

# Financial Report

Included in the following pages are highlights of the University's 2020-2021 fiscal year financial results, as well as key excerpts from the University's consolidated financial statements. One new accounting standard was incorporated into the University's financial statements for its fiscal year ending June 30, 2021. This standard provides guidance regarding the recognition of rights and obligations arising from lease contracts as assets and liabilities on the consolidated statement of financial position and requires expanded qualitative and quantitative disclosures. Operating leases right-of-use assets and liabilities as of June 30, 2021, were \$6.2 million and \$6.2 million, respectively.

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## Statement of Financial Position

### ASSETS

The largest categories within the University's \$3.2 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 12) 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 new Health, Science and Technology Building, and continued progress on new residential housing facilities.

### LIABILITIES

The Bonds, Loans and Notes Payable balance of \$505 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 2021, the University's balance sheet also includes a \$45.4 million asset (in Property, Plant and Equipment) and corresponding liability (in Other Liabilities) relating to the 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 \$2.5 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 56% and 22% of the consolidated total in fiscal year 2020-2021. Tuition and fee revenue is reported net of related scholarships.

Operating Investment Return includes \$69.5 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. While the \$69.5 million of distributed earnings from the university endowment must be used according to the specified purpose of each fund, the payout touches all areas of the university and demonstrates the ongoing commitment to financial aid with more than 46 percent of the university's donor restricted endowment designated for scholarships and fellowships. In fiscal year 2021, need-based financial aid was provided to more than 40 percent of undergraduate students, with an average institutional aid award of just over \$37,712.

### 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 almost one-half of the University's annual operating expense.

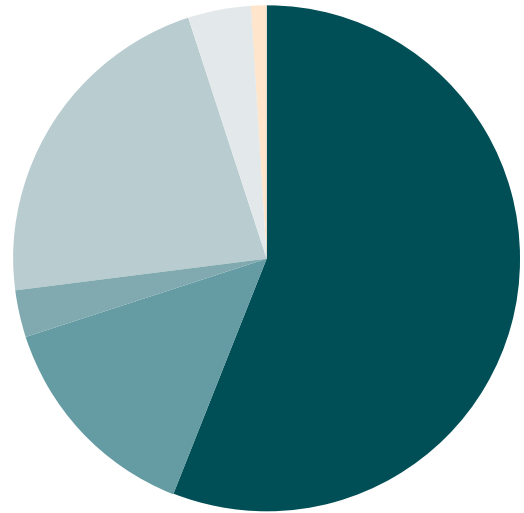
### NONOPERATING ACTIVITY

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 2020–2021 Operating Revenue Sources

(\$ in thousands)

● TUITION & AUXILIARIES	\$ 220,406	56%
● GRANTS & CONTRACTS	54,929	14%
● CONTRIBUTIONS	13,011	3%
● INVESTMENT RETURN	85,497	22%
● INDEPENDENT OPERATIONS	13,149	4%
● OTHER SOURCES	3,668	1%
	<b>\$ 390,660</b>	<b>100%</b>



## Fiscal Year 2020–2021 Operating Expense by Functional Category

(\$ in thousands)

● INSTRUCTION	\$ 149,116	38%
● RESEARCH	44,046	11%
● PUBLIC SERVICE	2,987	1%
● ACADEMIC SUPPORT	33,484	9%
● STUDENT SERVICES	32,843	8%
● INSTITUTIONAL SUPPORT	81,634	21%
● AUXILIARY ENTERPRISES	35,409	9%
● INDEPENDENT OPERATIONS	11,127	3%
	<b>\$ 390,646</b>	<b>100%</b>



## Fiscal Year 2020–2021 Operating Expenses by Natural Category

(\$ in thousands)

● SALARIES & WAGES	\$ 185,972	48%
● EMPLOYEE BENEFITS	44,727	11%
● PURCHASED SERVICES	30,144	8%
● OCCUPANCY	30,217	8%
● DEPRECIATION	34,300	9%
● INTEREST	11,937	3%
● INDEPENDENT OPERATIONS	11,127	3%
● OTHER BUSINESS EXPENSES	42,222	10%
	<b>\$ 390,646</b>	<b>100%</b>



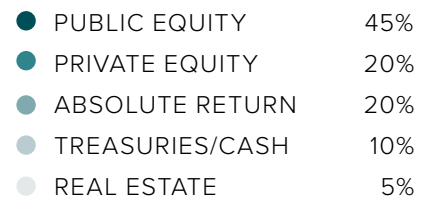
## Endowment Review

The Endowment earned +35% for fiscal year 2021, net of all fees. The fiscal year was a remarkable period with the portfolio generating over \$575 million in investment gains, resulting in an ending endowment value of \$1.8 billion.

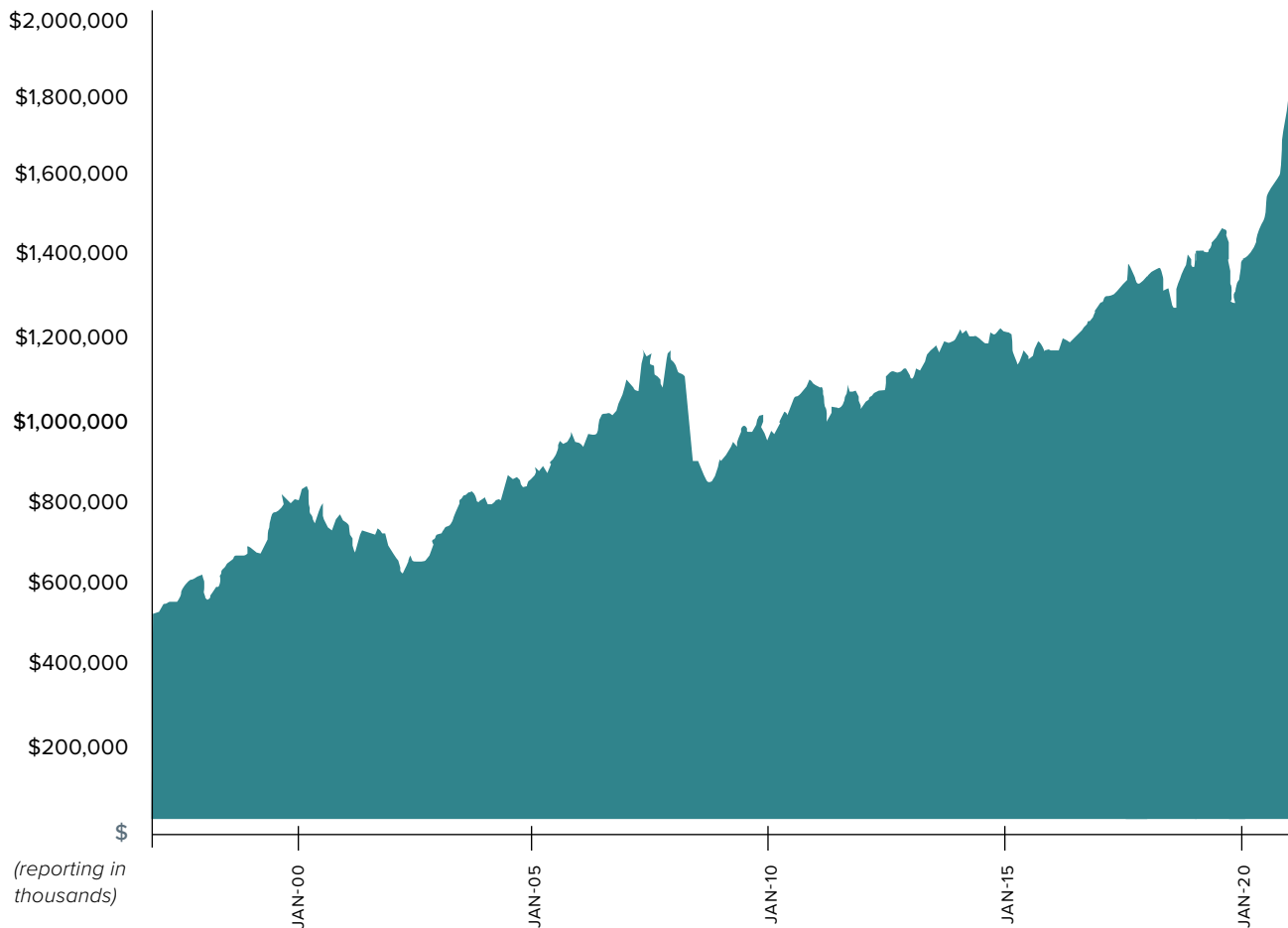
All asset classes generated significant positive performance during the period with the exception of the treasury portfolio, which was marginally negative due to increasing rates. The portfolio's strong performance was driven by private equity, which returned +70%, and public equity, which returned +40%, for the fiscal year. Within private equity, venture capital and growth equity were the top performers. Our exposure to both of these areas has meaningfully increased over the last several years as we continue to see a tremendous pipeline of largely technology-focused startups with highly attractive growth potential. Looking forward, we expect the significant growth in endowment assets to provide us with greater flexibility in our asset allocation to take advantage of illiquidity premiums in private markets.

While investors were rewarded for equity exposure during the year, we were encouraged to see returns in the mid-teens for our diversifying asset classes, including absolute return and real estate. These investments are meant to provide a consistent return, uncorrelated to broader equity markets. Real estate, in particular, saw a rebound from 2020 lows led by investments in industrial and multi-family assets. We continue to increase our exposure to uncorrelated opportunities where we can generate an attractive return that is less reliant on equity markets or rates.

## Lehigh Endowment Target Asset Allocation



## Endowment Fund Growth History



# Lehigh University

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2021

(with summarized comparative financial information for June 30, 2020) (in thousands)

<b>ASSETS</b>	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 54,709	70,603
Accounts receivable, net	18,479	13,035
Prepaid expenses and other assets	6,609	6,120
Contributions receivable, net	35,074	41,126
Notes receivable, net	9,217	9,708
Investments	2,419,105	1,841,856
Funds held in trust by others	5,941	4,846
Property, plant and equipment, net	671,421	606,937
Total assets	\$ 3,220,555	2,594,231

<b>LIABILITIES AND NET ASSETS</b>	<b>2021</b>	<b>2020</b>
Accounts payable and accrued expenses	\$ 44,971	47,440
Deferred revenues	14,180	16,910
Annuity payment obligations	18,076	17,634
Other liabilities	121,405	132,894
Bonds, loans and notes payable	505,244	362,491
Total liabilities	703,876	577,369
Net assets:		
Without donor restrictions	1,212,498	992,596
With donor restrictions	1,304,181	1,024,266
Total net assets	2,516,679	2,016,862
Total liabilities and net assets	\$ 3,220,555	2,594,231

# Lehigh University

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

(with comparative financial information for year ended June 30, 2020) (in thousands)

SUPPORT AND REVENUES	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
Tuition and fees, net	\$ 199,110	—	199,110	207,775
Federal grants and contracts	41,825	—	41,825	32,192
State and local grants and contracts	9,303	—	9,303	7,333
Private grants and contracts	3,801	—	3,801	4,400
Contributions	13,011	—	13,011	11,923
Investment return, net	85,497	—	85,497	89,462
Auxiliary enterprises, net	21,296	—	21,296	35,299
Independent operations	13,149	—	13,149	8,442
Other sources	3,668	—	3,668	9,010
Net assets released from restrictions	3,359	(3,359)	—	—
Total support and revenues	394,019	(3,359)	390,660	405,836
<b>EXPENSES</b>				
Salaries and wages	185,972	—	185,972	182,140
Employee benefits	44,727	—	44,727	58,250
Purchased services	30,144	—	30,144	32,591
Occupancy	30,217	—	30,217	32,204
Depreciation	34,300	—	34,300	31,731
Interest	11,937	—	11,937	11,088
Independent operations	11,127	—	11,127	10,650
Other business expenses	42,222	—	42,222	47,493
Total expenses	390,646	—	390,646	406,147
Operating income (loss)	3,373	(3,359)	14	(311)

# Lehigh University

## CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)

Year Ended June 30, 2021

(with comparative financial information for year ended June 30, 2020) (in thousands)

NONOPERATING ACTIVITY	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
Investment return, net				
University	\$ 192,276	267,927	460,203	(53,929)
Independent operations	5,573	—	5,573	2,517
Gifts and trusts	2,930	20,702	23,632	29,273
Net assets released from restrictions and changes in donor intent	5,817	(5,817)	—	
Change in fair value of interest rate swaps	11,732	—	11,732	(15,101)
Post-retirement plan changes other than net periodic benefit cost:				
University	1,618	—	1,618	(4,378)
Independent operations	46	—	46	(132)
Net periodic benefit costs other than service costs:				
University	(1,850)	—	(1,850)	(1,952)
Independent operations	(57)	—	(57)	(61)
Other	(1,556)	462	(1,094)	(1,850)
Nonoperating income	216,529	283,274	499,803	(45,613)
Change in net assets	219,902	279,915	499,817	(45,924)
Net assets, beginning of year	992,596	1,024,266	2,016,862	2,062,786
Net assets, end of year	\$ 1,212,498	1,304,181	2,516,679	2,016,862