

Financial Report

Included in the following pages are highlights of the University's 2019-2020 fiscal year financial results, as well as key excerpts from the University's consolidated financial statements. Two new accounting standards were incorporated into the University's financial statements for its fiscal year ending June 30, 2020. These standards provide guidance regarding financial statement presentation, of net-periodic pension and post-retirement benefit cost, and reporting of restricted cash on the Statement of Cash Flows. 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 20) 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 \$362 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 2020, the University's balance sheet also includes a \$46 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 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 51% and 22% of the consolidated total in fiscal year 2019-2020. Tuition and fee revenue is reported net of related scholarships. Total financial aid expenditures supporting graduate and undergraduate tuition grew 8.3% to \$115.2 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 2019-2020, 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 2020, the average institutional aid award was up approximately 7% from the prior year.

Operating Investment Return includes almost \$68 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.

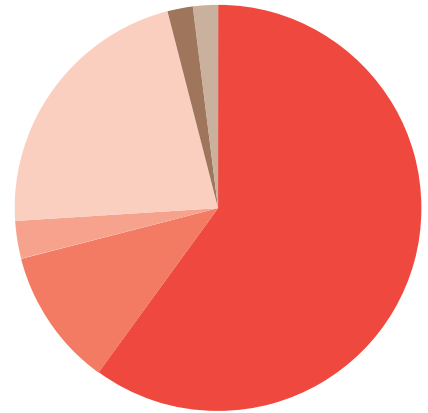
NONOPERATING ACTIVITY

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 2019-2020 Operating Revenue Sources

(\$ in thousands)

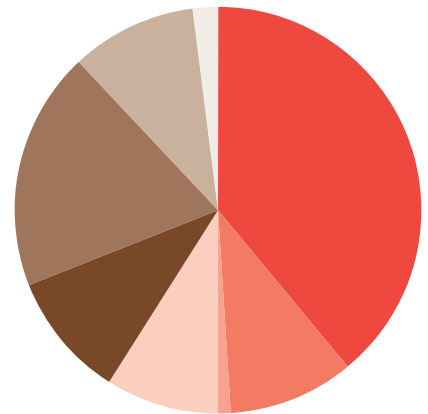
TUITION & AUXILIARIES	\$ 243,075	60%
GRANTS & CONTRACTS	43,926	11%
CONTRIBUTIONS	11,923	3%
INVESTMENT RETURN	89,462	22%
INDEPENDENT OPERATIONS	8,442	2%
OTHER SOURCES	9,010	2%
	\$ 405,836	100%



Fiscal Year 2019-2020 Operating Expense by Functional Category

(\$ in thousands)

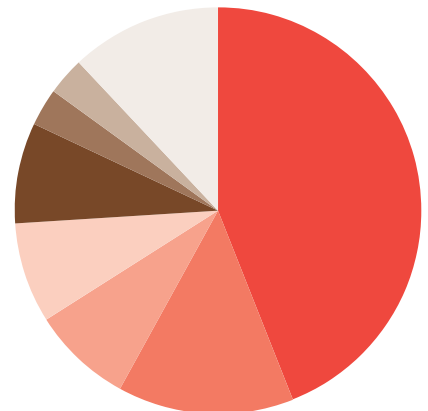
INSTRUCTION	\$ 156,811	38%
RESEARCH	43,914	11%
PUBLIC SERVICE	2,621	1%
ACADEMIC SUPPORT	37,709	9%
STUDENT SERVICES	38,857	10%
INSTITUTIONAL SUPPORT	75,618	18%
AUXILIARY ENTERPRISES	39,968	10%
INDEPENDENT OPERATIONS	10,650	3%
	\$ 406,147	100%



Fiscal Year 2019-2020 Operating Expense by Natural Category

(\$ in thousands)

SALARIES & WAGES	\$ 182,140	44%
EMPLOYEE BENEFITS	58,250	14%
PURCHASED SERVICES	32,591	8%
OCCUPANCY	32,204	8%
DEPRECIATION	31,731	8%
INTEREST	11,088	3%
INDEPENDENT OPERATIONS	10,650	3%
OTHER BUSINESS EXPENSES	47,493	12%
	\$ 406,147	100%



Endowment Review

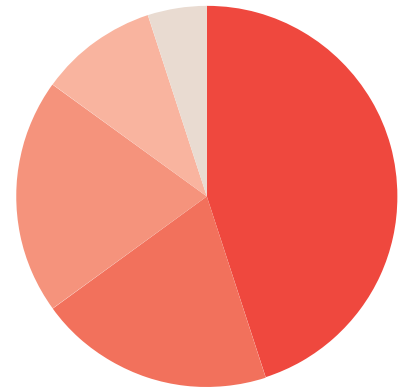
The Endowment earned +0.8% for fiscal year 2020, net of all fees. This year has been a challenging environment for investing, with global equity markets sharply declining 34% over 24 trading days only to be followed by a precipitous rally with equity markets surging 38% through fiscal year-end.

Positive performance was generated across the absolute return, private equity and treasury/cash portfolios although offset by negative performance from our public equity portfolio. The portfolio benefited from both opportunistic and diversifying strategies which were able to generate positive performance as volatility increased to historically high levels. Also, we were able to capitalize on technical selling by deploying capital at trough prices and repositioning the portfolio for a recovery across different asset classes.

The portfolio continues to maintain an overweight allocation to US, growth-oriented securities with an underweight allocation to cyclical sectors including financial services, energy and materials. We remain cautious as we enter the new fiscal year at record-breaking levels in the equity markets and credit spreads that have tightened back to pre-March levels. We have continued to rebalance our equity portfolio down with positive performance and maintain an overweight allocation to liquid and defensive assets that will allow us to capitalize on any new periods of increased market volatility.

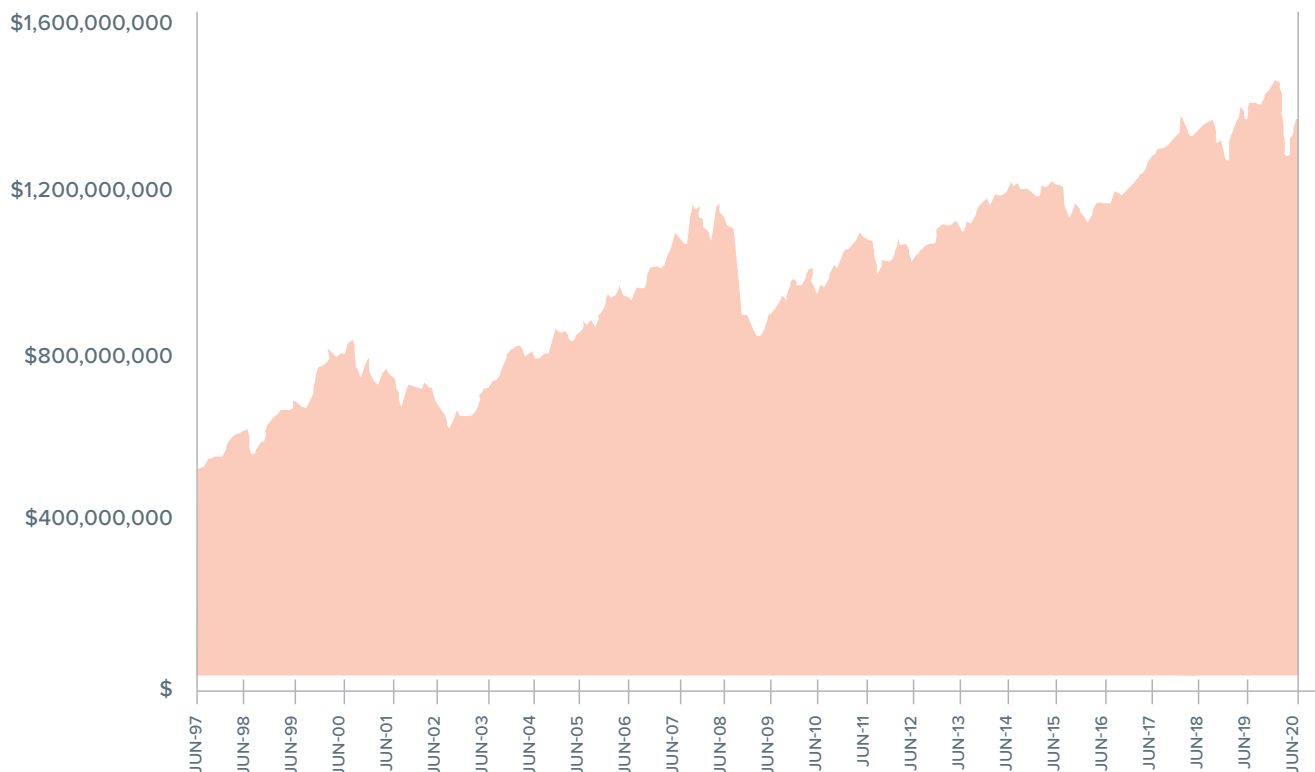
We maintain an asset allocation framework that provides flexibility to take advantage of opportunities across different asset classes. Our attention today has been focused on areas of the market less dependent on timing surrounding the eradication of COVID-19 and more on areas that will continue to benefit from structural innovation. 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 greater underlying collateral. As we may be entering a new paradigm where historical information could be less predictive in assessing underlying company performance or collateral protection, we believe flexibility and a willingness to adapt our portfolio are more important than ever.

Lehigh Endowment Target Asset Allocation



■ 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, 2020

(with comparative financial information for June 30, 2019) (\$ in thousands)

ASSETS	2020	2019
Cash and cash equivalents	\$ 70,603	50,690
Accounts receivable, net	13,035	13,517
Prepaid expenses and other assets	6,120	9,883
Contributions receivable, net	41,126	41,574
Notes receivable, net	9,708	9,410
Investments	1,841,856	1,955,620
Funds held in trust by others	4,846	4,908
Property, plant and equipment, net	606,937	537,294
Total assets	\$ 2,594,231	2,622,896

LIABILITIES AND NET ASSETS	2020	2019
Accounts payable and accrued expenses	\$ 47,440	49,709
Deferred revenues	16,910	18,592
Annuity payment obligations	17,634	18,118
Other liabilities	130,984	102,422
Deposits held for others	1,088	1,179
Refundable federal student loan funds	822	1,359
Bonds, loans and notes payable	362,491	368,731
Total liabilities	577,369	560,110
Net assets:		
Without donor restrictions	992,596	1,026,825
With donor restrictions	1,024,266	1,035,961
Total net assets	2,016,862	2,062,786
Total liabilities and net assets	\$ 2,594,231	2,622,896

Lehigh University

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

(with comparative financial information for year ended June 30, 2019) (\$ in thousands)

SUPPORT AND REVENUES	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
Tuition and fees, net	\$ 207,775	—	207,775	196,477
Federal grants and contracts	32,192	—	32,192	28,643
State and local grants and contracts	7,333	—	7,333	7,526
Private grants and contracts	4,400	—	4,400	5,222
Contributions	11,923	—	11,923	14,326
Investment return, net	89,462	—	89,462	90,948
Auxiliary enterprises, net	35,299	—	35,299	44,491
Independent operations	8,442	—	8,442	11,441
Other sources	9,010	—	9,010	9,827
Net assets released from restrictions	2,921	(2,921)	—	—
Total support and revenues	408,757	(2,921)	405,836	408,901
EXPENSES				
Salaries and wages	182,140	—	182,140	180,186
Employee benefits	58,250	—	58,250	57,535
Purchased services	32,591	—	32,591	35,753
Occupancy	32,204	—	32,204	34,274
Depreciation	31,731	—	31,731	29,997
Interest	11,088	—	11,088	13,636
Independent operations	10,650	—	10,650	10,397
Other business expenses	47,493	—	47,493	51,626
Total expenses	406,147	—	406,147	413,404
Operating (loss) income	(2,610)	(2,921)	(311)	4,503

NONOPERATING ACTIVITIES	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
Investment return, net				
University	(17,407)	36,521	53,929	71,614
Independent operations	2,517	—	2,517	(262)
Gifts and trusts	3,906	25,367	29,273	54,022
Net assets released from restrictions and changes in donor intent	(151)	151	—	—
Change in fair value of interest rate swaps	(15,101)	—	(15,101)	(9,262)
Post-retirement plan changes other than net periodic benefit costs:				
University	(4,378)	—	(4,378)	(3,405)
Independent operations	(132)	—	(132)	(93)
Net Periodic Benefit costs other than service costs				
University	(1,952)	—	(1,952)	—
Independent operations	(61)	—	(61)	(1,973)
Other	(4,080)	2,230	(1,850)	(61)
Nonoperating income	(36,839)	(8,774)	(45,613)	(2,882)
Increase in net assets	(34,839)	(11,695)	(45,924)	103,698
Net assets, beginning of year, as reported	1,026,825	1,035,961	2,062,786	1,955,901
Impact of change in accounting policy				3,690
Balance as of beginning of year	1,026,825	1,035,961	2,062,786	1,959,591
Net assets at end of year	\$ 992,596	1,024,266	2,016,862	2,062,786