

# Financial Report

Included in the following pages are highlights of the University's 2018-2019 fiscal year financial results, as well as key excerpts from the University's consolidated financial statements. Several new accounting standards were incorporated into the University's financial statements for its fiscal year ending June 30, 2019. These standards provide guidance regarding financial statement presentation, the classification and recognition of contributions, and the recognition of revenue from students and other constituents. The new accounting standards resulted in an increase of \$3.7 million to the beginning net assets balance for fiscal year 2019, but did not significantly impact the University's consolidated financial results.

## STATEMENT OF FINANCIAL POSITION

### ASSETS

The largest categories within the University's \$2.6 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 22) and experiences growth based on donor support and investment return net of operating distributions. Significant capital projects in process or recently completed include renovations to Chandler-Ullmann Hall, the early stages of the new Health, Science and Technology Building, and continued progress on new residential housing facilities that will support the Path to Prominence initiative.

### LIABILITIES

The Bonds, Loans and Notes Payable balance of \$369 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 2019, the University's balance sheet also includes a \$40 million asset (in Property, Plant and Equipment) and corresponding liability (in Other Liabilities) relating to the new SouthSide Commons residential facility that is operated by a third party under the terms of a ground lease.

### NET ASSETS

The University's Net Assets balance of over \$2 billion is classified as "with donor restrictions" or "without donor restrictions" in accordance with the new accounting standards. Net assets without donor restrictions are free of donor restrictions but may be designated for specific purposes by action of the Board of Trustees or senior management. Net assets with donor restrictions include net assets with donor-imposed restrictions that may be met by actions of the University or by the passage of time as well as net assets that are subject to permanent donor restrictions. Donors of these assets generally permit the University to use all or part of the investment income on related investments for general or specific purposes in accordance with a Board-approved spending policy.

## STATEMENT OF ACTIVITIES

### OPERATING REVENUES

Net Tuition Revenue and Investment Return comprise the two largest sources of unrestricted operating revenue, representing 48% and 22% of the consolidated total in fiscal year 2018-2019. Tuition and fee revenue is reported net of related scholarships. Total financial aid expenditures supporting graduate and undergraduate tuition grew 6.8% to \$106.4 million. This increase had a significant impact on the University's net operating income. Lehigh is a member of the American Talent Initiative, which is a group of colleges and universities that have made a commitment to attract, enroll and graduate an increased number of talented low- and moderate-income students. Related to that initiative, one of the University's enrollment goals is to increase enrollment of students from underrepresented segments of the

population, first-generation, and lower-income students. In fiscal year 2018-2019, Lehigh incurred increased levels of financial aid expense in order to meet the needs of this diverse student population. The University also provides financial aid to offset student living expenses, reported as a deduction from auxiliary enterprises revenues in the consolidated financial statements. For Fiscal Year 2019, the average institutional aid award was up approximately 9% from the prior year.

Operating Investment Return includes almost \$67 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 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. Salaries and benefits comprise over one-half of the University's annual operating expense. Resource planning continues to focus on redirection of key resources to best support the Path to Prominence.

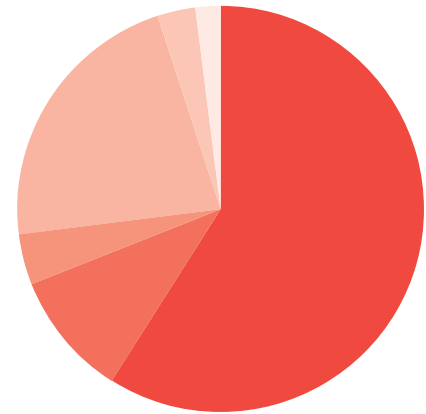
### NONOPERATING ACTIVITY

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, and investment returns from endowment net of earnings distributed for operations.

## Fiscal Year 2018-2019 Operating Revenue Sources

(\$ in thousands)

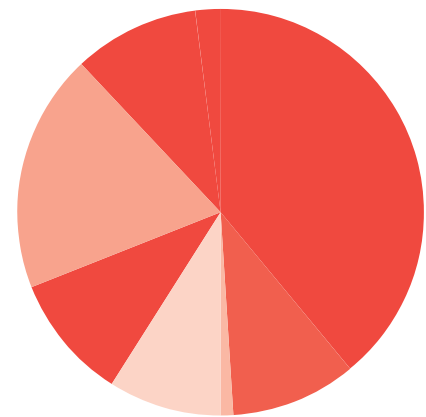
TUITION & AUXILIARIES	\$ 240,968	59%
GRANTS & CONTRACTS	41,391	10%
CONTRIBUTIONS	14,326	4%
INVESTMENT RETURN	90,948	22%
INDEPENDENT OPERATIONS	11,441	3%
OTHER SOURCES	9,827	2%
	<b>\$ 408,901</b>	<b>100%</b>



## Fiscal Year 2018-2019 Operating Expense by Functional Category

(\$ in thousands)

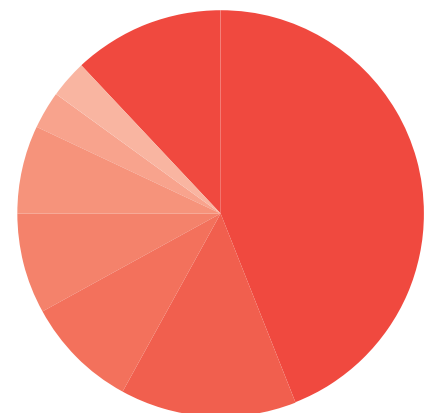
INSTRUCTION	\$ 160,521	39%
RESEARCH	43,945	10%
PUBLIC SERVICE	3,015	1%
ACADEMIC SUPPORT	39,298	9%
STUDENT SERVICES	40,365	10%
INSTITUTIONAL SUPPORT	77,255	19%
AUXILIARY ENTERPRISES	40,581	10%
INDEPENDENT OPERATIONS	10,458	2%
	<b>\$ 415,438</b>	<b>100%</b>



## Fiscal Year 2018-2019 Operating Expense by Natural Category

(\$ in thousands)

SALARIES & WAGES	\$ 180,186	44%
EMPLOYEE BENEFITS	59,508	14%
PURCHASED SERVICES	35,753	9%
OCCUPANCY	34,274	8%
DEPRECIATION	29,997	7%
INTEREST	13,636	3%
INDEPENDENT OPERATIONS	10,458	3%
OTHER BUSINESS EXPENSES	51,626	12%
	<b>\$ 415,438</b>	<b>100%</b>



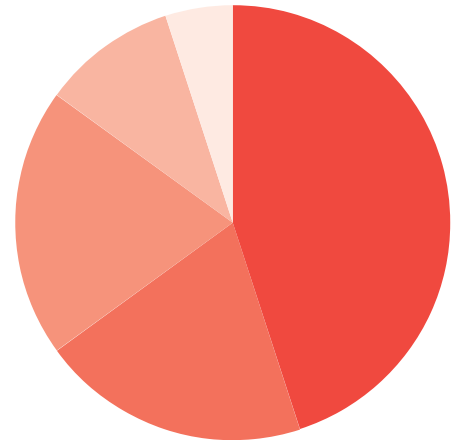
# Endowment Review

The Endowment earned 7.7% for Fiscal Year 2019, net of all fees. Positive performance was generated across all asset classes despite mixed performance in global equity markets. The portfolio benefited from an overweight allocation to US, growth-oriented securities and an underweight allocation to emerging markets and commodities. We are in the longest-running bull market in history and remain cautious on maintaining a long-term portfolio that can weather a slowing economy and increasing geopolitical risk.

We maintain an asset allocation framework that provides enough flexibility to take advantage of opportunities across different asset classes. Our attention today has been focused on areas of the market benefiting from structural innovation. We continue to concentrate the portfolio among fewer investment positions, such that each position in the portfolio can have a more meaningful impact on overall portfolio performance.

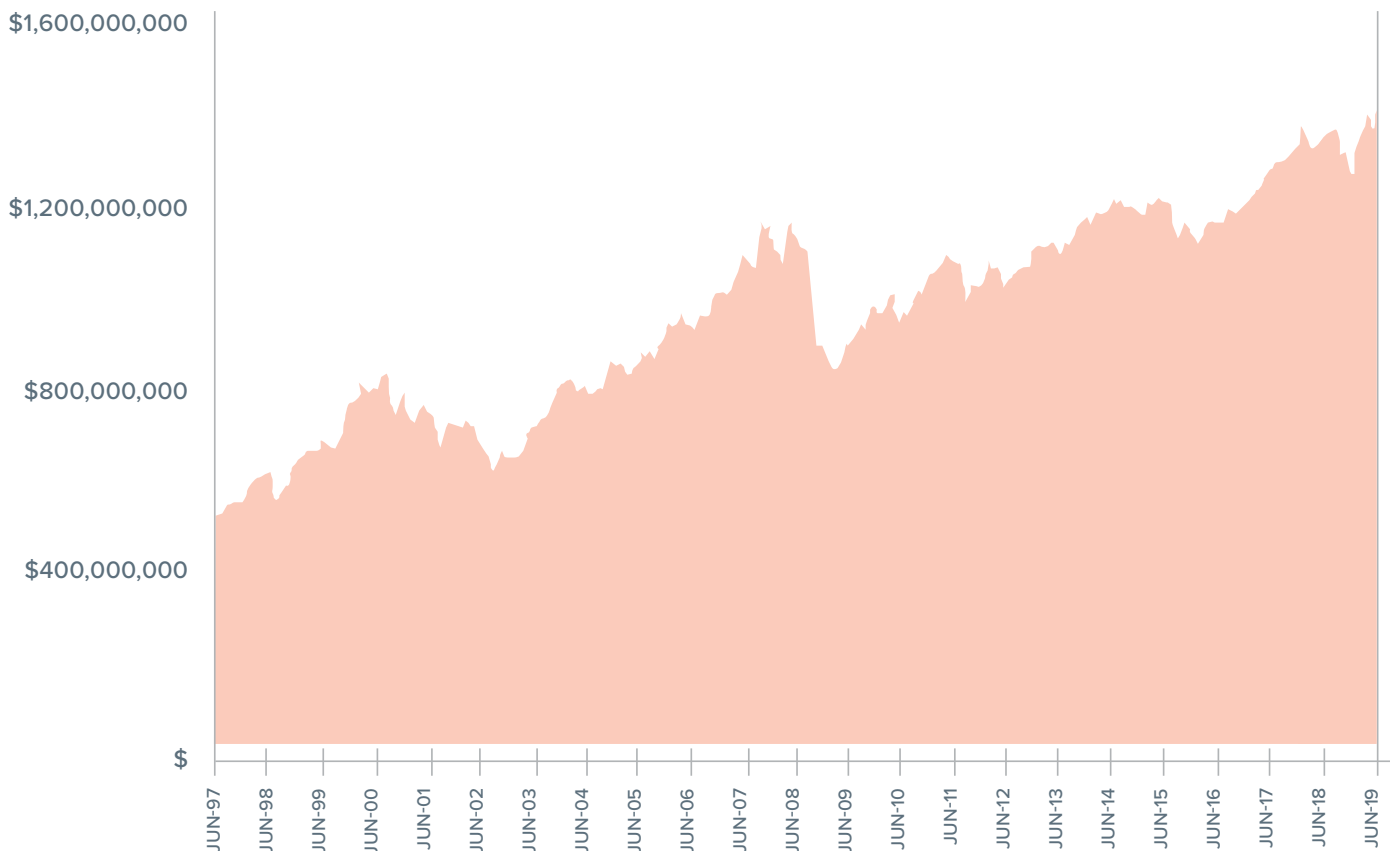
In a low interest-rate environment, we are cognizant of return compression and have sought out opportunities less correlated to the economic cycle with higher margins of safety and more sufficient underlying collateral. In such a late-cycle environment, we often prefer to extend holding periods for more certainty rather than increase our exposure to more myopic trading strategies. 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



<span style="color: red;">■</span> PUBLIC EQUITY	45%
<span style="color: #e85c33;">■</span> PRIVATE EQUITY	20%
<span style="color: #c87157;">■</span> ABSOLUTE RETURN	20%
<span style="color: #a68979;">■</span> TREASURIES/CASH	10%
<span style="color: #8c9eab;">■</span> REAL ESTATE	5%

## Endowment Fund Growth History



# Lehigh University

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2019

(with comparative financial information for June 30, 2018) (\$ in thousands)

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 50,690	58,037
Accounts receivable, net	13,517	14,245
Prepaid expenses and other assets	9,883	13,734
Contributions receivable, net	41,574	31,039
Notes receivable, net	9,410	9,358
Investments	1,955,620	1,898,895
Funds held in trust by others	4,908	4,842
Property, plant and equipment, net	537,294	451,383
Total assets	\$ 2,622,896	2,481,533

<b>LIABILITIES AND NET ASSETS</b>	<b>2019</b>	<b>2018</b>
Accounts payable and accrued expenses	\$ 49,709	46,702
Deferred revenues	18,592	23,862
Annuity payment obligations	18,118	18,100
Other liabilities	102,422	59,226
Deposits held for others	1,179	1,217
Refundable federal student loan funds	1,359	1,434
Bonds, loans and notes payable	368,731	375,091
Total liabilities	560,110	525,632
Net assets:		
Without donor restrictions	1,026,825	995,046
With donor restrictions	1,035,961	960,855
Total net assets	2,062,786	1,955,901
Total liabilities and net assets	\$ 2,622,896	2,481,533

# Lehigh University

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

(with comparative financial information for year ended June 30, 2018) (\$ in thousands)

SUPPORT AND REVENUES	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Tuition and fees, net	\$ 196,477	—	196,477	197,046
Federal grants and contracts	28,643	—	28,643	28,100
State and local grants and contracts	7,526	—	7,526	7,214
Private grants and contracts	5,222	—	5,222	6,180
Contributions	14,326	—	14,326	16,253
Investment return, net	90,948	—	90,948	86,392
Auxiliary enterprises, net	44,491	—	44,491	43,235
Independent operations	11,441	—	11,441	21,974
Other sources	9,827	—	9,827	9,923
Net assets released from restrictions	3,161	(3,161)	—	—
Total support and revenues	412,062	(3,161)	408,901	416,317
<b>EXPENSES</b>				
Salaries and wages	180,186	—	180,186	175,241
Employee benefits	59,508	—	59,508	61,178
Purchased services	35,753	—	35,753	34,458
Occupancy	34,274	—	34,274	32,999
Depreciation	29,997	—	29,997	28,549
Interest	13,636	—	13,636	13,886
Independent operations	10,458	—	10,458	11,054
Other business expenses	51,626	—	51,626	47,910
Total expenses	415,438	—	415,438	405,275
Operating (loss) income	(3,376)	(3,161)	(6,537)	11,042

**NONOPERATING ACTIVITIES**

	<b>2019</b>			
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	<b>2018</b>
Investment return, net				
University	45,154	26,460	71,614	61,561
Independent operations	(262)	—	(262)	(2,606)
Gifts and trusts	2,582	51,440	54,022	32,779
Net assets released from restrictions and changes in donor intent	216	(216)	—	—
Change in fair value of interest rate swaps	(9,262)	—	(9,262)	7,008
Post-retirement plan changes other than net periodic benefit costs:				
University	(3,405)	—	(3,405)	941
Independent operations	(93)	—	(93)	50
Other	(3,465)	583	(2,882)	(635)
Nonoperating income	31,465	78,267	109,732	99,098
Increase in net assets	28,089	75,106	103,195	110,140
Net assets, beginning of year, as reported	995,046	960,855	1,955,901	1,845,761
Impact of change in accounting policy	3,690	—	3,690	—
Balance as of beginning of year	998,736	960,855	1,959,591	1,845,761
Net assets at end of year	\$ 1,026,825	1,035,961	2,062,786	1,955,901