

# Financial Report

Included in the following pages are highlights of the 2017-2018 fiscal year financial results, as well as key excerpts from the university's financial statements.

## Statement of Financial Position

### ASSETS

The largest categories within the university's \$2.5 billion asset balance are investments and capital assets. The university's endowment fund comprises the majority of the university's investment balance (see "Endowment Review" on page 38) and experiences growth based on donor support and investment return net of operating distributions. Significant capital projects in process at fiscal year-end include renovations on the Mountaintop and the Asa Packer Campuses to support the Path to Prominence initiative.

### LIABILITIES

The Bonds, Loans, and Notes Payable balance of \$375 million comprises the largest liability balance on the consolidated financial statements. The university's debt balance includes a diversified mix of fixed and variable rate, and taxable and tax-exempt obligations. In support of the tax-exempt debt portfolio, the university has entered into interest rate exchange agreements that effectively minimize the variable rate exposure and/or reduce the university's effective interest rate. In Fiscal Year 2018, the university and its subsidiaries made significant principal payments on outstanding debt, resulting in a \$21 million year-to-year decrease in consolidated debt.

### NET ASSETS

The university's Net Assets balance of almost \$2 billion is classified as permanently restricted, temporarily restricted or unrestricted net assets. Permanently restricted net assets are primarily endowment assets whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be removed by the university. In most cases, the donors of those assets permit the university to

use all or a part of the investment income on those assets for general or specific purposes. The use of temporarily restricted net assets is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled or removed by actions of the university. A significant portion of temporarily restricted net assets is composed of accumulated gains on permanently restricted endowment funds. Unrestricted net assets are free from donor-imposed restrictions, but have largely been designated for specific purposes by action of the Board of Trustees or university management.

## Statement of Activities

### OPERATING REVENUES

Net Tuition Revenue and Investment Return comprise the two largest sources of unrestricted operating revenue, representing 47.3% and 20.8% of the consolidated total in Fiscal Year 2018. Tuition and fees revenue is reported net of related financial aid. Total financial aid expenditures supporting graduate and undergraduate tuition grew 8.7% to \$99.6 million. The University also provides financial aid to offset student living expenses, reported as a deduction from auxiliary enterprises revenues in the consolidated financial statements. Need-based financial aid was provided to more than 38% of undergraduate students, with an average financial aid package of just under \$36,600.

Operating Investment Return includes \$66 million of distributed earnings from the university endowment fund. The university's policy for the distribution of endowment earnings is based on a three-year moving average market value that includes a ceiling and floor to insulate program spending from significant market fluctuations. Operating revenues for Independent Operations were up 44% due to an extraordinary investment gain reported by one of Lehigh's subsidiary organizations,

Ben Franklin Technology Partners of Northeastern Pennsylvania.

### OPERATING EXPENSE

The university continues to manage its expenses responsibly, aligning institutional resources from all sources to support its mission of education, research and public service. Fiscal Year 2018 was the university's 48th consecutive year of positive net operating income. Almost one-half of operating expense falls within the functional expense categories of Instruction and Academic Support, directly supporting the student academic experience. Research expenditures further faculty scholarly inquiry and also provide opportunities for student independent research projects. In Fiscal Year 2018, university faculty were engaged in more than 600 actively supported research projects. Auxiliary Enterprises provide an active and balanced educational experience by integrating formal studies with the residential environment.

Classifying expenses on a natural, rather than functional, basis reveals that salaries and benefits comprise more than one-half of the university's annual operating expense. Resource planning continues to focus on reallocation opportunities and collaborative efforts for the long term.

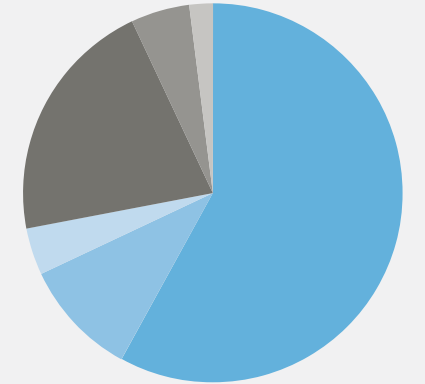
### NONOPERATING ACTIVITY

Nonoperating activity includes transactions of a long-term investment nature or that indirectly relate to core activities. Examples include contributions restricted for campus improvements, contributions restricted because of donor-imposed stipulations, income and expense resulting from certain fair-value adjustments, the impact of bond defeasance and refunding activities, and investment returns net of earnings distributed for operations.

## Fiscal Year 2017-2018 Operating Revenue Sources

(\$ in thousands)

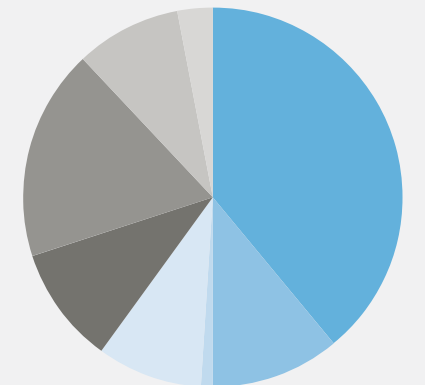
TUITION & AUXILIARIES	\$ 240,281	58%
GRANTS & CONTRACTS	41,494	10%
CONTRIBUTIONS	16,253	4%
INVESTMENT RETURN	86,392	21%
INDEPENDENT OPERATIONS	21,974	5%
OTHER SOURCES	9,923	2%
<b>Total</b>	<b>\$ 416,317</b>	<b>100%</b>



## Fiscal Year 2017-2018 Operating Expense by Functional Category

(\$ in thousands)

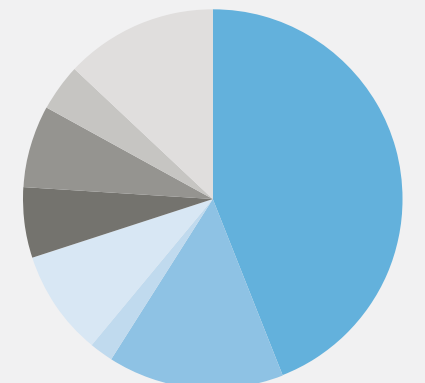
INSTRUCTION	\$ 156,074	39%
RESEARCH	44,138	11%
PUBLIC SERVICE	2,618	1%
ACADEMIC SUPPORT	38,237	9%
STUDENT SERVICES	39,029	10%
INSTITUTIONAL SUPPORT	75,170	18%
AUXILIARY ENTERPRISES	38,955	9%
INDEPENDENT OPERATIONS	11,054	3%
<b>Total</b>	<b>\$ 405,275</b>	<b>100%</b>



## Fiscal Year 2017-2018 Operating Expense by Natural Category

(\$ in thousands)

SALARIES & WAGES	\$ 178,915	44%
EMPLOYEE BENEFITS	62,265	15%
UTILITIES	8,818	2%
PURCHASED SERVICES	36,266	9%
BUILDING & GROUNDS MAINTENANCE	23,459	6%
DEPRECIATION	29,980	7%
INTEREST	13,886	4%
ALL OTHER BUSINESS EXPENSES	51,686	13%
<b>Total</b>	<b>\$ 405,275</b>	<b>100%</b>



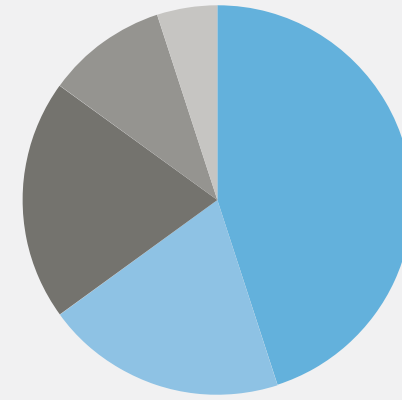
# Endowment Review

The endowment earned 9.5% for Fiscal Year 2018, net of all fees. Much of this fiscal year's return was due to the healthy performance of US public and private equity markets. While it is gratifying that the portfolio performed well in a year of several new investment initiatives, the Investment Office remains focused on constructing a long-term portfolio that can weather market cycles and increased volatility.

Within the portfolio, we continued on the path with the new asset allocation and asset class "road maps," which seek to take advantage of Lehigh's ability to invest with a long-term view and tolerate short-term volatility. We have also been working diligently on concentrating the portfolio among fewer investment positions, such that each position in the portfolio can have a larger impact on overall portfolio performance.

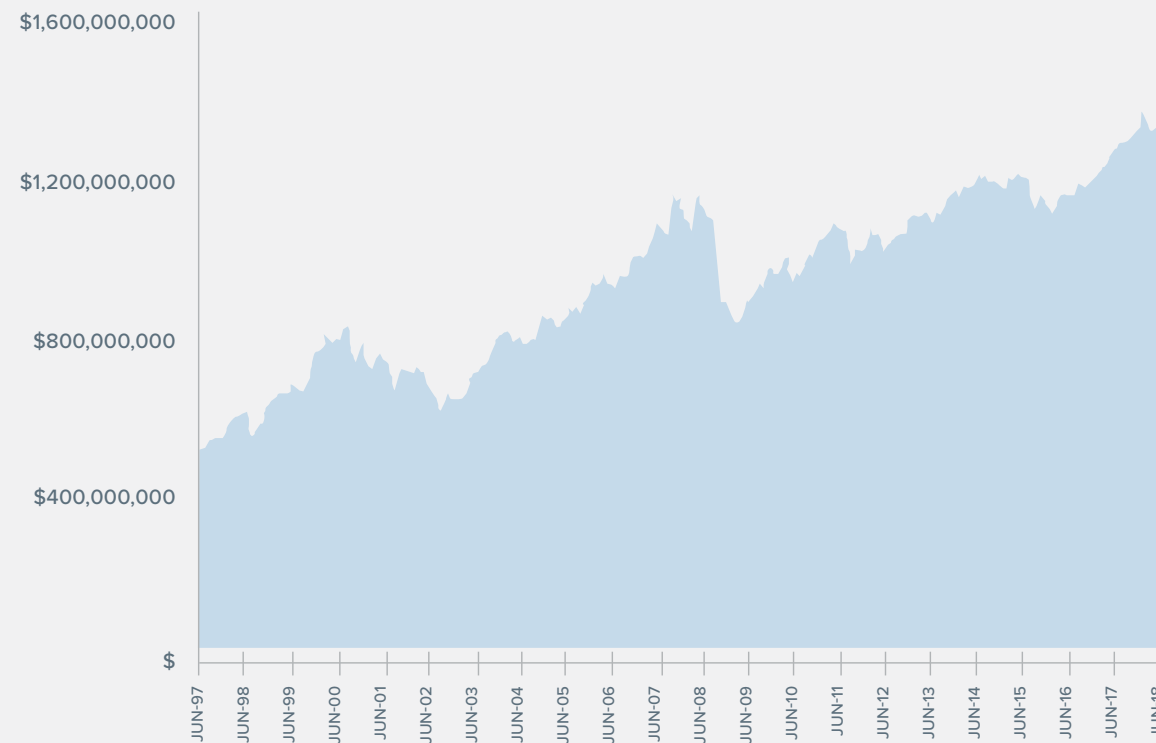
Even more than last year, we are cognizant of a forward-looking market environment offering muted returns. The rising markets of the last several years have come with extended valuations, which have the effect of lowering expected future returns and reducing the margin of safety available in virtually all types of investments. In this environment, we will continue to maintain discipline and a long-term focus, diversify risk exposures, and remain vigilant for unique investment opportunities.

## Lehigh Endowment Target Asset Allocation-Adopted 2017



PUBLIC EQUITY	45%
PRIVATE EQUITY	20%
ABSOLUTE RETURN	20%
TREASURIES/CASH	10%
REAL ESTATE	5%

## Endowment Fund Growth History



## Lehigh University

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2018

(with comparative financial information for June 30, 2017) (\$ in thousands)

ASSETS	2018	2017
Cash and cash equivalents	\$ 58,037	23,705
Accounts receivable, net	14,245	17,019
Inventories	1,516	1,503
Prepaid expenses and other assets	12,218	6,017
Contributions receivable, net	31,039	33,901
Notes receivable, net	9,358	11,758
Investments	1,898,895	1,871,799
Funds held in trust by others	4,842	4,553
Land, buildings, and equipment, net	451,383	413,192
Total assets	\$ 2,481,533	2,383,447

LIABILITIES AND NET ASSETS	2018	2017
Accounts payable and accrued expenses	\$ 46,702	42,308
Deferred revenues	23,862	25,354
Annuity payment liability	18,100	18,431
Other liabilities	59,226	52,257
Deposits held for others	1,217	1,346
Refundable federal student loan funds	1,434	2,018
Bonds, loans, and notes payable	375,091	395,972
Total liabilities	525,632	537,686
Net Assets: Unrestricted	988,590	932,232
Temporarily restricted	397,169	364,188
Permanently restricted	570,142	549,341
Total net assets	1,955,901	1,845,761
Total liabilities and net assets	\$ 2,481,533	2,383,447

# Lehigh University

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

(with comparative financial information for year ended June 30, 2017) (\$ in thousands)

SUPPORT AND REVENUES	2018				2017
	Unrestricted	Temporarily restricted	Permanently restricted	Total	
Tuition and fees, net	\$ 197,046	—	—	197,046	191,329
Federal grants and contracts	28,100	—	—	28,100	27,433
State and local grants and contracts	7,214	—	—	7,214	6,380
Private grants and contracts	6,180	—	—	6,180	7,360
Contributions	16,253	—	—	16,253	12,163
Investment return	86,392	—	—	86,392	83,515
Auxiliary enterprises	43,235	—	—	43,235	42,930
Independent operations	21,974	—	—	21,974	15,305
Other sources	9,923	—	—	9,923	10,161
Net assets released from restrictions	3,021	(3,021)	—	—	—
<b>Total support and revenues</b>	<b>419,338</b>	<b>(3,021)</b>	<b>—</b>	<b>416,317</b>	<b>396,576</b>

### EXPENSES

Instruction	156,074	—	—	156,074	150,480
Research	44,138	—	—	44,138	43,348
Public service	2,618	—	—	2,618	2,595
Academic support	38,237	—	—	38,237	35,175
Student services	39,029	—	—	39,029	36,190
Institutional support	75,170	—	—	75,170	70,348
Auxiliary enterprises	38,955	—	—	38,955	38,702
Independent operations	11,054	—	—	11,054	10,882
<b>Total expenses</b>	<b>405,275</b>	<b>—</b>	<b>—</b>	<b>405,275</b>	<b>387,720</b>
<b>Operating income (loss)</b>	<b>14,063</b>	<b>(3,021)</b>	<b>—</b>	<b>11,042</b>	<b>8,856</b>

### NONOPERATING ACTIVITIES

NONOPERATING ACTIVITIES	2018				2017
	Unrestricted	Temporarily restricted	Permanently restricted	Total	
Investment return:					
University	32,625	28,023	913	61,561	124,687
Independent operations	(2,606)	—	—	(2,606)	2,792
Gifts and trusts	5,504	8,437	18,838	32,779	31,399
Net assets released from restrictions and changes in donor intent	364	(565)	201	—	—
Change in fair value of interest rate swaps	7,008	—	—	7,008	12,499
Post-retirement plan changes other than net periodic benefit costs:					
University	941	—	—	941	1,039
Independent operations	50	—	—	50	30
Other	(1,591)	107	849	(635)	(9,735)
<b>Nonoperating income</b>	<b>42,295</b>	<b>36,002</b>	<b>20,801</b>	<b>99,098</b>	<b>162,711</b>
<b>Change in net assets</b>	<b>56,358</b>	<b>32,981</b>	<b>20,801</b>	<b>110,140</b>	<b>171,567</b>
Net assets, beginning of year	932,232	364,188	549,341	1,845,761	1,674,194
<b>Net assets, end of year</b>	<b>\$ 988,590</b>	<b>397,169</b>	<b>570,142</b>	<b>1,955,901</b>	<b>1,845,761</b>

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