equities on a global developed market basis and the growth potential of emerging markets in order to provide long-term growth to the endowment. These funds will also provide a diversification to U.S. and other developed equity and bond markets. Investments representing approximately 17% of the total value in this category have restrictions that prevent full redemption at June 30, 2015.

(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. Investments representing approximately 7% of the total value in this category have restrictions that prevent full redemption at June 30, 2015.

(3) 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. Investments representing approximately 9% of the total value in this category have restrictions that prevent full redemption at June 30, 2015.

(4) Investment returns for this category are driven by a combination of global economic growth, as well as supply/demand curves in the commodity market. Funds gain direct and indirect exposure to commodities and natural resources through liquid, publicly traded securities in order to

provide long-term growth to the endowment while providing principal protection in unexpected inflationary environments.

(5) 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.

(6) This category includes investments in private equity and real estate funds. Returns are driven primarily by economic growth. The primary objective of these funds is to provide long-term returns in excess of publicly traded equity markets, portfolio diversification relative to global equities and bonds, and long-term returns between that of stocks and bonds while carrying relatively lower risk than equities. These funds will also potentially offer some protection for the endowment in the event of inflation. All but one of these investments receives distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions.

(5) Accounts Receivable

Accounts receivable at June 30, 2015 and 2014 (net of allowances for doubtful accounts) are as follows (in thousands):

	2015	2014
Accounts receivable, net:		
Student accounts	$ 553	639
Grants and contracts	7,261	8,419
Investment income	2,806	2,012
Other	5,341	5,027
	$ 15,961	16,097

Allowances for doubtful accounts were $2.3 million and $2.1 million in 2015 and 2014, respectively.

(6) Notes Receivable

Notes receivable at June 30, 2015 and 2014 are as follows (in thousands):

		2015	2014
Notes receivable, net:			
University:			
Student loans	$	8,377	8,355
Other		2,975	3,046
Less allowance for doubtful loans		(285)	(285)
Total University		11,067	11,116
Independent operations:			
Program loans		10,631	11,312
Less allowance for doubtful accounts		(8,558)	(9,432)
Total independent operations		2,073	1,880
`	$	13,140	12,996

Independent operations notes receivable primarily consist of loans provided by BFTP to early stage firms. The majority of these loans are fully reserved.

(7) Land, Buildings, and Equipment, Net

Land, buildings, and equipment are summarized as follows at June 30, 2015 and 2014 (in thousands):

		2015	2014
Land and improvements	$	57,431	52,860
Buildings		574,370	550,672
Furniture, equipment, books, and collections		193,985	186,656
Construction in progress		40,365	26,613
		866,151	816,801
Less accumulated depreciation		(474,388)	(452,055)
Total	$	391,763	364,746

Depreciation expense totaled $26.3 million and $24.8 million for the years ended June 30, 2015 and 2014, 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 1.76% to 5.23%. Outstanding pledges that were conditional amounted to $16.7 million and $12.0 million as of June 30, 2015 and 2014, respectively. Unconditional promises are expected to be realized in the following periods (in thousands):

		2015	2014
In one year or less	$	12,352	24,121
Between one year and five years		42,526	41,445
More than five years		5,677	9,030
		60,555	74,596
Less:			
Unamortized discount		(1,494)	(1,544)
Allowance for uncollectible amounts		(2,373)	(2,902)
	$	56,688	70,150

(9) Net Assets

Temporarily restricted net assets include the following at June 30, 2015 and 2014 (in thousands):

		2015	2014
Contributions receivable	$	12,517	22,155
Temporarily restricted endowment funds		15,224	10,971
Life income funds		3,368	3,551
Accumulated gains on permanent endowment funds		322,463	341,744
Other – related to time and purpose restrictions		20,753	21,018
	$	374,325	399,439

Based upon spending restrictions in effect as of June 30, 2015, accumulated gains on permanent endowment funds are designated for the following future spending purposes: scholarships and fellowships 34%, professorships and chairs 12%, student loans 1%, other restrictions 12%, and no purpose restrictions 41%.

Permanently restricted net assets include the following at June 30, 2015 and 2014 (in thousands):

		2015	2014
Contributions receivable	$	19,999	20,827
Permanent loan funds		2,074	15,169
Annuity and life income funds		49,626	51,590
Permanent endowment funds		435,221	426,330
	$	506,920	513,916

Included in life income funds are $1.2 million (temporarily restricted) and $23.0 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, 2015 and 2014, bonds, loans, and notes payable, including net unamortized discounts of $0.9 million and $1.0 million at June 30, 2015 and 2014, respectively, consisted of the following (in thousands):

		2015	2014
Taxable Commercial Paper Series A, up to $75 million, weighted average interest rate of 0.15% and 0.13% on June 30, 2015 and 2014 respectively; average duration of 94 days and 90 days on June 30, 2015 and 2014, respectively	$	55,000	30,000
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 0.03% on June 30, 2015 and 2014, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2016		18,135	18,870
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 0.03% on June 30, 2015 and 2014, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2016		13,500	16,070
Series 2004 bonds; tax-exempt index rate revenue bonds, $50,000 due serially from May 15, 2025 to May 15, 2034, rates of 0.75% and 0.73% on June 30, 2015 and 2014, respectively		50,000	50,000

		2015	2014
Series 2006A bonds; tax-exempt variable rate revenue bonds, $16,820 due serially from November 15, 2007 to November 15, 2021, variable rates of 0.05% and 0.03% on June 30, 2015 and 2014, respectively	$	11,968	13,444
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 1.10% and 2.69% on June 30, 2015 and 2014 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	53,929
Series 2009 bonds; 5.00% to 5.50% tax-exempt revenue bonds, $66,165 due serially from November 15, 2029 to November 15, 2039		65,261	65,219
Taxable fixed rate term loan issued by Bank of America, N.A., $15,000 due serially from February 1, 2012 to December 23, 2018, 2.61%		13,494	13,953
Fixed rate term loan (converted from September 10, 2012 construction loan) issued by Wells Fargo Bank, N.A. 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%		668	1,160
Mortgage issued by First Keystone National Bank assumed by Lehigh University subsidiary BFTP, $528 due serially from June 23, 2010 to September 23, 2025; variable rate of 3.25% on June 30, 2015 and 2014, respectively		462	478
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		50	100
	$	282,467	263,223

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 NCGPA 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, 2015, the aggregate annual maturities of long-term bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2016	$	5,689
2017		5,878
2018		6,301
2019		17,753
2020		5,567
Thereafter		187,191

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, 2015, Lehigh estimates that $109 million of liquid assets were available on a same day basis and an additional $73 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 $220 million and $226 million at June 30, 2015 and 2014, 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, 2015, 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	$ 18,135	4.530%	67% of USD-1 month LIBOR-BBA	12/1/2030
2001 bonds	JPMorgan Chase Bank, N.A.	9/4/2001	13,500	4.400	67% of USD-1 month LIBOR-BBA	10/15/2019
2004 bonds	Wells Fargo Bank, N.A.	12/18/2008	50,000	1.953	67% of USD-3 month LIBOR-BBA	5/15/2034
2006A bonds	JPMorgan Chase Bank, N.A.	8/24/2006	11,980	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
			$ 184,395			

(11) Derivative Instruments

The University employs derivatives, primarily interest rate swap agreements, to manage interest rate risk associated with outstanding debt. Effective 2015, the endowment fund also entered into a swap position as part of its portfolio. The fair value of the University’s swap agreements is included in other liabilities in the statement of financial position, and was $3.3 million and $4.1 million at June 30, 2015 and 2014, respectively. The change in fair value of interest rate swaps is reflected in nonoperating activity on the statement of activities and was $1.0 million and $0.7 million for the years ended June 30, 2015 and 2014, respectively.

Certain of the University’s interest rate swap agreements contain provisions that require the University’s debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the University’s debt were to fall below investment grade, it would be a violation of these provisions, and the counterparties to the rate swap agreement could request next-day full collateralization on all rate swaps in net liability positions. To date, the University has not posted collateral for any rate swap agreements. If the credit-risk related contingent features underlying these agreements were triggered on June 30, 2015, the University would be required to post an additional $8.9 million of collateral to its counterparties.

(Continued)

(12) Natural Expense Classification

The following table compares operating expenses by type for the years ended June 30, 2015 and 2014, respectively, (in thousands):

		2015	2014
Salaries and wages	$	162,010	156,970
Employee benefits		56,152	49,638
Utilities		9,767	11,499
Purchased services		33,010	31,384
Building and grounds maintenance		21,452	20,786
Depreciation		26,290	24,788
Interest		10,198	10,419
All other business expenses		48,847	45,000
Total	$	367,726	350,484

(13) Postretirement and Postemployment Benefits Other than Pensions

The University pays for a portion of the cost of medical insurance for retired employees and their eligible dependents. During fiscal year 2015, the University reimbursed retirees a maximum of $91.20 per month for premium expenses, or a total of $830,000 (as compared to $785,000 in fiscal year 2014). 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):

		2015	2014
Benefit obligation at beginning of year	$	40,794	35,746
Operating:			
Service cost		1,539	1,179
Interest cost		1,877	1,801
Benefits paid		(830)	(785)
Total operating		2,586	2,195
Nonoperating:			
Actuarial gain		(9)	(1,491)
Assumption changes		(4,503)	4,344
Total nonoperating		(4,512)	2,853
Benefit obligation at end of year	$	38,868	40,794

The following table sets forth the status of the plan, which is unfunded, at June 30, 2015 and 2014:

		2015	2014
Accumulated postretirement benefit obligation:			
Retirees	$	11,819	12,391
Fully eligible active plan participants		13,320	13,825
Other active plan participants		13,729	14,578
Total		38,868	40,794
Plan assets at fair value		—	—
Accumulated postretirement benefit liability	$	38,868	40,794

Weighted average assumptions for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Discount rate for net periodic postretirement benefit cost	4.65%	5.10%
Discount rate for accumulated postretirement benefit obligation	4.80	4.65
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, 2015 and 2014 is as follows:

	2015	2014
Healthcare cost trend rate assumed for next year	4.00%	5.00%
Rate to which the cost trend rate is assumed to decline (ultimate rate)	4.00	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, 2015 and 2014 is as follows (in thousands):

		2015	2014
Increase in accumulated postretirement benefit obligation	$	8,008	8,414
Increase in net periodic postretirement benefit cost		900	645

(Continued)

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

Fiscal year ending June 30:		
2016	$	914
2017		1,005
2018		1,105
2019		1,223
2020		1,345
2021 through 2025		8,459

(14) Retirement Plans

The University provides pensions to substantially all salaried faculty and staff through a defined contribution plan administered by Teacher's Insurance and Annuity Association / College Retirement Equities Fund. The plan features base contributions from the University and voluntary employee contributions with a University match. Total expense for this plan was $14.4 million and $13.6 million in 2015 and 2014, respectively.

(15) Grants and Contracts

The University receives grant and contract revenue from various government agencies and private sources for the support of research, training, and other sponsored programs. Revenues associated with the direct costs of these programs are recognized as the related costs are incurred. Indirect cost reimbursements from federal agencies are based on predetermined rates negotiated with the University's cognizant agency, the Office of Naval Research, and are in effect through fiscal year 2017. These rates are also used for other sponsored programs except where separately negotiated. Indirect cost reimbursements from all sources totaled $8.6 million and $8.9 million in 2015 and 2014, respectively.

(16) Fund-Raising Costs

Fund-raising costs were approximately $13.6 million and $8.9 million in 2015 and 2014, respectively, and are included in institutional support in the consolidated statement of activities. Fund-raising costs increased from 2014 to 2015 due to preparations for the University's upcoming comprehensive campaign and sesquicentennial.

(17) Commitments and Contingencies

Open commitments for contracts with general contractors amounted to approximately $7.1 million and $18.1 million as of June 30, 2015 and 2014, respectively.

(Continued)

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 fiscal 2015 and 2014 was approximately $1.1 million and $1.0 million, respectively.

(18) 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. When relationships exist, measures are taken to ensure that such transactions are conducted at arm's length, for appropriate compensation, based on terms that are fair and reasonable and for the benefit of the University.

(19) 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, 2015, 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.

(20) Subsequent Events

The University has evaluated subsequent events through October 20, 2015, the date financial statements were issued, and identified no matters for disclosure.

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

Program: Federal sponsor/project title	CFDA #	Award #	Pass-through Entity	Direct	Pass-through	Total Expenditures
Student Financial Assistance Cluster						
U.S. Department of Education:						
Federal Supplemental Education Opportunity Grant	84.007			$ 362,683	—	362,683
Federal Perkins Loan Program	84.038			2,923,687	—	2,923,687
Federal Work Study Program	84.033			427,192	—	427,192
Federal Pell Grant Program	84.063			3,186,704	—	3,186,704
Federal Direct Loan Program	84.268			23,551,353	—	23,551,353
Total Student Financial Assistance Cluster				30,451,619	—	30,451,619
Research and Development Cluster:						
U.S. Department of Commerce:						
Measurement and Engineering Research and Standards	11.609			3,300	—	3,300
Total U.S. Department of Commerce				3,300	—	3,300
DOD-Defense Threat Reduction Agency:						
Basic Scientific Research – Combating Weapons of Mass Destruction	12.351			422,278	—	422,278
Total DOD-Defense Threat Reduction Agency				422,278	—	422,278
DOD – U.S. Air Force :						
Air Force Defense Research Sciences Program	12.800			391,150	—	391,150
	12.800	FA8650-12-2-7230	National Center for Defense Manufacturing and Machining	—	746,268	746,268
Total CFDA	12.800			391,150	746,268	1,137,418
Research and Technology Development	12.910	FA9550-12-1-0406	Temple University	—	76,189	76,189
Total DOD – U.S. Air Force				391,150	822,457	1,213,607
DOD-U.S. Army-Research Laboratory:						
Basic Scientific Research	12.431			197,590	—	197,590
	12.431	W15QKN-09-9-1001	Keystone Automation Inc	—	52,306	52,306
	12.431	W911NF-12-2-0033	Steel Founders Society of America	—	8,422	8,422
Total CFDA	12.431			197,590	60,728	258,318
Research and Technology Development	12.910			(161)	—	(161)
Total DOD-U.S. Army-Research Laboratory				197,429	60,728	258,157
DOD – U.S. Navy:						
Basic and Applied Scientific Research	12.300			2,199,223	—	2,199,223
	12.300	N00014-12-1-0495	University Of Missouri-Rolla	—	24,191	24,191
	12.300	N00014-14-1-0533	University Of Virginia	—	199,299	199,299
	12.300	N00014-15-1-2080	Wright State University	—	3,400	3,400
	12.300	N00014-13-C-0119	Raytheon Integrated Defense Systems	—	(53)	(53)
	12.300	N00014-14-C-0078	E-Harvest Systems	—	69,171	69,171
Total CFDA	12.300			2,199,223	296,008	2,495,231
Total DOD – U.S. Navy				2,199,223	296,008	2,495,231
DOD-Defense Logistics Agency:						
Defense Logistics Agency	12.000	SP4701-11-D-0025	Advance Technology Institute	—	62,548	62,548
Total DOD-Defense Logistics Agency				—	62,548	62,548
DOD-Defense Advanced Research Projects Agency:						
Research and Technology Development	12.910	HR0011-12-C-0035	The Boeing Company	—	194,851	194,851
Total DOD-Defense Advanced Research Projects Agency				—	194,851	194,851

(Continued)

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

Program: Federal sponsor/project title	CFDA #	Award #	Pass-through Entity	Direct	Pass-through	Total Expenditures
U.S. Dept of Energy:						
ARRA – Basic Energy Sciences University and Science Education	81.049	DE-SC0001004	University of Delaware	$ —	5,126	5,126
ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis (B)	81.122			42,940	—	42,940
General Area	81.000	DE-AC52-06NA25396	Los Alamos National Lab	—	94,155	94,155
	81.000	DE-AC02-05CH11231	Lawrence Berkley National Lab	—	3,952	3,952
	81.000	DE-EE0005660	United States Council for Automotive Research	—	14,515	14,515
Total CFDA	81.000			—	112,622	112,622
Basic Energy Sciences University and Science Education	81.049			1,503,087	—	1,503,087
	81.049	DE-SC00-12577	Georgia Institute of Technology	—	78,351	78,351
	81.049	DE-SC00-09651	UHV Technologies, Inc	—	46,789	46,789
	81.049	DE-AC02-09CH11466	Princeton Plasma Physics Lab	—	53,787	53,787
	81.049	DE-SC00-01057	Carnegie Institute of Washington	—	189,284	189,284
Total CFDA	81.049			1,503,087	368,211	1,871,298
Fossil Energy Research and Development	81.089	DE-FE00-12914	ADA-ES, Inc	—	166,463	166,463
Inertial Fusion Science_Support of Stockpile Stewardship	81.112			398,437	—	398,437
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance (B)	81.117			198,963	—	198,963
Nuclear Energy Research, Development and Demonstration	81.121			93,004	—	93,004
Total U.S. Dept of Energy				2,236,431	652,422	2,888,853
U.S. Department of Education:						
Graduate Assistance in Areas of National Need	84.200			212,330	—	212,330
Education Research, Development and Dissemination	84.305	R305A140356	Ohio University	—	283,566	283,566
	84.305	R305A110128	Temple University	—	(6,723)	(6,723)
Total CFDA	84.305			—	276,843	276,843
Research in Special Education	84.324			631,157	—	631,157
	84.324	1R324A130066	Ohio State University	—	207,967	207,967
Total CFDA	84.324			631,157	207,967	839,124
Total U.S. Department of Education				843,487	484,810	1,328,297
National Institutes of Health:						
Oral Diseases and Disorders Research	93.121			152,391	—	152,391
Research Related to Deafness and Communication Disorders	93.173			247,610	—	247,610
Health Services Research and Development Grants	93.226	1R18HS018649-01A1	Lehigh Valley Health Network	—	100,610	100,610
Mental Health Research Grants	93.242	1R01MH099557-02	Universidad Central Del Caribe	—	60,016	60,016
	93.242	1R01MH094435-01A1	Univ. of North Carolina-Greebsboro	—	241,032	241,032
Total CFDA	93.242			—	301,048	301,048
Drug Abuse and Addiction Research Programs	93.279			192,283	—	192,283
		2R01DA032950-05A1	University of Washington	—	82,594	82,594
		1R41DA032464-01	Ophidion, Inc	—	21,782	21,782
Total CFDA	93.279			192,283	104,376	296,659
Discovery and Applied Resh for Tech Innovations to Imp Human Health	93.286			298,626	—	298,626
	93.307	1R01MD008940	University of Arizona	—	28,023	28,023
Minority Health and Health Disparities Research	93.307	R01MD005902	University of Arizona	—	37,181	37,181
Total CFDA	93.307			—	65,204	65,204

(Continued)

Program: Federal sponsor/project title	CFDA #	Award #	Pass-through Entity	Direct	Pass-through	Total Expenditures
Cancer Treatment Research	93.395			$ 133,106	—	133,106
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Research Programs	93.615			221,220	—	221,220
Cardiovascular Diseases Research	93.837			101,215	—	101,215
Blood Diseases and Resources Research	93.839	2P01HL040387-26A1	University of Pennsylvania	—	69,941	69,941
Arthritis Musculoskeletal and Skin Diseases Research	93.846	2U54AR055073-09	University of Med. & Dent. of NJ	—	330,229	330,229
Clinical Research Related to Neurological Disorders	93.853			116,039	—	116,039
Allergy Immunology and Transplantation Research	93.855	2R42AI091049-03	TB Biosciences, Inc	—	235,737	235,737
Pharmacology Physiology and Biological Chemistry	93.859			1,367,719	—	1,367,719
Child Health and Human Development Extramural Research	93.865			703,287	—	703,287
Medical Library Assistance	93.879			24,998	—	24,998
Total National Institutes of Health				3,558,494	1,207,145	4,765,639
U.S. Department of Interior:						
Cooperative Endangered Species Conservation Fund	15.615	TX E150-R	Texas Parks and Wildlife Department	—	15,920	15,920
National Cooperative Geologic Mapping Program	15.810			7,688	—	7,688
Total U.S. Department of Interior				7,688	15,920	23,608
U.S. Department of Transportation:						
U.S. Department of Transportation	20.DTFH61-08-H-000035			51,067	—	51,067
Highway Research and Development Program (B)	20.200			652,572	—	652,572
Highway Planning and Construction	20.205	F-FY10-047-L560	PA State Assoc. of Township Supervisors	—	10,775	10,775
Public Transportation Research	20.514	HR 24-36	Regents Of Univ Of Minnesota	—	23,190	23,190
Total U.S. Department of Transportation				703,639	33,965	737,604
National Aeronautics and Space Administration:						
State Grants for Assistive Technology	43.001	NNX11AR14G	Cornell University	—	21,104	21,104
	43.001	NNX10AK74H	PA Space Grant Consortium	—	3,584	3,584
Total CFDA	43.001			—	24,688	24,688
Total National Aeronautics and Space Administration				—	24,688	24,688
National Science Foundation:						
ARRA – Trans-NSF Recovery Act Research Support	47.082			520,179	—	520,179
Engineering Grants	47.041			3,077,687	—	3,077,687
	47.041	CBET-1403239	Georgia Institute of Technology	—	25	25
	47.041	CMMI-0927178	Purdue University	—	358,174	358,174
	47.041	CMMI-1041666	University of Hawaii	—	1,503	1,503
	47.041	CMMI-1041598	University of Notre Dame	—	9,284	9,284
	47.041	CMMI-1135033	University of Arizona	—	19,894	19,894
	47.041	CMMI-1207976	University of Illinois	—	104,756	104,756
	47.041	CMMI-1208208	University of Minnesota-Twin Cities	—	4,201	4,201
	47.041	IIP-1256080	Love Park Robotics, Inc.	—	38,791	38,791
Total CFDA	47.041			3,077,687	536,628	3,614,315
Mathematical and Physical Sciences	47.049			2,025,952	—	2,025,952
Geosciences	47.050			688,470	—	688,470
	47.050	EAR-1239285	The Pennsylvania State University	—	85	85
Total CFDA	47.050			688,470	85	688,555

(Continued)

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

Program: Federal sponsor/project title	CFDA #	Award #	Pass-through Entity	Direct	Pass-through	Total Expenditures
Computer and Information Science and Engineering	47.070			$ 1,370,009	—	1,370,009
Biological Sciences	47.074			113,315	—	113,315
	47.074	EF#-1137306	Massachusetts Institute of Technology	—	79,679	79,679
Total CFDA	47.074			113,315	79,679	192,994
Social Behavioral and Economic Sciences	47.075			259,739	—	259,739
	47.075	SMA-1416651	Yale University	—	5,077	5,077
	47.075	SES-0938099	University of Calif – Santa Barbara	—	3,935	3,935
Total CFDA	47.075			259,739	9,012	268,751
Education and Human Resources	47.076			713,562	—	713,562
Polar Programs	47.078			164,694	—	164,694
International Science and Engineering (OISE) (B)	47.079		U.S. Civilian Research &	—	—	—
	47.079	OISE-9531011	Development Foundation	—	10,154	10,154
Total CFDA	47.079			—	10,154	10,154
Office of Cyberinfrastructure (B)	47.080			90,532	—	90,532
Total National Science Foundation				9,024,139	635,558	9,659,697
National Security Agency:						
Mathematical Sciences Grants Program	12.901			2,583	—	2,583
Total National Security Agency				2,583	—	2,583
Total Research And Development Cluster				19,589,841	4,491,100	24,080,941
Other Clustered Programs:						
Public Works And Economic Development Cluster:						
Department of Commerce (Revolving Loan Fund)						
Special Economic Development and Adjustment Assistance	11.307			384,513	—	384,513
U.S. Department of Commerce:						
Special Economic Development and Adjustment Assistance	11.307			62,352	—	62,352
Total CFDA	11.307			446,865	—	446,865
Total Department of Commerce				446,865	—	446,865
Total Other Clustered Programs				446,865	—	446,865
Other:						
Department of Agriculture:						
Wholesale Farmers and Alternative Market Development	10.164			2,584	—	2,584
Child and Adult Care Food Program	10.558	300-48-383-0	PA-Department of Education	—	8,661	8,661
Total Department of Agriculture				2,584	8,661	11,245

(Continued)

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

Program: Federal sponsor/project title	CFDA #	Award #	Pass-through Entity	Direct	Pass-through	Total Expenditures
National Endowment for the Humanities:						
Promotion of the Humanities Challenge Grants	45.130			$ 446,136	—	446,136
Total National Endowment for the Humanities				446,136	—	446,136
DOD-Defense Logistics Agency:						
Defense Logistics Agency	12.000	SP4800-12-2-1236	University of Pennsylvania	—	(1)	(1)
	12.000	SP4800-13-2-1336	University of Pennsylvania	—	6,574	6,574
	12.000	SP4800-14-2-1436	University of Pennsylvania	—	65,366	65,366
Total CFDA	12.000			—	71,939	71,939
Total DOD-DLA				—	71,939	71,939
US-Department of State:						
Educational Exchange-University Lecturers (Professors) and Research Scholars (B)	19.401	S-ECAGD-13-CA-149	Institute of International Education	—	111,784	111,784
Total U.S.-Department of State				—	111,784	111,784
U.S. Securities and Exchange Commission:						
Securities Investigation of Complaints and SEC Information	58.001			227,370	—	227,370
Total US-SEC				227,370	—	227,370
Small Business Administration:						
Small Business Development Centers	59.037	SBAHQ-15-B-0053	University of Pennsylvania	—	147,151	147,151
	59.037	SBAHQ-14-B-0055	University of Pennsylvania	—	107,465	107,465
Total CFDA	59.037			—	254,616	254,616
Entrepreneurial Development Disaster Assistance (Disaster Relief Appropriations Act)	59.064	SBAHQ-13-E-0011	University of Pennsylvania	—	101,886	101,886
Total SBA				—	356,502	356,502
U.S. Department of Education:						
Spec Educ Personnel Prep to Improve Serv & Results for Child with Disab	84.325			285,060	—	285,060
School Leadership	84.363			834,815	—	834,815
Undergraduate International Studies and Foreign Language	84.016			64,629	—	64,629
Total U.S. Dept of Educ				1,184,504	—	1,184,504
National Institutes of Health:						
The Affordable Care Act: Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283			20,048	—	20,048
Head Start	93.600			21,636	—	21,636
Total National Institutes of Health				41,684	—	41,684
Total Other				1,902,278	548,886	2,451,164
Grand Total				$ 52,390,603	5,039,986	57,430,589

See accompanying notes to schedule of expenditures of federal awards.

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (schedule) presents the activity of all federal financial assistance programs administered by Lehigh University (the University) for the year ended June 30, 2015. 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 $716,928 and $47,615 in federal awards, respectively, because these subsidiaries submit separate audit reports in accordance with OMB Circular A-133.

(2) Federal Perkins Loan Program

Perkins loans reported on the schedule include the balance of outstanding loans at June 30, 2014, plus loans made during the period of $339,490 and the administrative cost allowance claimed during the year ended June 30, 2015 of $98,013. 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, 2015. The outstanding balance of Federal Perkins Loans at June 30, 2015 was $2,389,825.

(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 Direct Loan program including origination and disbursement of loans. A summary of these loans for the year ended June 30, 2015 follows:

Stafford loans	$	16,508,069
PLUS loans		7,043,284
Total direct loans	$	23,551,353

(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. Additional "other funding" of $50,000 was recorded during the year from Northampton County, and is included when calculating the ratio of federal and local match for the year ended June 30, 2015. At June 30, 2015, the assets of the fund were as follows:

Cash and investments	$	339,815
Loans receivable		230,650
Total RLF assets	$	570,465

The RLF expended $6,275 on administrative expenses for the year ended June 30, 2015. The federal portion of the RLF is 66.67%. The total expenditures reported on the schedule of expenditures of federal awards (SEFA) is $384,513, which is 66.67% of both the RLF's assets at June 30, 2015 and the RLF's administrative expenses for the year ended June 30, 2015. There were no loans written off during FY 2015.

(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, 2015:

Program title	Federal CFDA #		Amount provided to subrecipients
DOD - Air Force	12.800	$	411,320
DOD - Army	12.431		36,908
DOD-Navy-Chicago	12.300		574,573
Department of Energy	81.049		96,634
	91.121		26,311
Total Department of Energy			122,945
ARRA – Department of Energy	81.122		2,243
Department of Education	84.324		174,727
	84.325		15,720
	84.363		55,591
Total Department of Education			246,038
Department of Health and Human Services	93.395		52,503
	93.615		66,381
	93.859		79,434
	93.865		60,699
			259,017

LEHIGH UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

Program title	Federal CFDA #		Amount provided to subrecipients
Department of State	19.401	$	10,022
Department of Transportation	20.200		400,219
ARRA - National Science Foundation	47.082		32,675
National Science Foundation	47.070		120,196
	47.041		105,535
Total National Science Foundation			225,731
Grand total		$	2,321,691

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, 2015, and the related consolidated statement 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 20, 2015.

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 the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements 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 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 the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Philadelphia, Pennsylvania
October 20, 2015

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards 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 of the Major Federal Programs

We have audited Lehigh University's (the University's) 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, 2015. 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 $716,928 and $47,615 in federal awards, respectively, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2015. Our audit, described below, did not include the operations of these entities because Manufacturer's Resource Center submits a separate audit report 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 the major federal programs occurred. An audit includes examining, on a test basis, evidence about Lehigh 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 of the major federal programs. 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, 2015.

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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of the University as of and for the year ended June 30, 2015, and have issued our report thereon dated October 20, 2015, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Philadelphia, Pennsylvania
March 21, 2016

LEHIGH UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

(1) Summary of Auditors' Results

1.1 The type of report issued on the consolidated financial statements: **Unmodified opinion**

1.2 Significant deficiencies in internal control that were disclosed by the audit of the consolidated financial statements: **None reported**. Material weaknesses: **No**

1.3 Noncompliance that is material to the consolidated financial statements: **No**

1.4. Significant deficiencies in internal control over each major program: **None reported**

Material weaknesses in internal control over each major program: **No**

1.5 The type of report issued on compliance for each major program: **Unmodified opinion**

1.6 Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **No**

1.7 Major programs:

- **Research and Development Cluster (various CFDA numbers)**
- **Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.038, 84.033, 84.268, and 84.063)**

1.8 Dollar threshold used to distinguish between Type A and Type B programs: **$1,722,918**.

1.9 Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133. **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

No matters to report.

(3) Findings and Questioned Costs Relating to Federal Awards

No matters to report.