



UNIVERSITY OF DELAWARE

Consolidated Financial Statements

June 30, 2020 and 2019

(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 its subsidiaries (the University), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits. We conducted our audits 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 auditors consider 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, 2020 and 2019, and the changes in their net assets, their functional expenses, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

As discussed in Note 1(n) to the consolidated financial statements, in 2020, the University adopted Accounting Standards Update ASU 2016-19, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

KPMG LLP

Philadelphia, Pennsylvania
November 9, 2020

UNIVERSITY OF DELAWARE

Consolidated Balance Sheets

June 30, 2020 and 2019

(Dollars in thousands)

Assets	2020	2019
Cash and cash equivalents	\$ 129,701	111,398
Operating investments	<u>161,593</u>	<u>177,487</u>
Total cash, cash equivalents and operating investments	291,294	288,885
Restricted deposits	81,568	209,516
Accounts and notes receivable, net	41,543	40,865
Prepaid expenses and inventories	2,334	1,621
Contributions receivable, net	43,237	49,517
Student loan receivables, net	8,252	10,419
Investments	1,623,458	1,655,963
Funds held in trust by others	76,836	78,655
Property, plant, and equipment, net	<u>1,837,581</u>	<u>1,706,809</u>
Total assets	\$ <u><u>4,006,103</u></u>	<u><u>4,042,250</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 148,918	125,653
Deferred revenue and student deposits	46,316	36,750
Long-term debt and capital leases	709,343	718,624
Postemployment benefit obligations	569,657	505,986
Other liabilities	<u>88,694</u>	<u>82,912</u>
Total liabilities	<u>1,562,928</u>	<u>1,469,925</u>
Net assets:		
Without donor restrictions	1,246,616	1,365,974
With donor restrictions	<u>1,196,559</u>	<u>1,206,351</u>
Total net assets	<u>2,443,175</u>	<u>2,572,325</u>
Total liabilities and net assets	\$ <u><u>4,006,103</u></u>	<u><u>4,042,250</u></u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statements of Activities

Years ended June 30, 2020 and 2019

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Changes in net assets without donor restrictions:		
Operating revenues:		
Tuition and fees, net of scholarships and fellowships (\$192,213 in 2020 and \$185,078 in 2019)	\$ 457,838	455,052
Auxiliary services revenue	94,097	137,576
Grants, contracts, and other exchange transactions	214,147	201,657
State operating appropriations	125,314	122,320
Contributions	9,848	9,868
Endowment distributions	52,215	51,877
Other investment income	20,824	26,782
Other revenue	42,915	45,889
Net assets released from restrictions	<u>14,551</u>	<u>18,373</u>
Total operating revenues	<u>1,031,749</u>	<u>1,069,394</u>
Operating expenses:		
Salaries and wages	520,831	492,916
Benefits	177,369	170,752
Postemployment	<u>14,829</u>	<u>13,825</u>
Total compensation	713,029	677,493
Supplies, materials and purchased services	232,543	249,715
Travel	24,918	30,918
Depreciation and amortization	81,353	76,332
Interest	<u>22,478</u>	<u>28,772</u>
Total operating expenses before (gain) loss on disposals and write-offs	<u>1,074,321</u>	<u>1,063,230</u>
Change in net assets from operating activities before (gain) loss on disposals and write-offs	<u>(42,572)</u>	<u>6,164</u>
Gain (loss) on disposals and write-offs	<u>(2,968)</u>	<u>22,659</u>
Total operating expenses	<u>1,071,353</u>	<u>1,085,889</u>
Change in net assets from operating activities	<u>(39,604)</u>	<u>(16,495)</u>
Other changes in net assets without donor restrictions:		
Investment return (less than) in excess of endowment distributions	(8,940)	19,726
Contributions	2,220	1,465
Postemployment costs other than service costs	(19,184)	(22,258)
Other changes in postemployment benefit obligations	(48,608)	10,166
Other, net	(12,310)	(2,658)
Net assets released from restrictions	<u>7,068</u>	<u>3,366</u>
Other changes in net assets without donor restrictions	<u>(79,754)</u>	<u>9,807</u>
Total changes in net assets without donor restrictions	<u>(119,358)</u>	<u>(6,688)</u>
Changes in net assets with donor restrictions:		
Investment return (less than) in excess of endowment distributions	(20,542)	27,220
Contributions	29,344	56,533
State capital appropriations	1,197	187
Other, net	1,828	5,032
Net assets released from restrictions	<u>(21,619)</u>	<u>(21,739)</u>
Total changes in net assets with donor restrictions	<u>(9,792)</u>	<u>67,233</u>
Total changes in net assets	<u>(129,150)</u>	<u>60,545</u>
Net assets at beginning of year	<u>2,572,325</u>	<u>2,511,780</u>
Net assets at end of year	\$ <u><u>2,443,175</u></u>	\$ <u><u>2,572,325</u></u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE
Consolidated Statement of Functional Expenses
Year ended June 30, 2020
(Dollars in thousands)

	Instruction and departmental research	Sponsored research	Extension and public service	Academic support	Student services	Student aid	Auxiliary enterprises	General institutional support	Total
Operating expenses:									
Expenses:									
Salaries and wages	\$ 282,201	73,589	27,812	42,293	20,731	3,571	9,486	61,148	520,831
Benefits	92,946	21,751	9,630	17,034	7,271	(54)	3,558	25,233	177,369
Postemployment benefits	10,076	1,159	594	1,006	380	—	181	1,433	14,829
Total compensation	385,223	96,499	38,036	60,333	28,382	3,517	13,225	87,814	713,029
Supplies, materials and purchased services	57,654	58,667	11,329	11,787	11,971	3,031	56,424	21,680	232,543
Travel	16,807	2,824	1,325	1,206	1,181	53	156	1,366	24,918
Depreciation and amortization	27,690	14,923	1,108	12,916	2,539	—	16,673	5,504	81,353
Interest	9,778	583	—	—	—	—	12,117	—	22,478
Total operating expenses before loss (gain) on disposals and write-offs	497,152	173,496	51,798	86,242	44,073	6,601	98,595	116,364	1,074,321
Loss (gain) on disposals and write-offs	1,605	280	57	23	18	—	(5,019)	68	(2,968)
Total operating expenses	498,757	173,776	51,855	86,265	44,091	6,601	93,576	116,432	1,071,353
Other changes in net assets without donor restrictions:									
Postemployment other than service costs	13,742	1,327	680	1,152	435	—	207	1,641	19,184
Total functional expenses 2020	<u>\$ 512,499</u>	<u>175,103</u>	<u>52,535</u>	<u>87,417</u>	<u>44,526</u>	<u>6,601</u>	<u>93,783</u>	<u>118,073</u>	<u>1,090,537</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE
Consolidated Statement of Functional Expenses
Year ended June 30, 2019
(Dollars in thousands)

	Instruction and departmental research	Sponsored research	Extension and public service	Academic support	Student services	Student aid	Auxiliary enterprises	General institutional support	Total
Operating expenses:									
Expenses:									
Salaries and wages	\$ 265,690	68,771	27,526	40,306	20,140	4,390	9,412	56,681	492,916
Benefits	89,560	19,400	8,082	16,771	7,305	(79)	3,792	25,921	170,752
Postemployment benefits	9,329	1,230	552	935	340	—	173	1,266	13,825
Total compensation	364,579	89,401	36,160	58,012	27,785	4,311	13,377	83,868	677,493
Supplies, materials and purchased services	64,000	47,653	12,920	12,405	12,087	3,238	70,702	26,710	249,715
Travel	19,645	3,728	1,783	1,785	1,547	156	145	2,129	30,918
Depreciation and amortization	26,190	14,026	1,182	12,500	2,338	—	14,939	5,157	76,332
Interest	11,696	776	—	—	22	—	16,248	30	28,772
Total operating expenses before loss on disposals and write-offs	486,110	155,584	52,045	84,702	43,779	7,705	115,411	117,894	1,063,230
Loss on disposals and write-offs	3,486	1,128	38	—	—	—	18,007	—	22,659
Total operating expenses	489,596	156,712	52,083	84,702	43,779	7,705	133,418	117,894	1,085,889
Other changes in net assets without donor restrictions:									
Postemployment other than service costs	15,638	1,812	813	1,377	500	—	254	1,864	22,258
Total functional expenses 2019	<u>\$ 505,234</u>	<u>158,524</u>	<u>52,896</u>	<u>86,079</u>	<u>44,279</u>	<u>7,705</u>	<u>133,672</u>	<u>119,758</u>	<u>1,108,147</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE
Consolidated Statements of Cash Flows
Years ended June 30, 2020 and 2019
(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (129,150)	60,545
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in postemployment benefit obligations and other nonoperating activities	71,303	14,188
Net realized and unrealized gains	(21,962)	(96,408)
Change in fair value of swap	9,691	10,529
Gifts of equipment	(1,194)	(1,235)
State capital appropriations	(1,197)	(187)
Contributions restricted for endowment and capital	(17,166)	(41,983)
Endowment income restricted for reinvestment	(373)	(281)
Depreciation, amortization, and loss on disposals	85,238	98,663
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	(678)	495
Prepaid expenses and inventories	(713)	353
Contributions receivable, net	548	3,850
Accounts payable, accrued and other liabilities	22,359	10,888
Deferred revenue and students deposits	9,566	7,824
Postemployment benefit obligations	(4,121)	(3,909)
Net cash provided by operating activities	<u>22,151</u>	<u>63,332</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	1,534,000	1,739,372
Purchases of investments	(1,461,820)	(1,553,250)
Acquisitions of property, plant, and equipment	(182,743)	(185,898)
Acquisitions of equipment and library materials	(33,530)	(40,419)
Disbursements of loans to students	(183)	(256)
Repayments of loans by students	2,350	2,035
Net cash used in investing activities	<u>(141,926)</u>	<u>(38,416)</u>
Cash flows from financing activities:		
Repayments of principal on long-term debt and capital leases	(17,223)	(16,776)
Refinancing of long-term debt	(59,053)	(132,345)
Net proceeds from issuance of long-term debt	64,941	135,788
State capital appropriations	1,197	187
Endowment income restricted for reinvestment	373	281
Contributions restricted for endowment and capital	22,898	23,860
(Repayments) advances from federal government for student loans	(3,003)	170
Change in restricted deposits	126,646	(8,660)
Net cash provided by financing activities	<u>136,776</u>	<u>2,505</u>
Net increase in cash and cash equivalents	17,001	27,421
Cash, cash equivalents and restricted cash, beginning of year	<u>115,652</u>	<u>88,231</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 132,653</u>	<u>115,652</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	\$ 29,808	31,926
Construction – accounts payable	33,741	37,777
Property additions through capital leases	—	325

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(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 34,500 situated midway between Philadelphia and Baltimore. Courses are also offered at other locations throughout the State, including Wilmington, Lewes, Dover, Milford, and Georgetown.

The University receives an annual operating and capital appropriation from the State of Delaware. The University also participates in certain benefit plans of the State (note 12).

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, including 1743 Holdings, LLC; Blue Hen Wind, Inc.; and Blue Hen Hotel LLC, controlled by the University. 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. Blue Hen Wind, Inc. operates a wind turbine adjacent to the University's Hugh R. Sharp campus in Lewes. Blue Hen Hotel LLC is a limited liability company originally formed on May 4, 2001. It was formed for the sole purpose of developing, managing, and operating a 125-room Courtyard Marriott Hotel adjacent to the Clayton Hall Conference Facility located in Newark, Delaware and owned by the University. All significant inter-entity activities and balances are eliminated for financial reporting purposes.

Accordingly, net assets of the University and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets that are not subject to donor imposed stipulations. Net assets without donor restrictions may be designated by the Board of Trustees for specific or general purposes.
- Net assets with donor restrictions – Net assets subject to donor imposed stipulations that may or will be met by actions of the University and/or the passage of time, and 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 consolidated financial statements presented under U.S. GAAP for not-for-profit organizations, the consolidated statement of functional expenses presents expenses by natural classification within functional categories. Functional categories are programmatic with the exception of general institutional support, which is management and general. Operation and maintenance of plant, depreciation and accretion expense, and disposals are allocated based on square footage. Postemployment and fringe benefit expenses are allocated based on salaries and

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 maintenance of plant costs were approximately \$70,036,000 and \$70,076,000, and fund-raising costs were approximately \$19,812,000 and \$23,799,000 for the years ended June 30, 2020 and 2019, respectively.

Revenue is reported as increases in net assets without donor restrictions unless its use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of 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 that reflect reclassifications from net assets with donor restrictions to net assets without donor restrictions. Releases from restrictions are presented as either operating or nonoperating. Nonoperating releases represent capital gifts for which the related assets were placed into service, and operating releases represent utilization of restricted gifts for program and operating purposes and related pledge payments.

(c) Cash and Cash Equivalents

Cash and 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 notes 5 and 6.

(d) Revenue Recognition – Contracts with Customers and Accounts Receivable

Revenues from student education (tuition and fees) are reflected net of reductions from scholarships and fellowships, while residence, dining services, and student health services are not reflected net of financial aid. All of these revenues are recognized as the services are provided over the academic year, which generally aligns with the University's fiscal year. Disbursements made directly to students for services or other costs are reported as an expense. 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 (see note 15).

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. These direct and guaranteed loans are not reflected on the University's consolidated financial statements as the loans are issued to the students.

Payments for student services are generally received prior to the commencement of each academic term and are reported as deferred revenue to the extent services will be rendered in the following fiscal year.

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

The composition of student tuition and fees, net revenue was as follows for the years ended June 30, 2020 and 2019 (in thousands):

	2020	2019
Undergraduate	\$ 372,820	367,747
Graduate	29,679	33,397
Other	55,339	53,908
Total	\$ 457,838	455,052

Auxiliary services revenue consisted of the following for the years ended June 30, 2020 and 2019 (in thousands):

	2020	2019
Student housing (note 18)	\$ 44,133	65,067
Dining services (note 18)	30,330	47,581
Student health services	9,762	10,022
Parking	5,329	7,498
Conference services	1,793	3,891
Other	2,750	3,517
Total	\$ 94,097	137,576

Other revenue includes revenues from service centers, program accounts, and other miscellaneous activities. Such revenues are recognized when goods or services are provided to customers.

Student receivables are invoiced based upon contractual terms with students. The University maintains allowances for doubtful accounts to reflect management's best estimate of probable losses inherent in receivable balances. Management determines the allowances for doubtful accounts based on known troubled accounts, historical experience, and other currently available evidence.

(e) Revenue Recognition – Contributions, Including Government Grants and Contracts

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. Amortization of the discount is included in contributions revenue. Conditional promises to give are not recognized until they become unconditional, that is, when the barriers 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.

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Contributions received with donor imposed restrictions that are met in the same year as received are reported as revenue in net assets without donor restrictions. Income and realized and unrealized net gains (losses) on investments of donor restricted endowment and similar funds are reported as follows:

- Changes in net assets with donor restrictions 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.
- Changes in net assets with donor restrictions 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.

State operating appropriations are provided by the State of Delaware to support the general operations of the University. Funds are to be spent in accordance with applicable law and revenue is recognized ratably over the fiscal year as the funds are received and expended.

The University conducts sponsored program activity with various sponsors, including agencies and departments of the federal government, local government entities, and foundations. Such grants and contracts revenue (research and other programs) are recognized as the related qualifying expenses are incurred. Certain sponsors, however, provide funding in advance of related expenses, and such funding is recorded as deferred revenue of grant funds on the consolidated balance sheets. There is no assurance that sponsored awards will continue to be made at current levels.

State construction grants are provided by the State of Delaware to fund certain capital projects in support of the University's mission. This revenue is classified as with donor restrictions until the capital project is completed and placed in service, at such time the net assets are released from restrictions.

(f) *Split-Interest Agreements and Interests in Trusts*

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuity agreements for which the University serves as trustee. Assets held under these arrangements are included in investments and are recorded at fair value. Contribution revenue is recognized at the date the trusts or agreements are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the values of the assets, accretion of the discounts, and other changes in estimates of future benefits.

The University is also the beneficiary of certain perpetual and remainder trusts held and administered by others. The fair values of the trusts are recognized as assets and contribution revenue at the dates the trusts are established. The assets held in these trusts are included in funds held in trust by others and are adjusted for changes in the fair value of the trust assets.

(g) *Investments*

Investments are stated at fair value or estimated fair value using net asset value as a practical expedient, as described in notes 5 and 6. Other investment income, including dividend and interest, is recognized when earned.

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Investments measured at net asset value, as a practical expedient for fair value, include the University's interests in limited partnerships and LLCs and 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, 2020, 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 used had a ready market existed for these investments and the differences could be significant.

(h) Property, Plant, and Equipment

Property, plant, and equipment is 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 or the lease term, if shorter. 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.

(i) Nonoperating Activities

Nonoperating activities include investment gains (losses), net of endowment distributions for operations; contributions and appropriations for endowment and plant purposes; the operations of subsidiaries ancillary to the University's mission, as discussed in note 1(b); changes in postemployment benefit and asset retirement obligations; and nonrecurring or unusual transactions. Nonoperating activities are presented in the consolidated statement of activities in the "other changes in net assets without donor restrictions" and "changes in net assets with donor restrictions."

(j) Income Taxes

The University and its affiliates have 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. Management has analyzed the tax positions taken by the University and has concluded that as of June 30, 2020 and 2019, 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.

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(k) 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 statements. Estimates also affect the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(l) Refundable Advances from the U.S. Government

Student loan programs provided 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 \$10,337,000 and \$13,340,000 as of June 30, 2020 and 2019, respectively.

(m) 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 consolidated balance sheets as assets or liabilities, with changes in fair value recognized in the consolidated statement of activities.

(n) Recently Issued Accounting Standards

In November 2016, the Financial Accounting Standards Board issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash* (ASU 2016-18) to reduce diversity in practice by providing guidance on presentation of restricted cash within the cash flow statement. The ASU requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents (collectively, restricted cash). The update also amends Topic 230 to require disclosures about the nature of restricted cash and provide a reconciliation of cash, cash equivalents and restricted cash between the balance sheet and the statement of cash flows. ASU 2016-18 was adopted retrospectively during the year ended June 30, 2020, and the consolidated statement of cash flows has been revised to conform 2019 with 2020.

The following table summarizes cash, cash equivalents, and restricted cash reported on the combined statements of cash flows as of June 30, 2020 and 2019 (in thousands):

	2020	2019
Cash and cash equivalents	\$ 129,701	111,398
Restricted deposits:		
Cash held in other deposits	2,952	4,254
	\$ 132,653	115,652

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(o) Upcoming Accounting Pronouncements Not Yet Adopted

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, as amended. The ASU is effective for fiscal year 2021, subsequent to the issuance of ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*, and will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The ASU requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. The University is currently working on the implementation of this ASU but does not expect the adoption of this standard to have a significant impact on its financial position or activities.

(2) Liquidity

The following table reflects the University's financial assets as of June 30, 2020 and 2019, available for general expenditures within one year (in thousands):

	2020	2019
Cash and cash equivalents	\$ 129,701	111,398
Operating investments	161,593	177,487
Less donor restricted gifts for capital projects	—	(4,217)
	291,294	284,668
Accounts and notes receivable collectible within one year	41,543	40,865
Operating funds invested in pooled portfolio	227,384	247,785
Endowment spending payout	52,215	51,877
Financial assets available to meet cash needs for general expenditures within one year	\$ 612,436	625,195

The University manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments or fixed income securities. Additionally, as of June 30, 2020 and 2019, the University had board-designated endowments and other investments of \$357,273,000 and \$362,976,000. Although the University does not intend to spend from these investments, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, they could be made available if necessary, subject to liquidity of the underlying investments.

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(3) Contributions Receivable

Contributions receivable as of June 30, 2020 and 2019 are summarized as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 16,594	11,352
One to five years	22,903	34,193
Over five years	<u>8,640</u>	<u>9,270</u>
	48,137	54,815
Less:		
Allowance for uncollectible pledges	(1,190)	(610)
Unamortized discounts	<u>(3,710)</u>	<u>(4,688)</u>
	<u>\$ 43,237</u>	<u>49,517</u>

Contributions to be received after one year are discounted at discount rates ranging from 1.1% to 3.5% for the years ended June 30, 2020 and 2019, respectively.

(4) Restricted Deposits

Restricted deposits as of June 30, 2020 and 2019 consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Unexpended bond proceeds	\$ 67,371	190,831
Debt service reserve funds	11,093	14,279
Other deposits	<u>3,104</u>	<u>4,406</u>
	<u>\$ 81,568</u>	<u>209,516</u>

The unexpended bond proceeds represent the amount of unspent bond proceeds that remain on deposit. Approximately \$67,371,000 and \$104,363,000 are related to the 2018 general obligation bonds for the years ended June 30, 2020 and 2019, respectively. These bonds are held by the University, to be used in certain capital projects, with the remainder being held with the trustee. Under terms of the trust agreement, these proceeds are not released to the University until expenditures related to the specific purpose of the bond indenture have occurred. The unexpended bond proceeds amounts are generally invested in 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 10. These funds are generally invested in cash equivalents, but not considered restricted cash equivalents for purposes of the cash flows statements.

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(5) Investments

Investments are recorded at fair value, or estimated fair value as a practical expedient, as described in note 6. The fair value by investment class as of June 30, 2020 and 2019 was as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Money market and other liquid funds	\$ 33,551	43,364
U.S. government obligations	165,799	126,000
Corporate obligations	158,649	211,858
Stock and convertible securities	434,381	448,016
International equity investments	54,334	65,004
Limited partnerships and limited liability corporations (LLCs)	933,590	933,183
Other	<u>4,747</u>	<u>6,025</u>
Total	<u>\$ 1,785,051</u>	<u>1,833,450</u>
	<u>2020</u>	<u>2019</u>
Operating investments	\$ 161,593	177,487
Investments	<u>1,623,458</u>	<u>1,655,963</u>
	<u>\$ 1,785,051</u>	<u>1,833,450</u>

Included in the investments table above is \$6,246,000 and \$6,352,000 of annuity and life-income funds at June 30, 2020 and 2019, 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.

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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>2020</u>	<u>2019</u>	<u>Estimated remaining lives (years)</u>	<u>As of June 30, 2020 unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice frequency</u>
Limited partnerships and LLCs:						
International equity funds	\$ 288,689	280,669	—	\$ —	Monthly	10 Days
Multistrategy hedge funds	24,152	50,059	—	—	Annually	100 Days
Long-short hedge funds	168,885	188,493	—	—	Annually	90 Days
Private equity	222,182	165,184	1–12	193,022	Not eligible	N/A
Venture capital	89,024	83,672	1–13	70,458	Not eligible	N/A
Hybrid fund of funds	10,145	18,775	1–6	1,300	Not eligible	N/A
Distressed securities	43,604	46,306	1–5	3,647	Not eligible	N/A
Real estate	39,346	31,093	1–12	36,575	Not eligible	N/A
Natural resources	28,588	45,539	1–12	1,416	Not eligible	N/A
Oil and gas	18,975	23,393	7–12	19,085	Not eligible	N/A
	<u>\$ 933,590</u>	<u>933,183</u>		<u>\$ 325,503</u>		

(a) International Equity Funds

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

(b) Multistrategy 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.

(c) Long-Short Hedge Funds

This category includes commingled funds that invest, both long and short, in a variety of instruments, including U.S. stocks, international stocks, fixed-income securities, currencies, and derivative transactions. The funds can be further broken down into the following categories: equity long/short, event-driven, credit, macro, and multistrategy funds. These investments are subject to risks, including market risk, manager risk, and liquidity risk. The goal of these investments is to provide returns that exhibit lower correlations and lower volatility than the public equity markets.

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

All of the following University limited partnerships and LLCs, paragraphs (d), (e), and (f), 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.

(d) 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.

(e) Real Estate

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

(f) 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.

(g) Investment Return

Investment return for fiscal years ended June 30, 2020 and 2019 was as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Dividend and interest income	\$ 27,451	35,700
Net realized and unrealized gains	21,962	96,408
External investment management fees and expenses	<u>(5,532)</u>	<u>(6,367)</u>
Investment return, net	<u>\$ 43,881</u>	<u>125,741</u>

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

Investment return is presented for fiscal years ended June 30, 2020 and 2019 was as follows (in thousands):

	2020	2019
Without donor restrictions:		
Other investment income	\$ 20,824	26,782
Endowment distributions	52,215	51,877
Investment return (less than) in excess of endowment distributions	(8,940)	19,726
	64,099	98,385
With donor restrictions:		
Investment return (less than) in excess of endowment distributions	(20,542)	27,220
Other, net	324	136
	(20,218)	27,356
Investment return, net	\$ 43,881	125,741

(6) 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 or published 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.

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

The University measures its restricted deposits, investments, liabilities related to annuity and life-income funds, and interest rate swaps using the valuation methodologies described below:

(a) Investments and Restricted Deposits

Investments and restricted deposits are recorded at fair value. 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 (see paragraph (b) below.)

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 assets represent 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 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 maintains an interest in the trust not the underlying investments.

(d) Debt Interest Rate Swap Agreements

The fair value of the University's interest rate swaps is based on a third-party valuation independent of the counterparty using observable market data. The University considers this a Level 2 measurement.

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

The following table presents 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, 2020 and 2019 consolidated balance sheets (in thousands):

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Money market and other liquid funds	\$ 33,551	33,405	146	—
U.S. government obligations:				
Mortgage-backed securities	15,989	—	15,989	—
Treasury obligations	148,450	148,444	6	—
Other	1,360	331	1,029	—
	<u>165,799</u>	<u>148,775</u>	<u>17,024</u>	<u>—</u>
Corporate obligations	158,649	402	158,247	—
Stock and convertible securities	434,381	432,098	2,283	—
International investments	54,334	52,413	1,921	—
Other	4,747	1,258	—	3,489
Investments measured at net asset value, as a practical expedient ⁽¹⁾	<u>933,590</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total investments	1,785,051	668,351	179,621	3,489
Restricted deposits	81,568	77,764	3,804	—
Funds held in trust by others	<u>76,836</u>	<u>—</u>	<u>—</u>	<u>76,836</u>
Total	<u>\$ 1,943,455</u>	<u>746,115</u>	<u>183,425</u>	<u>80,325</u>

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Financial liabilities, included in the other liabilities:				
Annuity and life income funds payable	\$ 5,166	—	—	5,166
Interest rate swaps	<u>38,044</u>	<u>—</u>	<u>38,044</u>	<u>—</u>
Total	<u>\$ 43,210</u>	<u>—</u>	<u>38,044</u>	<u>5,166</u>

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Money market and other liquid funds \$	43,364	43,220	144	—
U.S. government obligations:				
Mortgage-backed securities	39,641	—	39,641	—
Treasury obligations	82,088	82,088	—	—
Other	4,271	478	3,793	—
	126,000	82,566	43,434	—
Corporate obligations	211,858	335	211,523	—
Stock and convertible securities	448,016	445,677	2,339	—
International investments	65,004	63,052	1,952	—
Other	6,025	2,431	—	3,594
Investments measured at net asset value, as a practical expedient ⁽¹⁾	933,183	—	—	—
Total investments	1,833,450	637,281	259,392	3,594
Restricted deposits	209,516	153,657	55,859	—
Funds held in trust by others	78,655	—	—	78,655
Total	\$ 2,121,621	790,938	315,251	82,249
Financial liabilities, included in the other liabilities:				
Annuity and life income funds payable	\$ 4,493	—	—	4,493
Interest rate swaps	28,353	—	28,353	—
Total	\$ 32,846	—	28,353	4,493

⁽¹⁾ Investments in limited partnerships and LLCs that are measured at fair value using the net asset value per share (or its equivalent) as a 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 sheets.

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

The following table presents a reconciliation of the consolidated balance sheets amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2020 and 2019 (in thousands):

	<u>Financial assets</u>		<u>Financial liabilities</u>
	<u>Funds held in trust by others</u>	<u>Other</u>	<u>Annuity and life income funds payable</u>
Total at June 30, 2018	\$ 77,067	3,419	4,467
Net gains on investments	3,032	—	459
Purchases	37,573	591	100
Sales	<u>(39,017)</u>	<u>(416)</u>	<u>(533)</u>
Total at June 30, 2019	78,655	3,594	4,493
Net gains on investments	997	—	975
Purchases	44,897	33	216
Sales	<u>(47,713)</u>	<u>(138)</u>	<u>(518)</u>
Total at June 30, 2020	<u>\$ 76,836</u>	<u>3,489</u>	<u>5,166</u>

During the year ended June 30, 2020, there were no transfers of assets between levels.

(7) Annuity and Life-Income Funds

The University held \$6,246,000 and \$6,352,000 in investments related to annuity and life income funds as of June 30, 2020 and 2019, respectively. A related liability of \$5,166,000 and \$4,493,000 as of June 30, 2020 and 2019, 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. Such liabilities are included in other liabilities in the consolidated balance sheets.

The University complies with all applicable laws of certain states to maintain reserves against charitable gift annuities.

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(8) Property, Plant, and Equipment

Property, plant, and equipment as of June 30, 2020 and 2019 consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>	<u>Range of useful lives (years)</u>
Land	\$ 58,375	58,375	N/A
Land improvements	82,630	79,376	15
Buildings	2,030,058	1,830,197	40
Equipment and furnishings	338,249	315,764	2–20
Library	287,617	275,049	10
Capital leasehold	103,029	102,407	29–40
Collections and works of art	9,156	8,829	N/A
Construction in progress	172,448	202,422	N/A
	<u>3,081,562</u>	<u>2,872,419</u>	
Less accumulated depreciation	<u>(1,243,981)</u>	<u>(1,165,610)</u>	
	<u>\$ 1,837,581</u>	<u>1,706,809</u>	

At June 30, 2020, the University had outstanding contractual commitments of \$91,641,000 for building and renovation projects. Interest costs associated with various construction projects of \$6,763,000 and \$3,809,000 were capitalized at June 30, 2020 and 2019, respectively.

(9) 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.

The University had asset retirement obligations of \$21,631,000 and \$22,315,000 as of June 30, 2020 and 2019, respectively, which is included in other liabilities on the accompanying consolidated balance sheets. The following table reconciles the obligation as of June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 22,315	21,395
Additional obligations incurred	588	46
Obligations settled in current period	(1,620)	(374)
Changes in estimates, including timing	(301)	637
Accretion expense	649	611
Balance at end of year	<u>\$ 21,631</u>	<u>22,315</u>

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(10) Long-Term Debt and Capital Leases

Indebtedness at June 30, 2020 and 2019 consisted of the following (in thousands):

	<u>Fiscal year of maturity</u>	<u>Interest rate(s)%</u>	<u>Outstanding principal</u>	
			<u>2020</u>	<u>2019</u>
Variable-rate debt:				
Series 2004B	2035	3.73 %	\$ 29,305	30,770
Series 2005	2036	4.32	28,690	30,850
Series 2013C	2038	4.15	53,335	55,440
Variable-rate debt			<u>111,330</u>	<u>117,060</u>
Fixed-rate bonds:				
Series 2010A taxable Build America Bonds (BABs)	2041	3.95	119,580	119,580
Series 2010B taxable	2020	2.97–3.80	—	2,365
Series 2013B taxable	2027	1.12–3.00	5,365	6,065
	2034	3.83	6,770	6,770
	2044	3.98	13,555	13,555
Series 2015	2036	4.00–5.00	—	23,380
	2041	5.00	—	11,385
	2046	5.00	—	14,625
Series 2018 taxable	2051	4.07	76,770	76,770
	2059	4.22	123,230	123,230
Series 2019	2043	5.00	108,860	113,295
Series 2019A	2046	5.00	47,455	—
Fixed-rate debt			<u>501,585</u>	<u>511,020</u>
Capital leases	2021–2049	3.68–4.25	<u>60,373</u>	<u>62,431</u>
			673,288	690,511
Premium on long-term debt, net of debt issue costs of \$2.9 million (2020)			<u>36,055</u>	<u>28,113</u>
Long-term debt and capital leases			<u>\$ 709,343</u>	<u>718,624</u>

With the exception of the Series 2018, 2019, and 2019A bonds, 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 Series 2018, 2019, and 2019A bonds are unsecured general obligations of the University. All variable-rate debt referenced are subject to fixed-rate interest rate swap agreements and the corresponding interest rates for each issue include the swap rate, credit costs, and remarketing fee.

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 daily rate of interest on June 30, 2020 was 0.13% for both series of bonds.

The Series 2010A Taxable Revenue Bonds are Build America Bonds and the University receives payments from the U.S. Treasury equal to 32.9% of the corresponding interest payable on the bonds (the Subsidy Payments). For the year ended June 30, 2020, the University received Subsidy Payments of \$2,307,000, 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 were converted from a term rate to bear interest at a daily rate on May 1, 2016. The bonds can be converted to bear interest at a weekly, flexible, term, or fixed rate to maturity. The daily rate of interest on June 30, 2020 was 0.14%.

On April 12, 2018, the University issued its Taxable Bonds, Series 2018. The bonds are unsecured general obligations of the University. The bonds are subject to mandatory redemption from November 1, 2041 through November 1, 2058.

On June 20, 2019, the University issued its Tax-Exempt Bonds, Series 2019. The bonds are unsecured general obligations of the University. The bonds consist of serial bonds maturing from November 1, 2019 through November 1, 2043. The bonds maturing from November 1, 2029 through November 1, 2043 are subject to optional redemption.

On October 9, 2019, the University issued its Tax-Exempt Bonds, Series 2019A. The bonds are unsecured general obligations of the University. The bonds consist of serial bonds maturing from November 1, 2019 through November 1, 2045. The bonds maturing from November 1, 2030 through November 1, 2045 are subject to optional redemption.

The Series 2019 bonds were issued to defease the 2009B and 2013A series and the Series 2019A bonds were issued to defease the 2015 series. The proceeds of the series 2019 and 2019A bonds were used to fund an escrow account that was irrevocably placed with a trustee to meet the principal and interest payments of the 2009B, 2013A and 2015 series bonds until their redemption. Therefore, neither the escrow account nor the refunded bonds are included in the consolidated balance sheet as of June 30, 2020. The Series 2015 defeasance resulted in a loss on refunding of \$1,965,000, which is reflected in nonoperating activities in the consolidated statement of activities.

The University's debt agreements require that the University meet certain financial and other covenants. The University was in compliance with these covenants as of June 30, 2020.

The University has obligations under capital leases with annual lease payments ranging from \$900,000 to \$2,169,000. As of June 30, 2020, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases amounted to \$103,029,000 and \$15,562,000, respectively.

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

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

2021		\$	12,153
2022			11,680
2023			12,245
2024			12,894
2025			11,643
Thereafter			612,673
		\$	673,288

The University has Standby Bond Purchase Agreements (SBPA) for the Series 2004B, 2005, and 2013C 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, 2005, and 2013C bonds expire on April 5, 2021, May 31, 2021, and April 30, 2022, respectively.

(11) Interest Rate Swap Agreements

The University has interest rate swap agreements for notional amounts of approximately \$141,088,000 and \$153,785,000 as of June 30, 2020 and 2019 (in thousands):

	Consolidated balance sheets location	Location of change in fair value	Fair value		Change in fair value	
			2020	2019	2020	2019
			\$	\$	\$	\$
Interest rate swap agreements	Other liabilities	Other, net	38,044	28,353	(9,691)	(10,529)

A portion of the total interest rate swap liabilities reported on the consolidated balance sheets 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.

(12) Employee Benefit Plans

(a) University Pension Plans – Defined Contribution

The University's 403(b) Retirement Savings Plan 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 5% of their annual salary. The policy of the University is to pay its share of the cost accrued in connection with the University's Retirement Savings Plan. As a result, there are no unfunded benefits. Pension plan expense for the University's 403(b) Retirement Savings Plan was \$36,239,000 in 2020 and \$34,015,000 in 2019.

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 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 current collective bargaining agreement (CBA) that expires on June 30, 2021 who qualify for retirement can elect certain additional benefits upon notice of their retirement from the University. These benefits may include a combination of retirement leave or phased retirement, and a lump-sum payment based upon years of service and salary level. Faculty retirement benefits are funded by the University on a pay-as-you-go basis.

Net periodic postemployment benefit cost for 2020 and 2019 includes the following components (in thousands):

	2020	2019
Operating expenses:		
Service cost	\$ 3,650	3,495
Nonoperating costs:		
Interest cost	2,094	3,017
Amortization of unrecognized loss	4,286	4,030
	6,380	7,047
Net periodic postemployment benefit cost	\$ 10,030	10,542

The University's estimated unfunded obligation related to this plan is \$83,135,000 and \$79,237,000, respectively, and is included in postemployment benefit obligations on the consolidated balance sheets as of June 30, 2020 and 2019.

The benefit obligation was determined using a discount rate of 2.58% as of June 30, 2020 and 3.37% as of June 30, 2019, and a rate of compensation increase of 3.00%. As of June 30, 2020, the University's expected future benefit payments for fiscal years 2021 through 2025 are \$10,698,000, \$9,556,000, \$6,764,000, \$6,146,000 and \$9,455,000, respectively.

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(c) Postemployment

The University also provides postemployment 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 postemployment benefit obligation) of its postemployment benefit plan on the consolidated balance sheets. Also, the University measures the fair value of plan assets and benefit obligations as of the date of the June 30th. As of June 30, 2020, the University has not funded these benefits.

Net periodic postemployment benefit cost for 2020 and 2019 includes the following components (in thousands):

	<u>2020</u>	<u>2019</u>
Operating expenses:		
Service cost	\$ 11,179	10,330
Nonoperating costs:		
Interest cost	13,964	16,371
Amortization of unrecognized gain	<u>(1,160)</u>	<u>(1,160)</u>
	<u>12,804</u>	<u>15,211</u>
Net periodic postemployment benefit cost	\$ <u>23,983</u>	<u>25,541</u>

The accumulated postemployment benefit obligation recognized in the consolidated balance sheets at June 30, 2020 and 2019 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Accrued postemployment liability	\$ 390,476	375,665
Unrecognized net loss	<u>96,046</u>	<u>51,085</u>
Accumulated postemployment benefit obligation	\$ <u>486,522</u>	<u>426,750</u>

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Changes in the accumulated postemployment plan benefit obligation and funding status for 2020 and 2019 are as follows (in thousands):

	2020	2019
Benefit obligation at beginning of year	\$ 426,750	433,145
Service cost	11,178	10,330
Interest cost	13,964	16,371
Amortization of unrecognized gain	(1,160)	(1,160)
Actuarial loss (gain)	44,961	(22,995)
Disbursements	(9,171)	(8,941)
Benefit obligation at end of year	486,522	426,750
Fair value of plan assets at beginning of year	—	—
Employer contributions	9,171	8,941
Benefits paid	(9,171)	(8,941)
Fair value of plan assets at end of year	—	—
Funded status at end of year – liability included in other postemployment benefit obligations on the consolidated balance sheets	\$ 486,522	426,750

The accumulated postemployment benefit obligation was determined using a discount rate of 3.25% and 3.91% in 2020 and 2019, respectively. The healthcare cost trend rates used reflect the differences between pre-65 and post-65 claims were 7.25% and 6.75%, respectively, in 2020 and 7.50% and 7.00%, respectively, in 2019. This rate gradually decreases to 4.50% by the year 2028 for pre-65 and post-65 claims. The actuarial gains and losses relate to changes in assumptions in discount rates, mortality, healthcare cost trends, and withdrawal rates.

At June 30, 2020, the University's expected future benefit payments for future service are as follows (in thousands):

Year ending June 30:	
2021	\$ 11,248
2022	12,345
2023	13,263
2024	14,143
2025	15,126
2026 through 2029	89,171

(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

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(<http://www.delawarepensions.com/FinancialReports/AnnualFinancialReports.shtml>). Under the state pension statute, a mandatory pretax contribution of 5% of salary (or 3% if pension-creditable service began prior to January 1, 2012) in excess of \$6,000 per year plus 5% 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 postemployment healthcare benefits through the State Plan, which are funded by the State on a pay-as-you-go basis other post employment benefits (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 23.15% in 2020 and 2019. Expense recognized for the State Plan was \$14,142,000 and \$14,114,000 in 2020 and 2019, respectively.

The State Plan's financial statements and actuarial reports for June 30, 2019 (most recent available) indicate the following:

The University has 1,320 active participants in the State Plan. The State Plan, in total, has 71,626 participants, 37,724 of which are active participants.

The University's contribution to the State Plan in fiscal year June 30, 2019 of \$7,272,000 was approximately 2.96% of the \$245,552,000 total annual required plan employer contributions to the State Plan.

At June 30, 2019, the State Plan had an 85.5% funded ratio of the actuarial accrued liability.

The funding objective of the State Plan 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 have consistently funded the full amounts required based on the actuarial valuations and specific statutory provisions.

As disclosed in the State of Delaware's Comprehensive Annual Financial Report for the year ended June 30, 2019 (most recent available), the State Plan for OPEB as of June 30, 2018 indicated the State had a net liability of \$8.21 billion. The University's contribution to the State Plan for OPEB in fiscal year June 30, 2019 of \$6,071,000 was approximately 3.0% of the \$202,652,000 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 2020 and 2019 was \$66,698,000 and \$64,833,000, respectively.

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(13) Net Assets

The University's net assets as of June 30, 2020 and 2019 includes (in thousands):

	<u>2020</u>	<u>2019</u>
Without donor restrictions:		
Undesignated	\$ 347,409	402,015
Board designated endowment	357,273	362,976
Commitments for postemployment obligations	(569,657)	(505,986)
Commitments for interest rate swap agreements	(38,044)	(28,353)
Net investment in plant	<u>1,149,635</u>	<u>1,135,322</u>
Total net assets without donor restrictions	<u>\$ 1,246,616</u>	<u>1,365,974</u>
With donor restrictions:		
Pledges receivable:		
Pledges receivable for operations, primarily instruction	\$ 5,023	5,571
Pledges receivable for buildings	25,422	28,001
Pledges receivable for endowment	<u>12,792</u>	<u>15,945</u>
Total pledges receivable	<u>43,237</u>	<u>49,517</u>
Amounts received subject to expenditures for specified purposes:		
Student aid and instruction	21,470	19,671
Research and other	8,993	11,189
Capital additions	<u>25,458</u>	<u>21,379</u>
Total expendable subject to purpose restrictions	<u>55,921</u>	<u>52,239</u>
Endowment earnings subject to future appropriations:		
General institutional support	449,613	459,508
Student aid	68,819	72,429
Instruction	113,576	119,002
Research and other	<u>14,046</u>	<u>14,633</u>
	<u>646,054</u>	<u>665,572</u>
Perpetual endowment funds – original gift corpus:		
General institutional support	71,441	71,375
Student aid and instruction	280,650	267,915
Research and other	<u>20,936</u>	<u>19,577</u>
	<u>373,027</u>	<u>358,867</u>
Other funds	1,484	1,501
Funds held in trust by others, primarily for general institutional support	<u>76,836</u>	<u>78,655</u>
Total net assets with donor restrictions	<u>\$ 1,196,559</u>	<u>1,206,351</u>

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended June 30, 2020 and 2019 as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished – operating:		
Instruction and operations	\$ 6,198	9,744
Scholarships	2,834	2,591
Student services	160	214
Academic support	2,321	3,030
Other	<u>3,038</u>	<u>2,794</u>
Total purpose restrictions accomplished – operating	\$ <u>14,551</u>	<u>18,373</u>
Purpose restrictions accomplished – non-operating:		
Capital asset additions	\$ <u>7,068</u>	<u>3,366</u>

(14) Endowment

As of June 30, 2020, the University endowment consists of approximately 1,269 individual funds established for a variety of purposes. The endowment funds are subdivided into appropriate net asset classifications. The donor restricted endowment funds represent gifts with a stipulation by the donor that the principal not be expended. Board-designated with restrictions and without donor 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 the State's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the University classifies all donor restricted endowment funds as donor restricted net assets. At the time of appropriation by the University, and provided there are no additional purpose restrictions in place, with donor restricted net assets will be reclassified to without donor restricted net assets. The University considers donor restricted net assets at historical cost value of the original donor restricted endowment to be permanent.

(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

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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.

(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 the State'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 4.05% and 4.11% at June 30, 2020 and 2019, 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 net assets with donor restrictions. Deficiencies of this nature were approximately \$85,000 and \$0 as of June 30, 2020 and June 30, 2019, respectively. These deficiencies resulted from unfavorable market fluctuations.

UNIVERSITY OF DELAWARE
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(f) Net Asset Classification of Endowment Funds

Endowment net assets by type of fund consist of the following as of June 30, 2020 and 2019 (in thousands):

	2020		
	Without donor restrictions	With donor restrictions	Total
Donor restricted	\$ —	1,016,414	1,016,414
Board designated	357,273	2,667	359,940
	\$ 357,273	1,019,081	1,376,354
	2019		
	Without donor restrictions	With donor restrictions	Total
Donor restricted	\$ —	1,021,738	1,021,738
Board designated	362,976	2,701	365,677
	\$ 362,976	1,024,439	1,387,415

Board-designated with donor restrictions net assets represent the income on 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, 2020, the amount of with donor restrictions net assets, which may be used for purposes of the University as determined by the Board of Trustees, was \$434,612,000. Additionally, \$208,775,000 as of June 30, 2020, is determined to be with purpose restrictions as set forth by the donors.

Changes in endowment net assets for the years ended June 30, 2020 and 2019 (in thousands) are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2018	\$ 353,656	982,474	1,336,130
Investment return:			
Investment income, net	4,789	13,535	18,324
Net appreciation – realized and unrealized	17,885	50,106	67,991
Total investment return	22,674	63,641	86,315

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Contributions	\$ 230	12,967	13,197
Endowment spending distribution	(13,804)	(38,428)	(52,232)
Other changes, including life income fund and other transfers	<u>220</u>	<u>3,785</u>	<u>4,005</u>
Endowment net assets, June 30, 2019	<u>362,976</u>	<u>1,024,439</u>	<u>1,387,415</u>
Investment return:			
Investment income, net	4,070	11,615	15,685
Net appreciation – realized and unrealized	<u>2,975</u>	<u>8,073</u>	<u>11,048</u>
Total investment return	7,045	19,688	26,733
Contributions	1,025	12,149	13,174
Endowment spending distribution	(13,835)	(38,999)	(52,834)
Other changes, including life income fund and other transfers	<u>62</u>	<u>1,804</u>	<u>1,866</u>
Endowment net assets, June 30, 2020	\$ <u><u>357,273</u></u>	<u><u>1,019,081</u></u>	<u><u>1,376,354</u></u>

(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.

The table below identifies this financial assistance by source and by student classification for the years ended June 30, 2020 and 2019 (in thousands):

	<u>2020</u>			<u>2019</u>		
	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>
Tuition:						
Unrestricted	\$ 98,349	68,120	166,469	92,962	67,857	160,819
Federal grants	923	1,882	2,805	870	1,791	2,661
State grants	12,769	1,179	13,948	11,847	1,294	13,141
Private gifts	3,117	1,011	4,128	2,691	1,323	4,014
Endowment	<u>4,711</u>	<u>152</u>	<u>4,863</u>	<u>4,225</u>	<u>218</u>	<u>4,443</u>
Total	119,869	72,344	192,213	112,595	72,483	185,078
Student aid expenses	<u>3,387</u>	<u>3,214</u>	<u>6,601</u>	<u>3,660</u>	<u>4,045</u>	<u>7,705</u>
Total	\$ <u><u>123,256</u></u>	<u><u>75,558</u></u>	<u><u>198,814</u></u>	<u><u>116,255</u></u>	<u><u>76,528</u></u>	<u><u>192,783</u></u>

UNIVERSITY OF DELAWARE

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(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.

(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 consolidated balance sheets, statement of activities, or cash flows.

The University receives significant financial assistance from the federal government including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs, based on predetermined rates negotiated with the federal government. Indirect cost recovery rates from nonfederal sources may vary. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant or contract agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants and contracts, and the University's indirect cost rate, are subject to financial and compliance reviews and audits by the grantors.

(18) COVID-19 Environment

In March 2020, the impact of the novel coronavirus (COVID-19) affected travel, commerce and financial markets globally. Commencing in March 2020, undergraduate and graduate course instruction was conducted virtually and most students vacated the campus. The University granted net refunds of \$28,085,000 in 2020 for housing, dining, parking and other services not provided. Students continued to meet their academic requirements for the remainder of the 2020 academic year. The University was granted student emergency grants under the CARES Act: Higher Education Emergency Relief Fund (HEERF) of approximately \$6,087,000. In addition, another \$6,087,000 was received through HEERF to offset the University's institutional costs related to the pandemic. Total revenue of \$9,362,000 is recognized as grants, contracts, and other exchange transactions in the consolidated statement of activities in 2020. Additional revenue of \$2,812,000 is expected to be recognized in 2021 when the remaining student grants are awarded and claimed.

The start of the 2021 academic year began with a modified return to campus plan for students and many faculty and staff remain working in a remote environment. There is no timetable for when instruction and campus operations will return to normal.

While the financial impact on the University is being monitored at this time, the pandemic may continue to adversely affect operations and financial conditions. The University continues to monitor the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic and research missions.

(19) Subsequent Events

In connection with the preparation of the consolidated financial statements, the University evaluated subsequent events after the consolidated balance sheet date of June 30, 2020 through November 9, 2020, which was the date the consolidated financial statements were issued.