



**UNIVERSITY OF DELAWARE**

Consolidated Financial Statements

June 30, 2015

(with Summarized Comparable Information for June 30, 2014)

(With Independent Auditors' Report Thereon)



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

## Independent Auditors' Report

The Board of Trustees  
University of Delaware:

We have audited the accompanying consolidated financial statements of the University of Delaware and subsidiaries, which comprise the consolidated balance sheet as of June 30, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the 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. 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.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of Delaware and its subsidiaries as of June 30, 2015, and the changes in their net assets, functional expenses, and their 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 the University of Delaware's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 15, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

**KPMG LLP**

October 22, 2015

**UNIVERSITY OF DELAWARE**

Consolidated Balance Sheets

June 30, 2015 and 2014

(Dollars in thousands)

Assets	2015	2014
Cash and cash equivalents	\$ 39,658	22,879
Accounts and notes receivable, net	28,218	27,629
Prepaid expenses and inventories	5,817	5,062
Contributions receivable, net	30,945	39,171
Restricted deposits	94,862	92,352
Student loan receivables, net	13,401	13,623
Investments	1,782,506	1,704,343
Funds held in trust by others	66,681	67,867
Property, plant, and equipment, net	1,476,155	1,393,097
Total assets	\$ 3,538,243	3,366,023
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 101,819	99,019
Deferred revenues and student deposits	12,133	5,392
Long-term debt and capital leases	555,883	513,431
Post-employment benefit obligations	426,857	277,120
Other liabilities	67,152	64,763
Total liabilities	1,163,844	959,725
Unrestricted	1,319,205	1,358,232
Temporarily restricted	663,306	679,073
Permanently restricted	391,888	368,993
Total net assets	2,374,399	2,406,298
Total liabilities and net assets	\$ 3,538,243	3,366,023

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF DELAWARE**  
Consolidated Statement of Activities  
Year ended June 30, 2015  
(with summarized financial information for the year ended June 30, 2014)  
(Dollars in thousands)

	2015			2014	
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:					
Tuition and fees	\$ 550,108	—	—	550,108	512,525
Less scholarships and fellowships	(143,804)	—	—	(143,804)	(131,010)
Net tuition and fees	406,304	—	—	406,304	381,515
Sales and services of auxiliary enterprises, net	128,117	—	—	128,117	121,734
Grants, contracts, and other exchange transactions	172,078	—	—	172,078	170,948
State operating appropriations	117,005	—	—	117,005	117,044
Contributions	24,547	7,185	—	31,732	28,873
Endowment distributions	48,143	2,009	—	50,152	48,187
Other investments income	11,343	47	—	11,390	6,357
Other revenue	36,664	—	—	36,664	33,450
Net assets released from restrictions	5,159	(5,159)	—	—	—
Total operating revenues	949,360	4,082	—	953,442	908,108
Operating expenses:					
Salaries and wages	416,815	—	—	416,815	408,053
Benefits	164,441	—	—	164,441	148,812
Supplies and general	207,858	—	—	207,858	193,912
Travel	26,080	—	—	26,080	23,965
Depreciation, amortization and loss on disposals	67,257	—	—	67,257	64,658
Interest	20,780	—	—	20,780	22,109
Total operating expenses	903,231	—	—	903,231	861,509
Change in net assets from operating activities	46,129	4,082	—	50,211	46,599
Nonoperating activities:					
Investment return in excess of endowment distributions	3,614	7,223	4,042	14,879	145,252
Contributions restricted for endowment and capital	—	(469)	7,231	6,762	24,127
State capital appropriations	3,251	—	—	3,251	7,244
Change in post-employment benefit obligations	(123,858)	—	—	(123,858)	1,873
Other, net	11,241	(6,007)	11,622	16,856	578
Net assets released from restrictions	20,596	(20,596)	—	—	—
Change in net assets	(39,027)	(15,767)	22,895	(31,899)	225,673
Net assets at beginning of year	1,358,232	679,073	368,993	2,406,298	2,180,625
Net assets at end of year	\$ 1,319,205	663,306	391,888	2,374,399	2,406,298

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF DELAWARE**  
Consolidated Statement of Functional Expenses  
Years ended June 30, 2015  
(Dollars in thousands)

	<b>2015</b>									
	<b>Instruction and departmental research</b>	<b>Sponsored research</b>	<b>Extension and public service</b>	<b>Academic support</b>	<b>Student services</b>	<b>General institutional support</b>	<b>Student aid</b>	<b>Auxiliary enterprises</b>	<b>Independent operations</b>	<b>Total</b>
Operating expenses:										
Expenses:										
Salaries and wages	\$ 216,878	64,148	25,152	34,440	15,504	48,789	3,421	8,433	50	416,815
Benefits	67,307	15,895	7,493	13,369	4,818	19,889	9	2,800	28	131,608
Post-employment benefits	21,933	3,348	1,406	2,175	708	2,777	—	485	1	32,833
Benefits	89,240	19,243	8,899	15,544	5,526	22,666	9	3,285	29	164,441
Supplies and general	50,204	40,802	12,505	8,729	8,456	24,970	330	71,860	2,176	220,032
Information processing	7	—	—	—	2,618	10,331	—	—	—	12,956
Scholarships, fellowships and awards	—	—	—	—	—	—	2,220	1	—	2,221
Internal service (credits) charges	(3,444)	(18)	(23)	(722)	(984)	(20,924)	—	(1,236)	—	(27,351)
Supplies and general	46,767	40,784	12,482	8,007	10,090	14,377	2,550	70,625	2,176	207,858
Travel	17,333	3,345	1,458	1,358	1,322	1,075	60	129	—	26,080
Depreciation and accretion	18,752	9,115	2,120	12,800	715	11,740	—	11,484	1,142	67,868
Loss on disposals	70	83	5	2	1	11	—	—	—	172
Amortization of bond discount (premium)	3	23	—	—	(67)	—	—	(742)	—	(783)
Depreciation, amortization and loss on disposals	18,825	9,221	2,125	12,802	649	11,751	—	10,742	1,142	67,257
Interest expense	3,198	435	6	217	172	326	—	16,426	—	20,780
Total operating expenses	\$ 392,241	137,176	50,122	72,368	33,263	98,984	6,040	109,640	3,397	903,231

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF DELAWARE**  
Consolidated Statements of Cash Flows  
Years ended June 30, 2015 and 2014  
(Dollars in thousands)

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Change in net assets	\$ (31,899)	225,673
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization, and loss on disposals	67,966	65,315
Change in post-employment benefit obligations and other nonoperating activities	107,002	—
Net realized and unrealized gains	(58,071)	(178,876)
Gifts of equipment	(264)	(974)
State capital appropriations	(3,251)	(7,244)
Contributions restricted for endowment and capital	(6,762)	(19,727)
Endowment income restricted for reinvestment	(274)	(636)
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	(589)	11,008
Prepaid expenses and inventories	(755)	(438)
Contributions receivable, net	1,690	(4,400)
Accounts payable and accrued liabilities	4,115	7,037
Deferred revenues and students deposits	6,741	(3,551)
Other liabilities	363	(1,717)
Post-employment benefit obligations	25,879	12,815
Net cash provided by operating activities	111,891	104,285
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	1,165,998	1,702,888
Purchases of investments	(1,184,904)	(1,766,606)
Acquisitions of property, plant, and equipment	(134,084)	(129,281)
Disbursements of loans to students	(2,286)	(2,530)
Repayments of loans by students	2,508	2,193
Net cash used in investing activities	(152,768)	(193,336)
Cash flows from financing activities:		
Repayments of principal on long-term debt and capital leases	(15,476)	(11,638)
Net proceeds from issuance of long-term debt	58,701	—
State capital appropriations	3,251	7,244
Endowment income restricted for reinvestment	274	636
Contributions restricted for endowment and capital	13,298	19,727
Advances from federal government for student loans	118	144
Change in restricted deposits	(2,510)	54,100
Net cash provided by financing activities	57,656	70,213
Net increase (decrease) in cash and cash equivalents	16,779	(18,838)
Cash and cash equivalents, beginning of year	22,879	41,717
Cash and cash equivalents, end of year	\$ 39,658	22,879
Supplemental disclosure of cash flow information:		
Interest paid	\$ 22,074	22,159

See accompanying notes to consolidated financial statements.

# UNIVERSITY OF DELAWARE

## Notes to Consolidated Financial Statements

June 30, 2015

### (1) Summary of Significant Accounting Policies

#### (a) Description of Operations

The University of Delaware (the University), a privately chartered university with public support, is a Doctoral/Research Institution-Extensive, land-grant, sea-grant, space-grant, and urban-grant institution. The University, with origins in 1743, was chartered by the State of Delaware (the State) in 1833. A Women's College was opened in 1914, and in 1945, the University became permanently coeducational. The main campus is located in Newark, Delaware, a suburban community of 32,500, situated midway between Philadelphia and Baltimore. Courses are also offered at other locations throughout the State, including Wilmington, Lewes, Dover, Milford, and Georgetown.

The significant accounting principles and practices followed by the University are presented below to assist the reader in analyzing the consolidated financial statements and accompanying notes.

#### (b) Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the various academic and support divisions and other affiliated entities controlled by the University. All significant inter-entity activities and balances are eliminated for financial reporting purposes.

The consolidated statement of activities for the year ended June 30, 2015 is presented with certain summarized comparative information for the year ended June 30, 2014 in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2014 from which the summarized information was derived.

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Restricted gifts, which may be expended only for the purpose indicated by the donor/grantor, are maintained in separate accounts in the University's system. Accordingly, net assets of the University and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that are maintained permanently by the University. Generally, the donors of these assets permit the University to use all of, or part of, the total investment return on related investments for general or specific purposes.

In addition to the three primary financial statements presented under U.S. GAAP for not-for-profit organizations, the statement of functional expenses presents expenses by natural classification within functional categories. Operation and maintenance of plant, depreciation and accretion expense, and disposals are allocated based on square footage. Post-employment and fringe benefit expenses are allocated based on salaries and wages. Interest expense and amortization of bond discount are allocated to the functional classification that benefited from the use of the proceeds of the debt. Operation and



# UNIVERSITY OF DELAWARE

## Notes to Consolidated Financial Statements

June 30, 2015

maintenance of plant costs were approximately \$57,083,000 and \$58,713,000 and fund-raising costs were approximately \$13,937,000 and \$12,888,000 for the years ended June 30, 2015 and June 30, 2014, respectively.

Revenues are reported as increases in unrestricted net assets unless their use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions, which reflect reclassifications from temporarily restricted net assets to unrestricted net assets. Releases from restrictions are presented as either operating or nonoperating. Nonoperating releases represent utilization of capital gifts, and operating releases represent utilization of restricted gifts for program and operating purposes and pledge payments.

**(c) Cash and Cash Equivalents**

Cash equivalents include all highly liquid interest-bearing deposits and short-term investments with maturities of three months or less at time of purchase, excluding amounts held for long-term investments as disclosed in note 4.

**(d) Contributions**

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Unconditional promises to give are recognized initially at fair value giving consideration to anticipated future cash receipts and discounting such amounts at a risk-adjusted rate. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. Amortization of the discount is included in contributions revenue. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Allowance is made, if necessary, for uncollectible contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenue in unrestricted net assets. Income and realized and unrealized net gains on investments of donor-restricted endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift or the University's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund.
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or the income is not available to be used until appropriated by the University under state law.

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Notes to Consolidated Financial Statements

June 30, 2015

**(e) Tuition and Fees and Student Financial Aid**

Tuition and fees are recorded as revenue during the year the related academic services are rendered. Tuition and fees received in advance of services are recorded as deferred revenue and student deposits. The University provides financial aid to eligible students, generally in an “aid package” that includes loans, compensation under work-study programs, and/or grant and scholarship awards. The loans are provided primarily through programs of the U.S. government (including direct and guaranteed loan programs) under which the University is responsible only for certain administrative duties. The grants and scholarships include awards provided from gifts and grants from private donors, income earned on endowment funds restricted for student aid, and University funds.

**(f) Auxiliary Enterprises**

The operation of auxiliaries is supplementary to the primary educational function of the University. Revenue of auxiliary enterprises, which is recognized as services are rendered, provide for debt service, and renewal and replacement of equipment. Auxiliary operations primarily include the residence and dining halls, the bookstore, and student health services.

**(g) Grants and Contracts**

Revenue under grants and contracts with sponsors is recognized as expenditures are incurred. This revenue includes recoveries of facilities and administrative costs, which are generally determined as a negotiated or agreed-upon percentage of direct costs, with certain exclusions.

**(h) Restricted Deposits**

Restricted deposits as of June 30, 2015 and 2014 consisted of the following (in thousands):

	<u>2015</u>	<u>2014</u>
Unexpended bond proceeds	\$ 70,778	69,952
Debt service reserve funds	19,512	18,689
Other deposits	4,572	3,711
	<u>\$ 94,862</u>	<u>92,352</u>

Unexpended bond proceeds represent the amount of unspent bond proceeds that remain on deposit with the trustee. Under terms of the trust agreement, proceeds are not released to the University until expenditures related to the specific purpose of the bond indenture have occurred. These amounts are generally invested in cash equivalents and short-term U.S. government or commercial securities with maturities that support the anticipated cash flow of the underlying construction projects.

Debt service reserve funds are also held with the trustee. The University transfers funds to the trustee in accordance with bond covenant agreements to meet future bond payments. These funds remain on deposit until scheduled interest payments and scheduled or optional redemption principal payments are made, as disclosed in note 9. These funds are generally invested in cash equivalents.

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### Notes to Consolidated Financial Statements

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Other deposits are under the control of the University but are restricted in their use and include funds held for federal loan programs or for the benefit of or under regulations promulgated by the federal government. These funds are generally invested in cash equivalents.

**(i) Investments**

Investments are stated at fair value or estimated fair value, using net asset value as a practical expedient, as described in notes 4 and 5.

**(j) Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost, if purchased or at estimated fair value at the date of gift, if donated, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Land, including land deeded by the Board of Trustees of Delaware College to the State in the early 1900s and thereafter used by the University is not depreciated. Costs of major renovations to buildings are capitalized. Costs of equipment in excess of \$5,000 with a useful life expectancy of more than one year are also capitalized. Repairs and maintenance costs are expensed as incurred. Costs relating to retirement, disposal, or abandonment of assets where the University had a legal obligation to perform activities are accrued using site-specific information.

Interest on borrowings is capitalized from the date of the borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use or the borrowing is retired, whichever occurs first. Capitalized interest is amortized over the useful life of the qualifying asset.

**(k) Nonoperating Activities**

Nonoperating activities include investment gains, net of endowment distributions for operations; contributions and appropriations for endowment and plant purposes; the operations of subsidiaries ancillary to the University's mission; changes in post-employment benefit and asset retirement obligations; and nonrecurring or unusual transactions.

**(l) 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. U.S. GAAP requires 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, 2015 and 2014, there are no uncertain positions. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**(m) Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial

## UNIVERSITY OF DELAWARE

### Notes to Consolidated Financial Statements

June 30, 2015

statements. Estimates also affect the reported amount of revenue and expenses during the reporting period. The University's most significant estimates include the fair value of investments, allowances for uncollectible accounts and contributions receivable, and the actuarial assumptions used to determine post-employment benefit obligations. Actual results could differ from these estimates.

**(n) *Refundable Advances from the U.S. Government***

Student loan programs provided primarily by the U.S. government under the Federal Perkins and Nursing Student Loan program are loaned to qualified students, administered by the University, and may be reloaned after collections. These funds, which are ultimately refundable to the government and are included in other liabilities, aggregated \$15,356,000 and \$15,238,000 as of June 30, 2015 and 2014, respectively.

**(o) *Derivative Financial Instruments***

The University uses interest rate swap agreements to manage interest rate risk associated with certain variable rate debt or to adjust its debt structure. Derivative financial instruments are measured at fair value and recognized in the balance sheet as assets or liabilities, with changes in fair value recognized in the consolidated statement of activities.

**(p) *Impact of Recent Accounting Pronouncements***

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-07 (ASU 2015-07), *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share as a practical expedient. It also removes the requirement to make certain disclosures for all investments valued using NAV as a practical expedient. The University has elected to early adopt ASU 2015-07 as permitted, and the presentation in note 5 has been applied retrospectively.

**(2) *Subsidiary Operations***

In December 2008, 1743 Holdings, LLC was created as a wholly owned subsidiary of the University for the purpose of purchasing and managing a 272-acre site, which is contiguous to the University's 968-acre Newark campus. That property was acquired during fiscal 2010 for a purchase price of \$24,250,000 and is known as the Science, Technology and Advanced Research (STAR) campus.

In October 2009, Blue Hen Wind, Inc. was created as a wholly owned, for-profit, subsidiary of the University. Simultaneously, Blue Hen Wind, Inc. entered into a Limited Liability Company Agreement with Gamesa Technology Corporation, Inc. and formed First State Marine Wind, LLC for the purpose of constructing and operating a wind turbine adjacent to the University's Hugh R. Sharp campus in Lewes. At inception, Blue Hen Wind, Inc. had a 49% ownership interest in First State Marine Wind, LLC. Blue Hen Wind, Inc.'s ownership interest has subsequently increased to approximately 98% at June 30, 2015.

The University is the sole owner of Blue Hen Hotel, LLC, and therefore, the operations of Blue Hen Hotel, LLC are consolidated into the University's financial statements. A hotel management company manages the hotel under a management contract that provides for a management fee of 3% of gross operating revenues of the LLC.

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June 30, 2015

**(3) Contributions Receivable**

Contributions receivable at June 30, 2015 and 2014 are summarized as follows (in thousands):

	<b>2015</b>	<b>2014</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 13,443	10,950
One year to five years	17,502	28,221
	\$ 30,945	39,171

The unamortized discount for contributions to be received after one year amounted to \$715,000 and \$1,307,000 in 2015 and 2014, respectively. Contributions to be received after one year are discounted at discount rates ranging from 1.5% to 3.4% for the years ended June 30, 2015 and 2014, respectively.

**(4) Investments**

Investments are recorded at fair value, or estimated fair value as a practical expedient, as described in note 5. The market value by investment class at June 30, 2015 and 2014 was as follows (in thousands):

	<b>2015</b>	<b>2014</b>
Money market and other liquid funds	\$ 50,652	46,606
U.S. government obligations	110,237	87,908
Corporate obligations	231,125	231,113
Stock and convertible securities	383,341	362,858
International equity investments	3,281	3,342
Limited partnerships and LLCs	998,971	965,744
Real estate investment trust	—	1,242
Other	4,899	5,530
Total	\$ 1,782,506	1,704,343

Included in the investments table above are \$8,965,000 and \$9,206,000 of annuity and life income funds, at June 30, 2015 and 2014, respectively.

The asset allocation of the University's investments involves exposure to a diverse set of markets. The investments within these markets involve various risks such as interest rate, market, sovereign, and credit risks. The University anticipates that the value of its investments may, from time to time, fluctuate substantially as a result of these risks.

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Notes to Consolidated Financial Statements

June 30, 2015

***Net Asset Value, as a Practical Expedient for Fair Value***

The following table presents the attributes of the University's alternative investments, which are stated at net asset value as a practical expedient for fair value, as reported by the funds (in thousands):

	<u>2015</u>	<u>2014</u>	<u>Estimated remaining lives</u>	<u>2015 Unfunded commitments</u> <sup>1</sup>	<u>Redemption frequency</u>	<u>Redemption notice frequency</u>
Real estate investment trust	\$ —	1,242		\$ —	Quarterly	15 days
Limited partnerships and LLCs:						
U.S. corporate debt funds	74,394	72,585		—	Monthly	45 days
International equity funds	305,652	310,947		—	Monthly	10 days
Multi-strategy hedge funds	78,704	193,676		—	Annually	100 days
Long-short hedge funds	222,357	79,918		—	Annually	90 days
Private equity	55,535	47,106	1–8 years	14,220	Not eligible	N/A
Venture capital	60,909	48,947	2–8 years	6,963	Not eligible	N/A
Hybrid fund of funds	36,131	46,939	1–7 years	13,142	Not eligible	N/A
Distressed securities	14,737	17,508	1–5 years	6,376	Not eligible	N/A
Real estate	59,957	61,314	1–11 years	26,344	Not eligible	N/A
Natural resources	33,881	38,551	2–15 years	9,326	Not eligible	N/A
Oil and gas	56,714	48,253	1–11 years	48,512	Not eligible	N/A
	<u>998,971</u>	<u>965,744</u>		<u>124,883</u>		
	<u>\$ 998,971</u>	<u>966,986</u>		<u>\$ 124,883</u>		

<sup>1</sup> Unfunded commitments at June 30, 2015 exclude \$70,000 of commitments that have not completed the first capital call.

**(a) *Real Estate Investment Trust***

This category is an investment in a common trust fund that invests primarily in securities of entities with activities in or related to the development, operation, and/or ownership of real estate, including real estate investment trusts. The fund may also invest in real estate service companies and non-U.S. companies.

**(b) *U.S. Corporate Debt Funds and International Equity Funds***

These categories are investments in commingled funds that invest primarily in public debt and equity securities.

**(c) *Multi-Strategy Hedge Funds***

This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds that make up these funds invest in a variety of marketable securities, including stocks, bonds, credit-oriented securities, and arbitrage investments. The managers have the ability to shift investments between strategies and between net long and net short positions.

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**(d) Long-Short Hedge Funds**

This category includes investments, both long and short, in U.S. and non-U.S. stocks, and other marketable assets.

All of the following University partnerships and Limited Liability Corporations, items (e), (f), and (g), receive distributions through the liquidation of the underlying assets of the funds. These investments can never be redeemed. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

The University is obligated, under certain limited partnership agreements, to make additional capital contributions up to contractual levels (unfunded commitments). The timing and amounts of the contributions will be determined by the general partner of the respective limited partnership.

**(e) Private Equity, Venture Capital, Hybrid Fund of Funds, and Distressed Securities**

These categories include illiquid investments in buyout, mezzanine, venture capital, growth equity, and distressed debt held in commingled limited partnership funds.

**(f) Real Estate**

This category includes illiquid investments in residential and commercial real estate assets, projects, or land held in commingled limited partnership funds.

**(g) Natural Resources and Oil and Gas**

These categories include illiquid assets in timber, oil and gas production, mining, energy, and related businesses held in commingled limited partnership funds.

Investment return for fiscal 2015 and 2014 was as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Dividend and interest income	\$ 22,184	12,885
Net realized and unrealized gains	58,071	190,844
External investment management fees and expenses	<u>(3,834)</u>	<u>(4,007)</u>
Investment return	<u>\$ 76,421</u>	<u>199,722</u>

Investment return is classified on the consolidated statement of activities as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Other investments income	\$ 11,390	6,357
Endowment distributions	50,152	48,187
Investment return in excess of endowment distributions	14,879	145,133
Sales and services of auxiliary enterprises, net	<u>—</u>	<u>45</u>
Investment return	<u>\$ 76,421</u>	<u>199,722</u>

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#### (5) Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market in an orderly transaction between participants at the measurement date and establishes a framework for measuring fair value.

The three levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short-term maturity of these financial instruments. The University measures its investments, liabilities related to annuity and life-income funds, interest rate swaps related to its debt, and contributions receivable at inception at fair value in accordance with other accounting pronouncements. Additionally, the University discloses the fair value of its outstanding debt. The valuation methodology for each of these items is described below:

##### (a) Investments

Investments are recorded at fair value as described above. Additional considerations used to categorize investments include:

Money market and other liquid funds, certain U.S. government obligations, stock and convertible securities, and international investments held directly by the University are classified as Level 1 since quoted prices in active markets are available. Corporate obligations and certain U.S. government obligations are classified as Level 2 as they are not traded in an active market but are valued using third-party vendor pricing services by custodian banks, for similar securities. Certain stock and convertible securities and international investments are classified as Level 2 because the underlying investments are held in Annuity and Life Income Funds in (b) below.

Valuations for limited partnerships, LLC, and inflation sensitive assets are based on net asset value or the equivalent, as reported by investment managers, as a practical expedient to estimate fair value without further adjustment. If the manager's reporting date is for a date prior to June 30, the University adjusts the net asset value for any capital contributions or distributions during the period from the investment manager measurement date to June 30.



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Investments measured at net asset value, as a practical expedient for fair value, include the University's interests in limited partnerships and LLCs, are reported by investment managers, unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. As of June 30, 2015, the University had no plans or intentions to sell investments at amounts different from net asset value. The estimated fair values are reported by the general partners or fund managers and are reviewed and evaluated by the University. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments and the differences could be significant.

Other investment classes classified as Level 2 consist primarily of municipal obligations held in commingled funds, while those classified as Level 3 consist primarily of collateralized mortgage obligations and restricted real estate.

**(b) *Annuity and Life Income Funds***

The annuity and life income funds asset represents the fair value of assets held in charitable gift annuities, charitable remainder annuity trusts, and charitable remainder unitrusts. These assets consist primarily of corporate obligations, stock and convertible securities, and international investments and have been classified as Level 2 using the same methodology described above for similar types of underlying assets.

The annuity and life income funds payable represents the present value of future annuity payments due under these agreements, as calculated for each annuity using discount rates and actuarial assumptions consistent with American Council of Gift Annuities standards. These liabilities have been classified as Level 3 as the fair value is determined based upon a discounted cash flow methodology, which required significant judgment and estimation.

**(c) *Funds Held in Trust by Others***

Funds held in trust by others represent amounts held by third parties where the University receives an income stream in perpetuity, but the assets are required to be held by a trustee. The University does not own the underlying assets, but rather has a beneficial interest in the trust. These trusts are invested in a combination of readily marketable assets, limited partnerships and land and have been classified as Level 3 since the University will never be able to redeem these assets.

**(d) *Debt Interest Rate Swap Agreements***

The fair value of the University's debt is presented in note 9. The fair value of variable rate long-term debt approximates the carrying value because these financial instruments bear interest rates, which approximate current market rates for loans with similar maturities and credit quality. The fair value of the University's fixed rate long-term debt is based upon a discounted cash flow model.

The fair value of the University's interest rate swaps is based on a third-party valuation independent of the counterparty. Although a number of observable inputs are utilized in determining the fair value of its swaps, the University has classified this liability as Level 3 as the fair value was determined using a pricing model involving significant judgment and estimation.

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The following tables present the University's fair value hierarchy for financial instruments that are measured at fair value on a recurring basis as shown on the June 30, 2015 and 2014 consolidated balance sheets (in thousands):

	<b>June 30, 2015</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets:				
Investments:				
Money market and other liquid funds	\$ 50,652	50,246	406	—
U.S. government obligations:				
Mortgage-backed securities	51,644	5,007	46,637	—
Treasury obligations	27,259	23,698	3,561	—
Other	31,334	6,910	24,424	—
	110,237	35,615	74,622	—
Corporate obligations	231,125	—	231,125	—
Stock and convertible securities	383,341	380,607	2,734	—
International investments	3,281	54	3,227	—
Other	4,899	1,061	647	3,191
Investments measured at net asset value <sup>1</sup>	998,971	—	—	—
	1,782,506	467,583	312,761	3,191
Funds held in trust by others	66,681	—	—	66,681
Total	\$ 1,849,187	467,583	312,761	69,872
Financial liabilities:				
Annuity and life income funds payable	\$ 4,521	—	—	4,521
Interest rate swaps	26,805	—	—	26,805
Total	\$ 31,326	—	—	31,326

<sup>1</sup> Investments in limited partnerships and LLCs that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet. See note 4 for detail of investments measured at net asset value.

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	<b>June 30, 2014</b>			
	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Investments:				
Money market and other liquid funds	\$ 46,606	46,263	343	—
U.S. government obligations:				
Mortgage-backed securities	50,213	5,411	44,802	—
Treasury obligations	30,159	26,674	3,485	—
Other	<u>7,536</u>	<u>6,536</u>	<u>1,000</u>	<u>—</u>
	87,908	38,621	49,287	—
Corporate obligations	231,113	—	231,113	—
Stock and convertible securities	362,858	135,479	227,379	—
International investments	3,342	55	3,287	—
Other	5,530	—	1,692	3,838
Investments measured at net asset value <sup>1</sup>	<u>966,986</u>	<u>—</u>	<u>—</u>	<u>—</u>
	1,704,343	220,418	513,101	3,838
Funds held in trust by others	<u>67,867</u>	<u>—</u>	<u>—</u>	<u>67,867</u>
Total	\$ <u>1,772,210</u>	<u>220,418</u>	<u>513,101</u>	<u>71,705</u>
Financial liabilities:				
Annuity and life income funds payable	\$ 4,625	—	—	4,625
Interest rate swaps	<u>24,359</u>	<u>—</u>	<u>—</u>	<u>24,359</u>
Total	\$ <u>28,984</u>	<u>—</u>	<u>—</u>	<u>28,984</u>

<sup>1</sup> Investments in limited partnerships and LLCs and in a real estate investment trust that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet. See note 4 for detail of investments measured at net asset value.

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The following tables present a reconciliation of the consolidated balance sheet amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2015 and 2014 (in thousands):

	<b>Funds held in trust by others</b>	<b>Other</b>	<b>Total</b>
Financial assets:			
Balance at June 30, 2013	\$ 60,653	4,767	65,420
Net realized and unrealized gains	10,197	—	10,197
Purchases	24,148	212	24,360
Sales	(27,131)	(1,141)	(28,272)
Total at June 30, 2014	67,867	3,838	71,705
Net realized and unrealized gains	743	—	743
Purchases	19,340	119	19,459
Sales	(21,269)	(766)	(22,035)
Total at June 30, 2015	\$ 66,681	3,191	69,872
Change in unrealized losses related to financial instruments still held at June 30, 2015	\$ (2,385)	—	(2,385)

	<b>Interest rate swaps</b>	<b>Annuity and life income funds payable</b>	<b>Total</b>
Financial assets:			
Balance at June 30, 2013	\$ 24,478	4,986	29,464
Net realized and unrealized gains	(119)	(222)	(341)
Accretion	—	126	126
Distributions	—	(265)	(265)
Total at June 30, 2014	24,359	4,625	28,984
Net realized and unrealized losses	2,446	10	2,456
Accretion	—	157	157
Distributions	—	(271)	(271)
Total at June 30, 2015	\$ 26,805	4,521	31,326
Change in unrealized losses related to financial instruments still held at June 30, 2015	\$ 2,446	—	2,446

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Notes to Consolidated Financial Statements

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Transfers between leveled assets are based upon beginning of year value of the asset. During the years ended June 30, 2015 and 2014, there were no transfers between levels.

**(6) Annuity and Life-Income Funds**

The University held \$8,965,000 and \$9,206,000 in investments related to annuity and life-income funds as of June 30, 2015 and 2014, respectively. A related liability of \$4,521,000 and \$4,625,000 as of June 30, 2015 and 2014, respectively, represents the present value of future annuity payments due under these agreements, and was calculated for each annuity using discount rates and actuarial assumptions consistent with the terms of the gift.

The University is required by the laws of certain states to maintain reserves against charitable gift annuities. Such reserves amounted to \$2,330,000 and \$2,302,000 as of June 30, 2015 and 2014, respectively.

**(7) Property, Plant, and Equipment**

Property, plant, and equipment as of June 30, 2015 and 2014 consisted of the following (in thousands):

	2015	2014	Range of useful lives (years)
Land	\$ 54,366	53,703	n/a
Land improvements	65,743	65,086	15
Buildings	1,634,896	1,578,359	40
Equipment, furnishings, and library	484,385	458,914	2–20
Capital leasehold	44,910	46,525	29.5–40
Collections and works of art	8,756	8,756	n/a
Construction in progress	130,957	63,992	n/a
	2,424,013	2,275,335	
Less accumulated depreciation	(947,858)	(882,238)	
	\$ 1,476,155	1,393,097	

At June 30, 2015, the University had outstanding contractual commitments of \$43,722,000 for building and renovation projects.

**(8) Asset Retirement Obligations**

The University has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities. When an asset retirement obligation is identified, the University records the fair value of the obligation as a liability. The liability is accreted to its present value and accretion expense is recognized. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the period of expected remediation.

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The University had asset retirement obligations of \$20,472,000 and \$20,541,000 as of June 30, 2015 and 2014, respectively. The following table reconciles the obligation as of June 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Balance at beginning of year	\$ 20,541	22,112
Additional obligations incurred	7	22
Obligations settled in current period	(380)	(732)
Changes in estimates, including timing	(262)	(1,422)
Accretion expense	566	561
Balance at end of year	\$ 20,472	20,541

**(9) Long-Term Debt and Capital Leases**

Indebtedness at June 30, 2015 and 2014 consisted of the following (in thousands):

	<b>Fiscal year of maturity</b>	<b>Interest rate(s)%</b>	<b>Outstanding principal</b>	
			<b>2015</b>	<b>2014</b>
Variable-rate debt:				
Series 2004B	2035	3	\$ 32,185	32,185
Series 2005	2036	4	32,925	32,925
Series 2013C	2038	4	57,475	57,475
Blue Hen Hotel LLC Bonds	2028	6	7,925	8,325
Variable-rate debt			130,510	130,910
Fixed-rate bonds:				
Series 2009B	2027	2.0–4.0	37,435	43,495
Series 2010A Taxable	2041	4	119,580	119,580
Series 2010B	2020	0.65–3.796	11,080	11,080
Series 2013A	2034	3.0–5.0	85,605	91,385
	2044	5.0	27,825	27,825
Series 2013B Taxable	2027	0.488–2.997	8,765	9,430
	2034	4	6,770	6,770
	2044	4	13,555	13,555
Series 2015	2036	4.0–5.0	25,060	—
	2041	5	11,385	—
	2046	5	14,625	—
Fixed-rate debt			361,685	323,120
Capital leases			34,553	35,771
Line of credit			—	1,352
			526,748	491,153
Premium on long-term debt, net			29,135	22,278
Long-term debt and capital leases			\$ 555,883	513,431

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The bonds in the preceding table were primarily issued to finance capital projects associated with auxiliary services and are secured by a pledge of gross revenue received by the University from the operations of all project facilities including housing, dining, parking, and other revenue producing facilities and mandatory student fees.

The 2004B and 2005 bonds initially bear interest at a daily rate and can be converted to bear interest at a weekly, flexible, term, or fixed rate to maturity.

The Series 2010A Taxable Revenue Bonds are Build America bonds and the University receives payments from the U.S. Treasury equal to 35% of the corresponding interest payable on the bonds (the Subsidy Payments). For the year ended June 30, 2015, the University received Subsidy Payments of \$2,283,000, which are included in other revenue. The bonds are subject to mandatory redemption from November 1, 2028 through November 1, 2040, but are subject to optional redemption and tender for purchase prior to maturity.

The 2013C bonds have a mandatory remarketing date of May 1, 2016, at which time the bonds can be converted to bear interest at a daily, weekly, flexible, or fixed rate to maturity.

The Blue Hen Hotel, LLC bonds, which are guaranteed by the University, will initially bear interest at a weekly rate (0.35% at June 30, 2015) and can be converted to bear interest at a daily, flexible, term, or fixed rate to maturity.

The University's debt agreements require that the University meet certain financial and other covenants. The University was in compliance with these covenants at June 30, 2015 and 2014.

The carrying amount of variable rate long-term debt approximates fair value because these financial instruments bear interest at rates that approximate current market rates for loans with similar maturities and credit quality. The fair value of fixed and variable rate revenue bonds (par amount of \$484,270,000) approximates \$532,915,000. Such amount has been estimated by discounting the future cash outflows associated with such debt by current market rates for loans with similar maturities and credit quality.

The University has obligations under capital leases with annual lease payments ranging from \$900,000 to \$1,998,000. As of June 30, 2015, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases amounted to \$44,910,000 and \$6,772,000, respectively.

The aggregate amount of principal payments on the University's long-term debt and capital leases are due as follows (in thousands):

2016	\$	14,262
2017		14,791
2018		15,991
2019		13,173
2020		11,405
Thereafter		457,126
	\$	<u>526,748</u>

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The University has Standby Bond Purchase Agreements (SBPA) for the Series 2004B and 2005 variable rate demand bonds to provide liquidity for the purchase of the bonds should the remarketing agent be unable to sell the bonds on the open market. The SBPAs provide for the banks to purchase any outstanding bonds not remarketed for a period of up to 90 days at variable interest rates as defined in the SBPAs. The SBPAs for the Series 2004B and 2005 bonds expire on April 5, 2018 and May 31, 2016, respectively. An SBPA also exists for the Blue Hen Hotel LLC bonds and expires on December 31, 2016.

**(10) Interest Rate Swap Agreements**

The University has interest rate swap agreements for notional amounts of approximately \$135,635,000 as of June 30, 2015 (in thousands):

	<u>Balance sheet location</u>	<u>Location of gain (loss)</u>	<u>Fair value 2015</u>	<u>Fair value 2014</u>	<u>Amount of gain (loss)</u>	
					<u>2015</u>	<u>2014</u>
Interest rate swap agreements	Other liabilities	Other, net	\$ 26,805	24,359	(2,446)	119

A portion of the total interest rate swap liabilities reported on the consolidated balance sheet, \$25,042,000 at June 30, 2015, contains provisions that require the University's debt and the counterparty to maintain an investment grade credit rating from one or both of the major credit rating agencies. A downgrade of the University or the counterparty's rating may require that party to provide collateralization above a predetermined threshold on all rate swaps in net liability positions. To date, the University has not posted collateral.

**(11) Employee Benefit Plans**

**(a) University Pension Plans – Defined Contribution**

The University's 403(b) Retirement Annuity Program is available to substantially all faculty and professional employees. The University's contribution for this program is fixed at 11% of annual base salary for eligible employees who contribute a minimum of four percent of their annual salary. The policy of the University is to pay its share of the cost accrued in connection with the University Retirement Annuity Program. As a result, there are no unfunded benefits. Pension plan expense for the University's 403(b) Retirement Annuity Program was \$28,751,000 in 2015 and \$28,085,000 in 2014.

In addition, the University also offers two additional voluntary retirement benefit plans:

The Voluntary 403(b) Retirement Plan is available to all eligible full-time and part-time employees who wish to make additional contributions to their retirement savings. Participation is voluntary and does not require a minimum contribution. The University makes no contributions to this plan, incurs no expense for the operation of this plan and has no unfunded liability.

The Voluntary 457(b) Deferred Compensation Plan is available to all eligible full-time and part-time employees who are already making the maximum allowable contribution to the



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Voluntary 403(b) Retirement Plan and wish to make additional contributions to their retirement savings. The University makes no contributions to this plan, incurs no expense for the operation of this plan and has no unfunded liability.

**(b) Faculty Retirement**

Faculty members subject to the collective bargaining agreement who qualify for retirement can elect certain additional benefits upon notice of retirement from the University. These benefits include a combination of retirement leave or phased retirement, and a lump-sum payment based upon years of service and salary level, and are funded by the University on a pay-as-you-go basis.

For the years ended June 30, 2015 and 2014, the University recognized expense related to this plan of \$8,281,000 and \$1,811,000, respectively. The University's estimated unfunded obligation related to this plan is \$83,637,000 and is included in post-employment benefit obligations on the consolidated balance sheet as of June 30, 2015. A change in unfunded post-employment benefit obligations of \$76,517,000 was recognized in fiscal 2015 within nonoperating activities.

The benefit obligation was determined using a discount rate of 4.70%, and a rate of compensation increase of 2.00%. As of June 30, 2015, the University's expected future benefit payments for fiscal years 2016 through 2020 are \$7,773,000, \$8,664,000, \$8,169,000, \$8,155,000, and \$8,416,000 respectively.

**(c) Post-employment**

The University also provides post-employment benefits primarily for medical insurance to retired employees who are not eligible under the State Plan, as described below. The University recognizes the funded status (i.e., the difference between the fair value of plan assets and the accumulated post-employment benefit obligation) of its post-employment benefit plan in the consolidated balance sheets. Also, the University measures the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated balance sheets. As of June 30, 2015, the University has not funded these benefits.

Net periodic post-employment benefit cost for 2015 and 2014 includes the following components (in thousands):

	<b>2015</b>	<b>2014</b>
Service cost	\$ 10,353	7,674
Interest cost	13,292	11,882
Amortization of unrecognized loss	906	—
Net periodic post-employment benefit cost	\$ 24,551	19,556

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The accumulated post-employment benefit obligation recognized in the consolidated balance sheets at June 30, 2015 and 2014 is as follows (in thousands):

	<b>2015</b>	<b>2014</b>
Accrued post-employment liability	\$ 263,210	244,450
Unrecognized net loss	80,010	32,670
Accumulated post-employment benefit obligation	\$ 343,220	277,120

Changes in the accumulated post-employment plan benefit obligation and funding status for 2015 and 2014 are as follows (in thousands):

	<b>2015</b>	<b>2014</b>
Benefit obligation at beginning of year	\$ 277,120	264,738
Service cost	10,353	7,674
Interest cost	13,292	11,882
Amortization of unrecognized loss	906	—
Actuarial loss (gain)	47,340	(1,873)
Disbursements	(5,791)	(5,301)
Benefit obligation at end of year	343,220	277,120
Fair value of plan assets at beginning of year	—	—
Employer contributions	5,791	5,301
Benefits paid	(5,791)	(5,301)
Fair value of plan assets at end of year	—	—
Funded status at end of year - liability included in other post-employment benefit obligations on the consolidated balance sheets	\$ 343,220	277,120

The University expects to contribute \$7,739,000 to the plan for the year ending June 30, 2016.

The accumulated post-employment benefit obligation was determined using a discount rate of 4.95% and 4.70% in 2015 and 2014, respectively. The healthcare cost trend rates used reflect the differences between pre-65 and post-65 claims were 7.00% and 7.50%, respectively, in 2015, and 7.20% and 6.00%, respectively, in 2014. This rate gradually decreases to 5.00% by the year 2022 for pre-65 and by the year 2023 for post-65 claims.

The effect of federal subsidies enacted by the Medicare Prescription Drug Improvement and Modernization Act of 2003 has been reflected in the measurement of the accumulated post-employment benefit obligation or net periodic post-employment benefit cost.

In October 2014, the Society of Actuaries released new data regarding observed mortality rate improvements since 2000 (the RP-2014 Mortality Tables and the MP-2014 Mortality Improvement Scale). The updated

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mortality tables were adopted as of June 30, 2015. Implementation of the new mortality tables increased the projected benefit obligation of the plan by \$50,345,000.

The impact of a one-percentage-point change in the assumed healthcare cost trend rate, while holding all other assumptions constant, would be as follows (in thousands):

	<b>Increase</b>	<b>Decrease</b>
Effect on service cost and interest cost components of net periodic post-employment benefit cost	\$ 5,748	(4,361)
Effect on benefit obligation as of June 30, 2015	74,064	(57,089)

At June 30, 2015, the University's expected future benefit payments for future service are as follows (in thousands):

Year ending June 30:		
2016	\$	7,739
2017		8,593
2018		9,521
2019		10,397
2020		11,360
2021 through 2025		73,211

**(d) Participation in State Retirement Plans**

Salaried and hourly staff employees participate in the Delaware State Employees' Pension Plan (the State Plan), a cost sharing defined-benefit plan. The State Plan (established in 1970), is one of nine plans encompassed within the Delaware Public Employees' Retirement System (<http://www.delawarepensions.com/FinancialReports/AnnualFinancialReports.shtml>). Under the state pension statute, a mandatory pretax contribution of five percent of salary (or three percent if pension-creditable service began prior to January 1, 2012) in excess of \$6,000 per year plus five percent of salary in excess of the social security wage base is required, by the employee (pension). In addition to these retirement benefits, salaried and hourly staff employees also receive post-employment healthcare benefits through the State Plan, which are funded by the State on a pay-as-you-go basis (OPEB).

The University is required to pay its share of the annual premium accrued in connection with the State Plan (inclusive of Pension and OPEB), which is based upon a percentage of covered payroll. The percentage of covered payroll was 20.66% in 2015 and 21.02% in 2014. Expense recognized for the State Plan was \$11,999,000 and \$12,060,000 in 2015 and 2014, respectively.

The State Plan for Pension financial statements and actuarial reports for June 30, 2014 (most recent available) indicate the following:

- The University has 1,348 active participants in the State Plan for Pension. The State Plan for Pension, in total, has 64,207 participants, 35,825 of which are active participants.

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- The University's contribution to the State Plan for pension in fiscal year June 30, 2014 of \$5,578,000 was approximately 3.19% of the \$174,863,000 total annual required plan employer contributions to the plan.
- At June 30, 2014, the State Plan for Pension had a 92.3% funded ratio of the actuarial accrued liability.
- The funding objective of the State Plan for Pension is to establish contribution rates that, over time, will remain level as a percent of payroll. The contribution rate was developed to provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus level percent of payroll amortizations of each layer of the unfunded liability over a specified period. The participant organizations to the State Plan for Pension have consistently funded the full amounts required based on the actuarial valuations and specific statutory provisions.

As disclosed in the State of Delaware's Consolidated Annual Financial Report for the year ended June 30, 2014 (most recent available), the State Plan for OPEB as of June 30, 2014 indicated the State had an unfunded actuarial accrued liability of \$5,656,000,000. The University's contribution to the State Plan for OPEB in fiscal year June 30, 2014 of \$5,743,000 was approximately 2.8% of the \$203,900,000 total annual required employer contributions to the plan.

**(e) Participation in Other State Benefits**

The University maintains health insurance benefits for its employee base through the State of Delaware. Premiums are established annually by the State, based upon employee elections for coverages. The University remits premiums monthly to the State. Depending on the plan selected by the employee, premiums are funded 86.75% to 96.00% by the University and 4.00% to 13.25% by employee contributions. Medical insurance expense for 2015 and 2014 was \$45,783,000 and \$45,005,000, respectively.

**(12) Net Assets**

Temporarily restricted net assets include the following at June 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Contributions receivable	\$ 21,917	39,171
Contributions restricted for buildings	7,999	—
Annuity and life income funds	903	989
Accumulated gains on permanent endowment funds	622,899	615,636
Other time and purpose restrictions	9,588	23,277
	\$ 663,306	679,073

Generally, the donors of these assets permit the University to use all or part of the income earned and net appreciation on related investments for general or specific purposes, such as scholarships, faculty salaries, or other operational support.

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Permanently restricted net assets include the following at June 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Contributions receivable	\$ 9,028	—
Permanent loan funds	344	333
Annuity and life income funds	3,542	3,592
Funds held in trust by others	66,681	67,867
Permanent endowment funds	312,293	297,201
	\$ 391,888	368,993

**(13) Endowment**

The University endowment consists of approximately 1,023 individual funds established for a variety of purposes. The endowment funds are subdivided into appropriate net asset classifications. The permanently restricted endowment funds represent gifts with a stipulation by the donor that the principal not be expended. Board-designated temporarily restricted and unrestricted endowment funds represent funds where there is no requirement to maintain the principal.

**(a) Interpretation of Relevant Law**

Based upon its interpretation of the provisions of Delaware’s enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the University classifies the portion of donor-restricted endowment funds that is not classified as permanently restricted net assets as temporarily restricted net assets, unless it has previously been appropriated for use by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. At the time of appropriation by the University, and providing there are no additional purpose restrictions in place, the temporarily restricted net assets will be reclassified to unrestricted net assets. The University classifies as permanently restricted net assets the historical cost value of the original donor-restricted endowment.

**(b) Return Objectives and Risk Parameters**

The University has adopted investment and spending policies for endowment funds that attempt to provide in perpetuity financial support of the University’s educational goals. Toward that end, the University’s Board of Trustees, Investment Visiting Committee, and administration have a shared mission to maximize the endowment fund’s total return consistent with the University’s prudent investment risk constraints. Endowment funds include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy approved by the Board of Trustees, the endowment funds are invested in a manner that is intended to achieve an average annual real return of at least 5% over time while assuming an acceptable level of investment risk. Actual returns in any year may vary from that amount. To monitor the effectiveness of the investment strategy of endowment funds, performance goals are established and monitored related to benchmark indices and returns earned by comparable endowment funds.

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### Notes to Consolidated Financial Statements

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(c) ***Investment Strategy***

To satisfy its long-term rate of return objectives, the University employs a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). 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 while assuming a level of risk (volatility) consistent with achieving that return.

(d) ***Spending Policy***

In accordance with Delaware's enacted version of UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the University and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the University; and (7) the investment policies of the University.

The University endowment spending policy guidelines target an annual distribution in the range of 4.0% to 5.0% of the endowment pooled portfolio average market value over the 12 trailing quarters through December 31 of the year prior to the new fiscal year. The actual rate is set annually by the Board of Trustees, and was 4.29% and 4.39% at June 30, 2015 and 2014, respectively.

In establishing this policy, the University considered the long-term expected return on its funds. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at a rate in excess of inflation. This is consistent with the University's objective to maintain the purchasing power of the endowment funds held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(e) ***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. There were no significant deficiencies of this nature as of June 30, 2015 and 2014. Such deficiencies are recorded in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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Notes to Consolidated Financial Statements

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(f) *Net Asset Classification of Endowment Funds*

Net asset composition by type of fund consists of the following as of June 30, 2015 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	613,702	312,293	925,995
Board-designated endowment funds	<u>339,500</u>	<u>9,197</u>	<u>—</u>	<u>348,697</u>
	<u>\$ 339,500</u>	<u>622,899</u>	<u>312,293</u>	<u>1,274,692</u>

Net asset composition by type of fund consists of the following as of June 30, 2014 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	606,508	297,201	903,709
Board-designated endowment funds	<u>329,429</u>	<u>9,128</u>	<u>—</u>	<u>338,557</u>
	<u>\$ 329,429</u>	<u>615,636</u>	<u>297,201</u>	<u>1,242,266</u>

Board-designated temporarily restricted net assets represent the income on non-endowed purpose restricted gifts to the University that the Board of Trustees has designated as endowment, but which cannot reasonably be expended within a year. As of June 30, 2015 and 2014, the amount of temporarily restricted endowment net assets, which may be used for purposes of the University as determined by the Board of Trustees, was \$415,089,000 and \$424,789,000, respectively. Additionally, \$198,613,000 and \$181,719,000 as of June 30, 2015 and 2014, respectively, are determined to be with purpose restrictions as set forth by the donors.

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Changes in endowment net assets for the year ended June 30, 2015 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 329,429	615,636	297,201	1,242,266
Investment return:				
Investment income	18,053	7	245	18,305
Net appreciation (depreciation) – realized and unrealized	<u>1,115</u>	<u>44,545</u>	<u>3,109</u>	<u>48,769</u>
Total investment return	19,168	44,552	3,354	67,074
Contributions	—	—	11,388	11,388
Endowment spending distribution	(12,763)	(37,389)	—	(50,152)
Other changes	<u>3,666</u>	<u>100</u>	<u>350</u>	<u>4,116</u>
	<u>\$ 339,500</u>	<u>622,899</u>	<u>312,293</u>	<u>1,274,692</u>

Changes in endowment net assets for the year ended June 30, 2014 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 299,608	531,471	279,434	1,110,513
Investment return:				
Investment income	1,899	8,306	636	10,841
Net appreciation (depreciation) – realized and unrealized	<u>40,148</u>	<u>111,575</u>	<u>(4)</u>	<u>151,719</u>
Total investment return	42,047	119,881	632	162,560
Contributions	—	86	17,135	17,221
Endowment spending distribution	(12,385)	(35,802)	—	(48,187)
Other changes	<u>159</u>	<u>—</u>	<u>—</u>	<u>159</u>
	<u>\$ 329,429</u>	<u>615,636</u>	<u>297,201</u>	<u>1,242,266</u>

**(14) Ground Leases and Rental Income**

The University has entered into a series of leasing transactions related to the redevelopment of the University's 272-acre STAR campus.



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The future minimum rental payments to be received under the ground leases noted above and can reasonably be estimated are as follows (in thousands):

Year ending June 30:		
2016	\$	140
2017		140
2018		152
2019		154
2020		154
Thereafter		10,343
	\$	11,083

**(15) Scholarship Allowance**

The University provides financial assistance to eligible students to partially offset the direct costs of tuition, on-campus housing, and meal contracts. These scholarship allowances are presented as a reduction of tuition and fees and sales and services of auxiliary enterprises.

Scholarships are funded from unrestricted resources, as well as funds from donors, federal and state governments, and endowment income restricted to use for student financial assistance.

The table below identifies this financial assistance by source and by student classification for the years ended June 30, 2015 and 2014 (in thousands):

	2015			2014		
	Undergraduate	Graduate	Total	Undergraduate	Graduate	Total
Unrestricted	\$ 65,595	59,674	125,269	53,385	59,553	112,938
Federal grants	747	1,119	1,866	691	1,093	1,784
State grants	10,971	71	11,042	10,912	54	10,966
Private gifts	2,840	623	3,463	3,157	537	3,694
Endowment	3,723	96	3,819	3,657	85	3,742
Total	\$ 83,876	61,583	145,459	71,802	61,322	133,124

An additional \$6,040,000 and \$6,044,000 of University-provided financial assistance was utilized by students for books, supplies, and off-campus living expenses for the years ended June 30, 2015 and 2014, respectively.

**(16) Related-Party Transactions**

The University may, from time to time, do business with companies that may be associated, either directly or indirectly, with members of the University's Board of Trustees or senior management. Although not material, the University believes that these transactions are executed on terms comparable to those available from unrelated parties and are in the best interest of the University.

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### Notes to Consolidated Financial Statements

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#### **(17) Contingencies**

The University is party to certain claims and litigation arising in the ordinary course of business. In the opinion of management, the resolution of such claims and litigation will not materially affect the University's financial position, statement of activities, or cash flows.

On February 4, 2015, a complaint was filed in the Superior Court of the State of Delaware by The Data Centers, LLC against the University and 1743 Holdings, LLC, a Delaware limited liability company wholly owned by the University. The complaint alleges that the University breached a long-term ground lease for the property on which the plaintiff intended to build a data center and electric generating plant. The plaintiff estimates its damages are at least \$200 million. The case is still in its infancy. While the University has meritorious defenses to the plaintiff's claims, the University is not yet able to determine the likelihood of any particular outcome or range of loss.

#### **(18) Subsequent Events**

In connection with the preparation of the consolidated financial statements, the University evaluated subsequent events after the balance sheet date of June 30, 2015 through October 22, 2015, which was the date the consolidated financial statements were issued.