LEHIGH UNIVERSITY

Consolidated Financial Statements and
Information on Federal Awards

June 30, 2017

(With Independent Auditors' Reports Thereon)

LEHIGH UNIVERSITY

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
Lehigh University:

Report on the 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, 2017, 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.

KPMG

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, 2017, 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 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 23, 2017 on our consideration of Lehigh 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 23, 2017

LEHIGH UNIVERSITY

Consolidated Statement of Financial Position

June 30, 2017
(with comparative financial information for June 30, 2016)

(In thousands)

Assets		**2017**	**2016**
Cash and cash equivalents (note 1(c))	$	23,705	24,930
Accounts receivable, net (note 5)		17,019	12,946
Inventories		1,503	1,590
Prepaid expenses and other assets		6,017	5,584
Contributions receivable, net (note 8)		33,901	37,030
Notes receivable, net (note 6)		11,758	12,767
Investments (notes 2 and 4)		1,871,799	1,554,579
Funds held in trust by others		4,553	4,332
Land, buildings, and equipment, net (note 7)		413,192	401,190
Total assets	$	2,383,447	2,054,948
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	42,308	37,888
Deferred revenues		25,354	23,837
Annuity payment liability		18,431	19,443
Other liabilities (notes 10, 11, and 13)		52,257	55,982
Deposits held for others		1,346	1,385
Refundable federal student loan funds		2,018	2,194
Bonds, loans, and notes payable (note 10)		395,972	240,025
Total liabilities		537,686	380,754
Net assets (notes 3 and 9):			
Unrestricted		932,232	839,051
Temporarily restricted		364,188	309,160
Permanently restricted		549,341	525,983
Total net assets		1,845,761	1,674,194
Total liabilities and net assets	$	2,383,447	2,054,948

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2017
(with summarized comparative financial information for year ended June 30, 2016)

(In thousands)

	2017				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2016
Support and revenues:					
Tuition and fees, net (note 1(i))	$ 191,329	—	—	191,329	185,644
Federal grants and contracts	27,433	—	—	27,433	23,597
State and local grants and contracts	6,380	—	—	6,380	6,314
Private grants and contracts	7,360	—	—	7,360	5,807
Contributions	12,163	—	—	12,163	15,090
Investment return (note 2)	83,515	—	—	83,515	82,527
Auxiliary enterprises	42,930	—	—	42,930	43,492
Independent operations (note 1(a))	15,305	—	—	15,305	11,123
Other sources	10,161	—	—	10,161	9,543
Net assets released from restrictions	2,816	(2,816)	—	—	—
Total support and revenues	399,392	(2,816)	—	396,576	383,137
Expenses:					
Instruction	150,480	—	—	150,480	144,281
Research	43,348	—	—	43,348	39,285
Public service	2,595	—	—	2,595	3,258
Academic support	35,175	—	—	35,175	32,460
Student services	36,190	—	—	36,190	36,216
Institutional support (note 16)	70,348	—	—	70,348	69,522
Auxiliary enterprises	38,702	—	—	38,702	37,757
Independent operations (note 1(a))	10,882	—	—	10,882	11,240
Total expenses (note 12)	387,720	—	—	387,720	374,019
Operating income (loss)	11,672	(2,816)	—	8,856	9,118
Nonoperating activity:					
Investment return (note 2):					
University	70,631	51,079	2,977	124,687	(116,764)
Independent operations	2,792	—	—	2,792	387
Gifts and trusts	8,442	4,360	18,597	31,399	21,531
Net assets released from restrictions and changes in donor intent	(2,552)	2,469	83	—	—
Change in fair value of interest rate swaps (note 11)	12,499	—	—	12,499	(3,189)
Postretirement plan changes other than net periodic benefit costs (note 13):					
University	1,039	—	—	1,039	(2,559)
Independent operations	30	—	—	30	(63)
Other	(11,372)	(64)	1,701	(9,735)	2,691
Nonoperating income	81,509	57,844	23,358	162,711	(97,966)
Change in net assets	93,181	55,028	23,358	171,567	(88,848)
Net assets, beginning of year	839,051	309,160	525,983	1,674,194	1,763,042
Net assets, end of year	$ 932,232	364,188	549,341	1,845,761	1,674,194

See accompanying notes to consolidated financial statements.

LEHIGH UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2017
(with comparative financial information for year ended June 30, 2016)

(In thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	171,567	(88,848)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Gifts and trusts restricted for long-term investment		(30,369)	(17,393)
Noncash contributions		(2,124)	(2,132)
Investment earnings restricted for long-term investment		(353)	281
Net realized gains on investments		(64,790)	(24,912)
Net unrealized (gains) losses on investments		(136,192)	69,008
Change in fair value of rate swap liabilities		(5,108)	2,786
Payment of annuity obligations		1,320	1,336
Other nonoperating activity		73	417
Depreciation and amortization		33,113	27,903
Loss on defeasance and refunding of tax-exempt bonds		10,063	—
Independent operations provision for bad debts		2,637	1,841
University provision for bad debts		45	381
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable		(5,035)	2,420
Decrease in inventories		87	162
Decrease in contributions receivable		3,129	19,658
Increase (decrease) in accounts payable and accrued expenses		4,420	(4,511)
Increase in deferred revenues		1,517	1,287
(Decrease) increase in annuity payment liability		(1,012)	657
(Decrease) increase in deposits held for others		(39)	37
Increase in accrued postretirement benefit cost		1,255	4,867
Increase in other assets		(433)	(1,146)
Decrease in other liabilities		(20)	(53)
Net cash used in operating activities		(16,249)	(5,954)
Cash flows from investing activities:			
Proceeds from sale and maturity of investments		1,343,364	1,279,981
Purchases of investments		(1,460,021)	(1,216,218)
Student loans and other notes advanced		(982)	(1,272)
Independent operations loans advanced		(2,031)	(1,607)
Student loans and other notes collected		2,082	1,339
Independent operations loans collected		196	270
Purchase of land, buildings, and equipment		(38,851)	(34,895)
Net cash (used in) provided by investing activities		(156,243)	27,598
Cash flows from financing activities:			
Proceeds from issuance of indebtedness		253,474	—
Repayments of principal of indebtedness		(5,895)	(41,021)
Defeasance and refunding of tax-exempt bonds		(95,475)	—
Loss on defeasance and refunding of tax-exempt bonds		(10,063)	—
Gifts and trusts restricted for long-term investment		30,369	17,393
Investment earnings restricted for long-term investment		353	(281)
Decrease in refundable loan funds		(176)	(95)
Payment of annuity obligations		(1,320)	(1,336)
Net cash provided by (used in) financing activities		171,267	(25,340)
Net decrease in cash and cash equivalents		(1,225)	(3,696)
Cash and cash equivalents at beginning of year		24,930	28,626
Cash and cash equivalents at end of year	$	23,705	24,930
Supplemental data:			
Interest paid	$	10,520	9,829

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 2,000 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.

LU Properties also serves as Manager for South River Investments LLC (South River) and So-Beth Funding LLC (So-Beth Funding). South River, a Pennsylvania limited liability company, was formed to own and develop certain real estate properties in the local community. The results of South River's operations appear as public service in the University's consolidated statement of activities.

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

The Ben Franklin Technology Partners of Northeastern PA (BFTP), 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 state loan programs and manufacturer grants. 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 net realizable value.

(e) Investments

Investments are stated at fair value or net asset value (NAV) 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 $11.2 million and $11.8 million as of June 30, 2017 and 2016, respectively, and are reported within investments in the consolidated statement of financial position.

(Continued)

(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
Leasehold and 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 2017 and 2016 were $91.6 million and $86.6 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. Significant estimates include alternative investments that are measured at NAV per share as a practical expedient for fair value, the postretirement benefit liability, and contributions receivable that are recognized at the estimated present value of the future cash flows, net of allowances.

(Continued)

(m) Reclassifications

Certain 2016 amounts have been reclassified to conform to their presentation in the 2017 consolidated financial statements.

(n) Prior Year Summarized Financial Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived.

(2) Investments

Investments by major category at June 30, 2017 and 2016 are as follows (in thousands):

		2017	2016
Short-term investments	$	82,212	69,021
Fixed income investments:			
U.S. government		195,072	146,084
Corporate		230,542	90,590
Other		2,845	3,300
Corporate stocks		12,000	22,248
Mutual and exchange-traded funds		245,862	191,661
Real estate		18,653	17,626
Alternative investments:			
Public equity		460,418	423,830
Absolute return		297,745	284,009
Private investments		323,238	303,054
Life insurance and other investments		3,212	3,156
Total investments	$	1,871,799	1,554,579

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. Fixed income investments include the proceeds from the 2016 taxable bond issue. Investments are reported at fair value or NAV 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 NAV.

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

The University is obligated under certain investment agreements to periodically advance additional funding up to contractual levels. At June 30, 2017 and 2016, the University had unfunded commitments of $172 million and $156 million, respectively. While it is uncertain as to when these commitments will be called since the agreements do not specify exact funding dates, it is likely that funding will occur over the next several years. Funds to meet these commitments will be generated from rebalancing the investment pool asset allocation, as well as donor gifts and existing cash.

The components of total investment return are reflected below (in thousands). Investment earnings at June 30, 2017 and 2016 are net of investment expenses of approximately $8.2 million and $10.2 million, respectively.

		2017	**2016**
Investment earnings	$	10,577	10,421
Net realized and unrealized gains (losses)		197,625	(44,658)
		208,202	(34,237)
Independent operations – net realized and unrealized gains		3,357	562
Independent operations – other investment earnings		660	344
Total	$	212,219	(33,331)

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

		2017	2016
Operating:			
Endowment spending distribution	$	65,105	65,457
Spending distribution – other		11,748	9,821
Other investment earnings		6,662	7,249
		83,515	82,527
Independent operations – realized gains		565	175
Independent operations – other investment earnings		660	344
Total operating		84,740	83,046
Nonoperating:			
Endowment spending distribution		573	167
Other investment losses		(220)	(447)
Net realized and unrealized gains (losses) net of spending distribution		124,334	(116,484)
		124,687	(116,764)
Independent operations – net unrealized gains		2,792	387
Total nonoperating		127,479	(116,377)
Total investment return	$	212,219	(33,331)

(3) Endowment Net Assets

The University’s endowment consists of approximately 2,700 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, 2017 and 2016 were $10.7 million and $27.1 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.

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 5.4% and 5.6% for fiscal years 2017 and 2016, respectively.

Endowment net asset composition as of June 30, 2017 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$	(10,687)	15,847	502,475	507,635
Board-designated endowment funds (corpus)		220,364	—	—	220,364
Accumulated gains on endowment funds		176,081	323,906	—	499,987
Total endowment net assets	$	385,758	339,753	502,475	1,227,986

Endowment net asset composition as of June 30, 2016 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds (corpus)	$	(27,131)	32,101	476,063	481,033
Board-designated endowment funds (corpus)		214,064	—	—	214,064
Accumulated gains on endowment funds		155,747	257,348	—	413,095
Total endowment net assets	$	342,680	289,449	476,063	1,108,192

Changes in endowment net assets for the year ended June 30, 2017 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2016	$	342,680	289,449	476,063	1,108,192
Investment return:					
Investment income		10,577	24	174	10,775
Net appreciation		78,841	90,372	450	169,663
Total investment return		89,418	90,396	624	180,438
Contributions		1,088	9	25,788	26,885
Board designations/changes in donor intent		(14,151)	(60)	—	(14,211)
Amounts appropriated for expenditure:					
Endowment spending distribution		(29,204)	(36,474)	—	(65,678)
Endowment operating expense		(2,856)	(3,567)	—	(6,423)
Total amounts appropriated for expenditure		(32,060)	(40,041)	—	(72,101)
Change in other endowment liabilities		(1,217)	—	—	(1,217)
Total change in endowment funds		43,078	50,304	26,412	119,794
Net assets, June 30, 2017	$	385,758	339,753	502,475	1,227,986

Changes in endowment net assets for the year ended June 30, 2016 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2015	$	395,260	337,687	435,221	1,168,168
Investment return:					
Investment income		12,627	24	145	12,796
Net (depreciation) appreciation		(28,328)	(8,772)	1,586	(35,514)
Total investment return		(15,701)	(8,748)	1,731	(22,718)
Contributions		4,905	5	39,111	44,021
Board designations/changes in donor intent		(2,892)	—	—	(2,892)
Amounts appropriated for expenditure:					
Endowment spending distribution		(30,433)	(35,191)	—	(65,624)
Endowment operating expense		(3,722)	(4,304)	—	(8,026)
Total amounts appropriated for expenditure		(34,155)	(39,495)	—	(73,650)
Change in other endowment liabilities		(4,737)	—	—	(4,737)
Total change in endowment funds		(52,580)	(48,238)	40,842	(59,976)
Net assets, June 30, 2016	$	342,680	289,449	476,063	1,108,192

(4) Fair Value Measurements

The three levels of the fair value hierarchy are described below. The hierarchy gives the highest priority to unadjusted quoted or published prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements):

Level 1 – Unadjusted quoted or published prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Quoted prices for instruments that are identical or similar in markets that are not active and model-derived valuations for which all significant inputs are observable, either directly or indirectly in active markets.

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

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

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

(a) 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. 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, 2017 and 2016, 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.

(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) Interest Rate Swaps

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.

(Continued)

(g) Investments

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

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

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

The following table presents the University's fair value hierarchy for investments at June 30, 2017 (in thousands):

	Fair value measurements at reporting date using				
	Quoted or published prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Measured at NAV per share (or its equivalent)	Total
Short-term investments	$ 82,212	—	—	—	82,212
Fixed income investments:					
U.S. government	154,773	40,299	—	—	195,072
Corporate	—	230,542	—	—	230,542
Other	—	2,845	—	—	2,845
Corporate stocks	12,000	—	—	—	12,000
Mutual and exchange-traded funds	245,862	—	—	—	245,862
Real estate	—	18,653	—	—	18,653
Alternative investments:					
Public equity	—	30,568	—	429,850	460,418
Absolute return	—	—	—	297,745	297,745
Private investments	—	—	—	323,238	323,238
Life insurance and other investments	3,203	9	—	—	3,212
Total investments	$ 498,050	322,916	—	1,050,833	1,871,799

The following table presents the University's fair value hierarchy for investments at June 30, 2016 (in thousands):

	Fair value measurements at reporting date using				
	Quoted or published prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Measured at NAV per share (or its equivalent)	Total
Short-term investments	$ 69,021	—	—	—	69,021
Fixed income investments:					
U.S. government	103,210	42,874	—	—	146,084
Corporate	—	90,042	548	—	90,590
Other	—	3,300	—	—	3,300
Corporate stocks	22,248	—	—	—	22,248
Mutual and exchange-traded funds	191,661	—	—	—	191,661
Real estate	—	17,626	—	—	17,626
Alternative investments:					
Public equity	—	29,929	—	393,901	423,830
Absolute return	—	—	—	284,009	284,009
Private investments	—	—	—	303,054	303,054
Life insurance and other investments	3,142	14	—	—	3,156
Total investments	$ 389,282	183,785	548	980,964	1,554,579

The following redemption table clarifies the nature, risk, and liquidity of the University's investments in alternative investment vehicles that are reported at NAV per share (or its equivalent) at June 30, 2017 (in thousands):

	Fair value	Estimated remaining lives	Unfunded commitments	Redemption frequency after end of initial restriction period	Redemption notice period
Public equity (1)	$ 429,850	N/A	$ —	weekly – annually	3–90 days
Absolute return (2)	297,745	1–4 years	20,337	various or not eligible	45–180 days
Private investments (3)	323,238	1–12 years	151,826	generally not eligible	—
Total	$ 1,050,833		$ 172,163		

(1) This category's primary objective is to capture the returns of publicly traded equities on a global market basis in order to provide long-term growth to the endowment. Investments representing approximately 8% of the total value in this category have restrictions that prevent full redemption at June 30, 2017.

(2) The primary objective of this category is to capture the returns associated with skill-based active management by exploiting the inefficiencies associated with marketable securities, thus providing a diversifying return stream with low correlation to returns of stocks. These funds should also provide principal protection in equity sell-offs. Investments representing approximately 21% of the total value in this category have restrictions that prevent full redemption at June 30, 2017.

(3) This category includes investments in private equity and real estate funds. 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. Private investments typically have commitment periods up to 12 years.

(5) Accounts Receivable

Accounts receivable at June 30, 2017 and 2016 (net of allowances for doubtful accounts) are as follows (in thousands):

		2017	2016
Accounts receivable, net:			
Student accounts	$	581	816
Grants and contracts		8,918	6,040
Investment income		2,902	1,788
Other		4,618	4,302
	$	17,019	12,946

Allowances for doubtful accounts were $3.5 million and $2.6 million in 2017 and 2016, respectively.

(6) Notes Receivable

Notes receivable at June 30, 2017 and 2016 are as follows (in thousands):

		2017	2016
Notes receivable, net:			
University:			
Student loans	$	7,879	8,350
Other		2,224	2,903
Less allowance for doubtful loans		(271)	(285)
Total University		9,832	10,968
Independent operations:			
Program loans		12,710	11,563
Less allowance for doubtful accounts		(10,784)	(9,764)
Total independent operations		1,926	1,799
	$	11,758	12,767

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, 2017 and 2016 (in thousands):

		2017	2016
Land and improvements	$	64,082	62,560
Buildings and improvements		643,052	631,388
Furniture, equipment, books, and collections		206,093	198,986
Construction in progress		26,128	7,479
		939,355	900,413
Less accumulated depreciation		(526,163)	(499,223)
Total	$	413,192	401,190

Depreciation expense totaled $29.1 million and $27.7 million for the years ended June 30, 2017 and 2016, respectively. Capitalized interest totaled $0.6 million and $0.4 million for the years ended June 30, 2017 and 2016, respectively.

(Continued)

(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 5.05%. Outstanding pledges that were conditional amounted to $13.1 million and $16.7 million as of June 30, 2017 and 2016, respectively. Unconditional promises are expected to be realized in the following periods (in thousands):

		2017	2016
In one year or less	$	16,532	16,682
Between one year and five years		16,332	17,468
More than five years		4,328	6,831
		37,192	40,981
Less:			
Unamortized discount		(884)	(1,325)
Allowance for uncollectible accounts		(2,407)	(2,626)
	$	33,901	37,030

(9) Net Assets

Temporarily restricted net assets include the following at June 30, 2017 and 2016 (in thousands):

		2017	2016
Contributions receivable	$	13,994	12,480
Temporarily restricted endowment funds		15,466	31,492
Life income funds		3,055	3,096
Accumulated gains on permanent endowment funds		324,287	257,957
Other – related to time and purpose restrictions		7,386	4,135
	$	364,188	309,160

Based upon spending restrictions in effect as of June 30, 2017, 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 13%, and no purpose restrictions 40%.

Permanently restricted net assets include the following at June 30, 2017 and 2016 (in thousands):

		2017	2016
Contributions receivable	$	16,894	21,636
Permanent loan funds		2,371	2,226
Annuity and life income funds		27,601	26,058
Permanent endowment funds		502,475	476,063
	$	549,341	525,983

Included in life income funds are $1.1 million (temporarily restricted) and $1.9 million (permanently restricted) net assets classified as contributions receivable on the consolidated statement of financial position.

(10) Bonds, Loans, and Notes Payable

Bonds, loans, and notes payable are reported net of any unamortized premiums, discounts, or issuance costs. Net unamortized premiums were $3.3 million at June 30, 2017. Net unamortized discounts were ($0.9) million at June 30, 2016. Net unamortized bond issuance costs were $1.8 million and $1.5 million at June 30, 2017 and 2016, respectively. The following table presents bonds, loans, and notes payable at June 30, 2017 and 2016 (in thousands):

		2017	2016
Taxable Commercial Paper Series A, up to $75 million, weighted average interest rate of 1.30% and 0.48% on June 30, 2017 and 2016, respectively; average duration of 122 days and 28 days for the years ended June 30, 2017 and 2016, respectively	$	20,000	20,000
Northampton County General Purpose Authority (NCGPA):			
Series 2000B bonds; tax-exempt variable rate revenue bonds, $25,000 due serially from December 1, 2003 to December 1, 2030, variable rates of 0.88% and 0.43% on June 30, 2017 and 2016, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2018		16,472	17,271
Series 2001 bonds; tax-exempt variable rate revenue bonds, $21,780 due serially from October 15, 2006 to October 15, 2019, variable rates of 0.88% and 0.43% on June 30, 2017 and 2016, respectively; bonds are supported with a standby bond purchase agreement, which expires on September 16, 2018		7,980	10,791

		2017	2016
Series 2004 bonds; tax-exempt index rate revenue bonds, $50,000 due serially from May 15, 2025 to May 15, 2034, rates of 1.40% and 0.96% on June 30, 2017 and 2016, respectively	$	49,758	49,739
Series 2006A bonds; tax-exempt variable rate revenue bonds, $16,820 due serially from November 15, 2007 to November 15, 2021, variable rates of 0.85% and 0.40% on June 30, 2017 and 2016, respectively		8,833	10,414
Series 2007 bonds; tax-exempt revenue bonds, $24,615 variable rate CPI bonds due serially from November 15, 2019 to November 15, 2025, variable rates of 3.56% and 2.03% on June 30, 2017 and 2016 respectively; term bonds in the amount of $29,310 were refunded on October 6, 2016		24,526	53,488
Series 2009 bonds; 5.00% to 5.50% tax-exempt fixed rate revenue bonds, legally defeased on October 6, 2016		—	64,674
Series 2016A bonds; 4.00% to 5.00% tax-exempt fixed rate revenue bonds, $26,715 due serially from November 15, 2026 to November 15, 2036		29,823	—
Series 2016B bonds; tax-exempt variable rate revenue bonds, $74,950 due serially from November 15, 2017 to November 15, 2039, variable rate of 1.50% on June 30, 2017		74,680	—
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%		12,543	13,025
Series 2016 taxable bonds; $150,000 due serially from November 15, 2044 to November 15, 2046, fixed rate 3.48%		149,118	—
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, paid in full on December 14, 2016		—	176

(Continued)

		2017	2016
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 3.75% on both June 30, 2017 and 2016	$	430	447
Construction loan issued by BB&T to Lehigh University subsidiary BFTP, up to $5,000 due serially from February 17, 2018 to October 12, 2025; 30 day LIBOR Rate plus 2.50%; will convert to fixed rate loan following termination of construction period		1,809	—
	$	395,972	240,025

On October 6, 2016, the University issued $150,000,000 aggregate principal amount of its Series 2016 taxable bonds (the 2016 Taxable Bonds). The 2016 Taxable Bonds are secured by a pledge of and security interest in the University's gross revenues. The proceeds of the 2016 Taxable Bonds will be used to finance current and future capital projects consistent with the University's capital plan, to pay the costs of issuance, and any other purpose duly authorized by the University.

Concurrently, the Northampton County General Purpose Authority (NCGPA) issued $26,715,000 Higher Education Fixed Rate Revenue Bonds, Series A of 2016 (the 2016A Bonds) and $74,950,000 Higher Education Variable Rate Revenue Bonds, Series B of 2016 (the 2016B Bonds). The 2016A Bonds are tax-exempt bonds for the purpose of refunding, on a current basis, the University's 2007 term bonds, as well as paying certain issuance costs. The 2016B Bonds are tax-exempt bonds for the purpose of the legal defeasance of all of the University's 2009 Bonds. Loss on defeasance and refunding of the bonds totaled $10.1 million and is included in nonoperating other in the consolidated statement of activities. The University also entered into an interest rate swap agreement to effectively convert the 2016B Bonds to fixed rates and reduce the University's effective interest rate.

Proceeds from all other 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. In accordance with the NCGPA loan agreements, the University established rates and charges sufficient to provide, in each fiscal year, for the payment of the University's operating expenses and debt service on its long-term indebtedness. The University may incur additional indebtedness under certain conditions described in the loan agreements and the bond indentures.

(Continued)

BFTP debt was used for a building purchase and to finance the construction of a building addition. The BB&T loan is subject to a security agreement against business assets, liquidity and equity commitments, and additional collateral assignments. Upon completion of the construction and receipt of additional grant funding, the maximum loan value will reduce from $5.0 million to $3.3 million.

At June 30, 2017, the aggregate annual maturities of long-term bonds, loans, and notes payable for the next five years and, thereafter, are as follows (in thousands):

2018	$	6,637
2019		18,513
2020		6,342
2021		6,537
2022		6,778
Thereafter		329,654

The Series of 2000B, 2001, and 2006A bonds bear interest at a weekly rate determined by the remarketing agent. The Series 2004 bonds bear interest based upon a LIBOR Index Rate set by the calculation agent on a monthly basis. The University may elect to convert to another variable rate mode or to a fixed mode as determined by the remarketing agent.

Bondholders have a right to tender variable rate bonds at interest rate reset dates.

The University entered into 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, 2017, Lehigh estimates that $76 million of liquid assets were available on a same day basis and an additional $91 million was available within 30 days.

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. 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	$	16,555	4.530 %	67% of USD-1 month LIBOR-BBA	12/1/2030
2001 bonds	JPMorgan Chase Bank, N.A.	9/4/2001		7,990	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		8,855	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
2016B bonds	Wells Fargo Bank, N.A.	10/6/2016		74,950	1.148	70% of USD-1 month LIBOR-BBA	11/15/2039
			$	182,965			

(11) Derivative Instruments

The University employs derivatives, primarily interest rate swap agreements, to manage interest rate risk associated with outstanding debt. The endowment fund also includes 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 $1.0 million and $6.1 million at June 30, 2017 and 2016, respectively. The change in fair value of the interest rate swaps is reflected in nonoperating activity on the statement of activities and was $12.5 million and $(3.2) million for the years ended June 30, 2017 and 2016, 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, 2017, the University would be required to post an additional $7.8 million of collateral to its counterparties.

(12) Natural Expense Classification

The following table compares operating expenses by type for the years ended June 30, 2017 and 2016, respectively, (in thousands):

		2017	2016
Salaries and wages	$	174,714	167,519
Employee benefits		55,953	52,264
Utilities		7,993	7,802
Purchased services		34,054	34,680
Building and grounds maintenance		22,246	22,108
Depreciation		29,072	27,742
Interest		11,579	9,580
All other business expenses		52,109	52,324
Total	$	387,720	374,019

(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 2017, the University reimbursed retirees a maximum of $96.50 per month for premium expenses. The maximum monthly reimbursement amount will increase each year at the lesser of medical Consumer Price Index (CPI) or 8%. These postretirement medical benefits accrue from the later of date of hire or age 30. The University uses a July 1 measurement date for its plan. Summarized plan information is stated below (in thousands):

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

		2017	2016
Benefit obligation at beginning of year	$	43,735	38,868
Operating:			
Service cost		1,532	1,302
Interest cost		1,795	1,846
Benefits paid		(1,003)	(903)
Total operating		2,324	2,245
Nonoperating:			
Actuarial gain		—	(455)
Assumption changes		(1,069)	3,077
Total nonoperating (gain)/loss		(1,069)	2,622
Benefit obligation at end of year	$	44,990	43,735

The following table sets forth the status of the plan, which is unfunded, at June 30, 2017 and 2016:

		2017	2016
Accumulated postretirement benefit obligation:			
Retirees	$	14,545	14,140
Fully eligible active plan participants		15,933	15,489
Other active plan participants		14,512	14,106
Total		44,990	43,735
Plan assets at fair value		—	—
Accumulated postretirement benefit liability	$	44,990	43,735

Weighted average assumptions for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Discount rate for net periodic postretirement benefit cost	4.15 %	4.80 %
Discount rate for accumulated postretirement benefit obligation	4.16	4.15
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, 2017 and 2016 is as follows:

	2017	2016
Healthcare cost trend rate assumed for next year	4.00 %	4.00 %
Rate to which the cost trend rate is assumed to decline (ultimate rate)	4.00	4.00
Year that ultimate rate is reached	N/A	N/A

Impact of 1% increase in assumed healthcare cost trend rate at June 30, 2017 and 2016 is as follows (in thousands):

		2017	2016
Increase in accumulated postretirement benefit obligation	$	9,186	8,930
Increase in net periodic postretirement benefit cost		889	804

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

Fiscal year ending June 30:		
2018	$	1,046
2019		1,162
2020		1,268
2021		1,373
2022		1,482
2023 through 2027		9,134

(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 $14.3 million and $14.5 million in 2017 and 2016, 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 2020. These rates are also used for other sponsored programs except where separately negotiated. Indirect cost reimbursements from all sources totaled $8.9 million and $7.9 million in 2017 and 2016, respectively.

(16) Fund-Raising Costs

Fund-raising costs were approximately $11.4 million and $13.5 million in 2017 and 2016, respectively, and are included in institutional support in the consolidated statement of activities.

(17) Commitments and Contingencies

Open commitments for contracts with general contractors amounted to approximately $11.1 million and $0.7 million as of June 30, 2017 and 2016, respectively.

The University leases certain equipment and real property. These leases are classified as operating leases and have lease terms ranging from one to seven years. Total lease expense for both fiscal 2017 and 2016 was approximately $1.1 million.

(18) Income Taxes

The University has been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. Accordingly, no provisions for income taxes have been made in the accompanying consolidated financial statements. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2017 there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(19) Subsequent Events

The University has evaluated subsequent events through October 23, 2017, the date the financial statements were issued, and concluded that there are no items requiring disclosure.

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

Program: Federal sponsor/project title	CFDA #	Pass-through entity Identifying number	Pass-through Entity	Passed through to subrecipients	Total Expenditures
Student Financial Assistance Cluster:					
U.S. Department of Education:					
Federal Supplemental Education Opportunity Grant	84.007			$ —	354,000
Federal Perkins Loan Program	84.038			—	2,484,251
Federal Work Study Program	84.033			—	468,659
Federal Pell Grant Program	84.063			—	3,127,680
Federal Direct Loan Program	84.268			—	21,161,898
Total Student Financial Assistance Cluster				—	27,596,488
Research and Development Cluster:					
Department of Commerce:					
Climate and Atmospheric Research	11.431	NA16OAR4310253	University Corporation for Atmospheric Research	—	16,385
Golf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology	11.451			—	12,335
Science, Technology, Business and/or Education Research	11.620			—	2,893
DOD – Office of Economic Adjustment:					
Economic Adjustment Assistance for State Governments	12.617	HQ00051410034	Philadelphia Works	—	9,376
DOD – Defense Threat Reduction Agency:					
Scientific Research – Combating Weapons of Mass Destruction	12.351			—	9,732
DOD – U.S. Air Force:					
Air Force Defense Research Sciences Program	12.800			—	684,603
Air Force Defense Research Sciences Program	12.800	FA8650-15-C-1855	MEMtronics, Inc.	—	41,023
DOD – U.S. Army – Research Laboratory:					
Basic Scientific Research	12.431			79,345	452,690
DOD – U.S. Navy:					
Basic and Applied Scientific Research	12.300			415,211	2,126,840
Basic and Applied Scientific Research	12.300	N00014-14-1-0510	University of Pennsylvania	—	26,672
Basic and Applied Scientific Research	12.300	N00014-14-1-0533	University of Virginia	—	201,397
Basic and Applied Scientific Research	12.300	N00014-15-1-2080	Wright State University	—	61,613
DOD – Defense Logistics Agency:					
Defense Logistics Agency	12.000	SP4701-11-D-0025	Advanced Technology Institute	—	101,063
DOD – Defense Advanced Research Projects Agency:					
Research and Technology Development	12.910	HR0011-12-C-0035	The Boeing Company	—	98,264
DOD – National Security Agency:					
Mathematical Sciences Grants Program	12.901			—	6,411
U.S. Dept of Energy:					
General Area	81.000	DE-AC52-06NA25396	Los Alamos National Laboratory	—	131,366
General Area	81.000	Membership Agreement	Los Alamos National Laboratory	—	40,962
General Area	81.000	DE-AC02-05CH11231	Lawrence Berkeley National Laboratory	—	1,408
General Area	81.000	DE-AC52-07NA27344	Lawrence Livermore National Laboratory	—	2,443
Office of Science Financial Assistance Program	81.049			—	1,723,397
Office of Science Financial Assistance Program	81.049	DE-SC0001057	Carnegie Institute of Washington	—	151,526
Office of Science Financial Assistance Program	81.049	DE-SC0012577	Georgia Institute of Technology	—	137,269
Office of Science Financial Assistance Program	81.049	DE-AC52-07NA27344	Lawrence Livermore National Laboratory	—	73,531
Office of Science Financial Assistance Program	81.049	DE-AC02-09CH11466	Princeton Plasma Physics Laboratory	—	38,950
Office of Science Financial Assistance Program	81.049	DE-SC0009651	UHV Technologies, Inc.	—	6,166
Stewardship Science Grant Program	81.112			—	161,897
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance (B)	81.117			—	301,857
Nuclear Energy Research, Development and Demonstration	81.121			66,738	167,183
Electricity Delivery and Energy Reliability, Research Development and Analysis (B)	81.122	DE-OE0000779	University of Arkansas	—	608,399
Advanced Research Projects Agency – Energy	81.135	DE-AR0000582	Advanced Cooling Technologies, Inc.	—	261,065
U.S. Department of Education:					

(Continued)

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

Program: Federal sponsor/project title	CFDA #	Pass-through entity Identifying number	Pass-through Entity	Passed through to subrecipients	Total Expenditures
Graduate Assistance in Areas of National Need	84.200			$ —	153,036
Education Research, Development and Dissemination	84.305	R305A140356	Ohio University	—	379,963
Education Research, Development and Dissemination	84.305	R305A160080	University of Minnesota	—	10,326
Research in Special Education	84.324			216,820	685,952
Research in Special Education	84.324	R324A130066	Ohio State University	—	38,492
National Institutes of Health:					
General Area	93.000			—	18,920
Oral Diseases and Disorders Research	93.121			—	368,048
Mental Health Research Grants	93.242	5R01MH094435-05	University of North Carolina at Greensboro	—	120,507
Mental Health Research Grants	93.242	7R01MH099557-05	Wayne State University	—	39,425
Drug Abuse and Addiction Research Programs	93.279	2R44DA032464	Ophidion, Inc.	—	111,032
Discovery and Applied Resh for Tech Innovations to Improve Human Health	93.286			38,301	121,356
Minority Health and Health Disparities Research	93.307			92,392	135,085
Minority Health and Health Disparities Research	93.307	1R01MD011573-01	Medical College of Wisconsin	—	40,423
Minority Health and Health Disparities Research	93.307	1R01MD008940	University of Arizona	—	74,603
Cancer Treatment Research	93.395			19,515	98,230
Cancer Biology Research	93.396			25,338	92,855
Maternal, Infant, and Early Childhood Home Visiting Research Programs	93.615			1,426	55,317
Cardiovascular Diseases Research	93.837			—	114,725
Blood Diseases and Resources Research	93.839			3,175	17,502
Blood Diseases and Resources Research	93.839	5R01HL082808-12	Emory University	—	91,403
Blood Diseases and Resources Research	93.839	5P01HL040387-29	University of Pennsylvania	—	79,999
Arthritis Musculoskeletal and Skin Diseases Research	93.846	2U54AR055073-11	University of Medicine & Dentistry of New Jersey	—	383,985
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			—	223,837
Biomedical Research and Research Training	93.859			121,224	1,078,003
Biomedical Research and Research Training	93.859	1R01GM118530-01	Brown University	—	74,909
Biomedical Research and Research Training	93.859	U54GM087519	University of Chicago	—	143,274
Biomedical Research and Research Training	93.859	2R01GM103695-10	University of Michigan	—	49,688
Child Health and Human Development Extramural Research	93.865			59,873	596,565
Vision Research	93.867			—	283,097
Medical Library Assistance	93.879			—	44,976
U.S. Department of Interior:					
Secure Water Act Research Agreements	15.560			—	29,489
Earthquake Hazards Research and Monitoring Assistance	15.807			—	16,573
U.S. Department of Transportation:					
General Area	20.000			—	5,207
Highway Research and Development Program (B)	20.200			87,997	209,988
Highway Planning and Construction	20.205			—	30,497
Recreational Trails Program	20.219			108,860	108,860
Public Transportation Research	20.514	HR 24-36	University Of Minnesota	—	23,861
Transportation Planning, Research and Education (B)	20.931	69A3551747118	Colorado School of Mines	—	40,323
National Aeronautics and Space Administration:					
General Area	43.000	NNX11CB8OC	Arklight, Inc.	—	(17,868)
Education	43.008	NNX16AM18G	Nurture Nature Center, Inc.	—	39,289
Education	43.008	NNX15AK06H	PA Space Grant Consortium	—	12,660
Education	43.008	NNX15AK06H	Penn State University	—	6,560
National Science Foundation:					
Engineering Grants	47.041			216,044	5,726,467
Engineering Grants	47.041	IIP-1622917	Dynalene, Inc.	—	76,190
Engineering Grants	47.041	EFMA-1433459	Purdue University	—	181,975
Mathematical and Physical Sciences	47.049			—	1,781,250
Geosciences	47.050			—	545,537
Geosciences	47.050	EAR-1360446	Columbia University	—	59,432

(Continued)

LEHIGH UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

Program: Federal sponsor/project title	CFDA #	Pass-through entity Identifying number	Pass-through Entity	Passed through to subrecipients	Total Expenditures
Computer and Information Science and Engineering	47.070			$ 47,806	1,073,467
Computer and Information Science and Engineering	47.070	IIS-1421498	Cornell University	—	12,256
Biological Sciences	47.074			41,749	561,368
Biological Sciences	47.074	EF#1137306	Massachusetts Institute of Technology	—	83,279
Social Behavioral and Economic Sciences	47.075			—	80,420
Social Behavioral and Economic Sciences	47.075	SMA-1416651	Yale University	—	69,764
Education and Human Resources	47.076			18,741	602,583
Polar Programs	47.078			—	19,086
Office of International Science and Engineering	47.079			—	7,853
Office of Integrative Activities	47.083	OISE-1545903	Boise State University	—	49,769
Environmental Protection Agency:					
Science to Achieve Results (STAR) Research Program	66.509	835060201	University of Massachusetts, Amherst	—	696
Total Research And Development Cluster				1,660,555	24,821,080
Other Clustered Programs:					
Public Works And Economic Development Cluster:					
Economic Adjustment Assistance (Revolving Loan Fund)	11.307			—	357,363
Total Public Works and Economic Development and Adjustment Assistance Cluster	11.307			—	357,363
Total Other Clustered Programs				—	357,363
Other:					
Department of Agriculture:					
Agriculture and Food Research Initiative (AFRI)	10.310			25,032	37,468
Child and Adult Care Food Program	10.558	300-48-383-0	PA Department of Education	—	5,705
National Endowment for the Humanities:					
Promotion of the Humanities Challenge Grants	45.130			—	430,004
DOD – Defense Logistics Agency:					
Procurement Technical Assistance	12.002	SP4800-15-2-1536	University of Pennsylvania	—	2,046
Procurement Technical Assistance	12.002	SP4800-16-2-1636	University of Pennsylvania	—	65,336
Department of State:					
Academic Exchange Programs – Undergraduate Programs	19.009	S-ECAGD-16-CA-1146	IREX	—	26,661
Academic Exchange Programs – Scholars	19.401	S-ECAGD-13-CA-149	Institute of International Education	25,166	74,181
U.S. Securities and Exchange Commission:					
Securities Investigation of Complaints and SEC Information	58.001			—	227,869
Small Business Administration:					
Small Business Development Centers	59.037	SBAHQ-16-B-0043	University of Pennsylvania	—	14,810
Small Business Development Centers	59.037	SBAHQ-17-B-0057	University of Pennsylvania	—	181,840
Department of Education:					
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325			—	235,413
School Leader Recruitment and Support	84.363			54,000	83,556
Department of Health and Human Services:					
Head Start	93.600			—	2,983
Total Other				104,198	1,387,872
Total Expenditures of Federal Awards				$ 1,764,753	54,162,803

LEHIGH UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Lehigh University (the University) under programs of the federal government for the year ended June 30, 2017 in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the University. The schedule of expenditures of federal awards does not present the activity for the University's subsidiaries Ben Franklin Technology Partners of Northeastern PA and Manufacturers Resource Center that expended $1,004,842 and $795,350 in federal awards, respectively, and submit separate audit reports in accordance with the Uniform Guidance.

(2) Summary of Significant Accounting Policies

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

(3) Indirect Cost Rate

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

(4) Federal Perkins Loan Program

Perkins loans are administered directly by the University, and balances and transactions relating to Perkins loans are included in the University's consolidated financial statements. Perkins loan expenditures reported on the Schedule include the balance of outstanding loans at June 30, 2016, loans made during the year ended June 30, 2017 of $115,430 and the administrative cost allowance claimed during the year ended June 30, 2017 of $79,994. The outstanding balance of Federal Perkins Loans at June 30, 2017 was $2,193,716.

There were no federal or institutional capital contributions to the Perkins revolving loan fund for the year ended June 30, 2017.

(5) Direct Loans

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

(6) Revolving Loan Fund

The Lehigh and Northampton Counties Revolving Loan Fund (RLF) has as its principal activity to provide capital (in the form of loans) to new and existing businesses for the purpose of creating and retaining permanent private sector jobs. No new federal or other funding was received during the year ended June 30, 2017. At June 30, 2017, the assets of the fund were as follows:

Cash and investments	$	247,974
Loans receivable		277,764
Total RLF assets	$	525,738

The RLF expended $10,280 on administrative expenses for the year ended June 30, 2017. The federal portion of the RLF is 66.67%. The total expenditures reported on the schedule of expenditures of federal awards (SEFA) is $357,363, which is 66.67% of both the RLF's assets at June 30, 2017 and the RLF's administrative expenses for the year ended June 30, 2017.

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, 2017, and the related consolidated statements of activities and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated October 23, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 opinions on the 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 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 23, 2017

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

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

The Board of Trustees
Lehigh University:

Report on Compliance for the Major Federal Program

We have audited Lehigh University's (the University's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2017. The University's major federal program is 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 Ben Franklin Technology Partners of Northeastern Pennsylvania and Manufacturers Resource Center (the subsidiaries), which received $1,004,842 and $795,350 in federal awards, respectively, which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2017. Our audit, described below, did not include the operations of the subsidiaries because they separately engaged us to perform audits in accordance with the Uniform Guidance.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, Lehigh University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the consolidated financial statements of Lehigh University as of and for the year ended June 30, 2017, and have issued our report thereon dated October 23, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Philadelphia, Pennsylvania
January 26, 2018

LEHIGH UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

(1) Summary of Auditors' Results

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

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

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

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over the major program disclosed by the audit:

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

(e) Type of report issued on compliance for the major program: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

(g) Major program:

- Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.038, 84.033, 84.063, and 84.268)

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$1,624,884**

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

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

None

(3) Findings and Questioned Costs Relating to Federal Awards

None