



UNIVERSITY OF DELAWARE

Consolidated Financial Statements

June 30, 2021 and 2020

(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 University of Delaware and its subsidiaries (the University), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, 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 University of Delaware and its subsidiaries as of June 30, 2021 and 2020, 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.

KPMG LLP

Philadelphia, Pennsylvania
November 12, 2021

UNIVERSITY OF DELAWARE

Consolidated Balance Sheets

June 30, 2021 and 2020

(Dollars in thousands)

Assets	2021	2020
Cash and cash equivalents	\$ 125,221	129,701
Operating investments	<u>151,073</u>	<u>161,593</u>
Total cash, cash equivalents, and operating investments	276,294	291,294
Restricted deposits	76,555	81,568
Accounts and notes receivable, net	51,493	41,543
Prepaid expenses and inventories	8,444	2,334
Operating lease right-of-use assets	12,525	—
Contributions receivable, net	34,726	43,237
Student loan receivables, net	6,576	8,252
Investments	2,171,747	1,623,458
Funds held in trust by others	93,659	76,836
Property, plant, and equipment, net	<u>1,860,714</u>	<u>1,837,581</u>
Total assets	\$ <u><u>4,592,733</u></u>	<u><u>4,006,103</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 138,813	148,918
Deferred revenue and student deposits	66,030	46,316
Operating lease liabilities	12,254	—
Long-term debt and finance leases	696,879	709,343
Postemployment benefit obligations	582,143	569,657
Other liabilities	<u>81,389</u>	<u>88,694</u>
Total liabilities	<u>1,577,508</u>	<u>1,562,928</u>
Net assets:		
Without donor restrictions	1,453,852	1,246,616
With donor restrictions	<u>1,561,373</u>	<u>1,196,559</u>
Total net assets	<u>3,015,225</u>	<u>2,443,175</u>
Total liabilities and net assets	\$ <u><u>4,592,733</u></u>	<u><u>4,006,103</u></u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE
Consolidated Statements of Activities
Years ended June 30, 2021 and 2020
(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
Changes in net assets without donor restrictions:		
Operating revenues:		
Tuition and fees, net of scholarships and fellowships (\$200,722 in 2021 and \$192,213 in 2020)	\$ 416,774	457,838
Auxiliary services revenue	49,936	94,097
Grants, contracts, and other exchange transactions	272,738	214,147
State operating appropriations	125,168	125,314
Contributions	9,881	9,848
Endowment distributions	53,048	52,215
Other investment income	16,041	20,824
Other revenue	37,650	42,915
Net assets released from restrictions	<u>14,805</u>	<u>14,551</u>
Total operating revenues	<u>996,041</u>	<u>1,031,749</u>
Operating expenses:		
Salaries and wages	501,615	520,831
Benefits	175,301	177,369
Postemployment benefits	<u>18,396</u>	<u>14,829</u>
Total compensation	695,312	713,029
Supplies, materials and purchased services	187,100	225,225
Student aid	10,358	7,318
Travel	2,683	24,918
Depreciation, amortization and loss on disposals	88,383	78,385
Interest	<u>27,919</u>	<u>22,478</u>
Total operating expenses	<u>1,011,755</u>	<u>1,071,353</u>
Change in net assets from operating activities	<u>(15,714)</u>	<u>(39,604)</u>
Other changes in net assets without donor restrictions:		
Investment return in excess of (less than) endowment distributions	193,871	(8,940)
Contributions	1,842	2,220
Postemployment costs other than service costs	(21,081)	(19,184)
Other changes in postemployment benefit obligations	7,319	(48,608)
Other, net	9,403	(12,310)
Net assets released from restrictions	<u>31,596</u>	<u>7,068</u>
Other changes in net assets without donor restrictions	<u>222,950</u>	<u>(79,754)</u>
Total changes in net assets without donor restrictions	<u>207,236</u>	<u>(119,358)</u>
Changes in net assets with donor restrictions:		
Investment return in excess of (less than) endowment distributions	365,107	(20,542)
Contributions	41,942	29,344
State capital appropriations	3,139	1,197
Other, net	1,027	1,828
Net assets released from restrictions	<u>(46,401)</u>	<u>(21,619)</u>
Total changes in net assets with donor restrictions	<u>364,814</u>	<u>(9,792)</u>
Total changes in net assets	572,050	(129,150)
Net assets at beginning of year	<u>2,443,175</u>	<u>2,572,325</u>
Net assets at end of year	<u>\$ 3,015,225</u>	<u>2,443,175</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Functional Expenses

Year ended June 30, 2021

(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	\$ 271,448	75,975	27,199	40,208	16,912	3,350	8,189	58,334	501,615
Benefits	93,606	22,169	9,520	16,387	6,398	19	3,096	24,106	175,301
Postemployment benefits	12,191	1,774	766	1,252	439	—	209	1,765	18,396
Total compensation	377,245	99,918	37,485	57,847	23,749	3,369	11,494	84,205	695,312
Supplies, materials and purchased services	36,622	57,293	10,750	7,640	8,428	500	40,884	24,983	187,100
Student aid	—	—	—	—	—	10,358	—	—	10,358
Travel	1,608	438	105	72	155	1	25	279	2,683
Depreciation, amortization and loss on disposals	30,718	16,456	1,227	13,112	2,843	—	18,064	5,963	88,383
Interest	11,254	657	—	—	—	—	16,008	—	27,919
Total operating expenses	457,447	174,762	49,567	78,671	35,175	14,228	86,475	115,430	1,011,755
Other changes in net assets without donor restrictions:									
Postemployment costs other than service costs	14,566	1,862	804	1,314	461	—	220	1,854	21,081
Total functional expenses 2021	\$ <u>472,013</u>	<u>176,624</u>	<u>50,371</u>	<u>79,985</u>	<u>35,636</u>	<u>14,228</u>	<u>86,695</u>	<u>117,284</u>	<u>1,032,836</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	53,985	11,329	11,787	11,971	395	56,424	21,680	225,225
Student aid	—	—	—	—	—	7,318	—	—	7,318
Travel	16,807	2,824	1,325	1,206	1,181	53	156	1,366	24,918
Depreciation, amortization and loss on disposals	29,293	15,203	1,165	12,940	2,557	—	11,654	5,573	78,385
Interest	9,778	583	—	—	—	—	12,117	—	22,478
Total operating expenses	498,755	169,094	51,855	86,266	44,091	11,283	93,576	116,433	1,071,353
Other changes in net assets without donor restrictions:									
Postemployment costs other than service costs	13,742	1,327	680	1,152	435	—	207	1,641	19,184
Total functional expenses 2020	\$ <u>512,497</u>	<u>170,421</u>	<u>52,535</u>	<u>87,418</u>	<u>44,526</u>	<u>11,283</u>	<u>93,783</u>	<u>118,074</u>	<u>1,090,537</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE
Consolidated Statements of Cash Flows
Years ended June 30, 2021 and 2020
(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 572,050	(129,150)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in postemployment benefit obligations and other nonoperating activities	15,927	71,303
Net realized and unrealized gains	(616,293)	(21,962)
Change in fair value of swap	(10,355)	9,691
Gifts of equipment	(955)	(1,194)
State capital appropriations	(3,139)	(1,197)
Contributions restricted for endowment and capital	(21,789)	(17,166)
Endowment income restricted for reinvestment	(336)	(373)
Depreciation, amortization and loss on disposals	87,821	85,238
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	(9,950)	(678)
Prepaid expenses and inventories	(6,110)	(713)
Contributions receivable, net	(2,279)	548
Accounts payable, accrued and other liabilities	(5,302)	22,359
Deferred revenue and student deposits	19,714	9,566
Postemployment benefit obligations	(1,276)	(4,121)
Operating leases, net	(271)	—
Net cash provided by operating activities	<u>17,457</u>	<u>22,151</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	1,058,604	1,534,000
Purchases of investments	(996,903)	(1,461,820)
Acquisitions of property, plant, and equipment	(76,640)	(182,743)
Acquisitions of equipment and library materials	(35,801)	(33,530)
Disbursements of loans to students	(204)	(183)
Repayments of loans by students	1,880	2,350
Net cash used in investing activities	<u>(49,064)</u>	<u>(141,926)</u>
Cash flows from financing activities:		
Repayments of principal on long-term debt and finance leases	(12,188)	(17,223)
Refinancing of long-term debt	—	(59,053)
Net proceeds from issuance of long-term debt	—	64,941
State capital appropriations	3,139	1,197
Endowment income restricted for reinvestment	336	373
Contributions restricted for endowment and capital	32,579	22,898
Repayments to federal government for student loans	(1,751)	(3,003)
Change in restricted deposits	4,691	126,646
Net cash provided by financing activities	<u>26,806</u>	<u>136,776</u>
Net change in cash and cash equivalents	(4,801)	17,001
Cash, cash equivalents and restricted cash, beginning of year	<u>132,653</u>	<u>115,652</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 127,852</u>	<u>132,653</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	\$ 31,511	29,808
Construction – accounts payable	8,825	33,741
Right-of-use assets obtained in exchange for new operating lease liabilities	2,166	—

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(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 13).

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.

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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

In addition to the three primary consolidated financial statements presented under U.S. GAAP for not-for-profit organizations, the consolidated statements of functional expenses present 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 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 \$57,359,000 and \$70,036,000, and fund-raising costs were approximately \$16,105,000 and \$19,812,000 for the years ended June 30, 2021 and 2020, 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.

Certain operating expenses for 2020 were reclassified and presented to conform with 2021 operating expense captions.

(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.

The following table summarizes cash, cash equivalents, and restricted cash reported on the consolidated statements of cash flows as of June 30, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 125,221	129,701
Restricted deposits:		
Cash held in other restricted deposits	<u>2,631</u>	<u>2,952</u>
	<u>\$ 127,852</u>	<u>132,653</u>

(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

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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

year, which generally aligns with the University’s fiscal year. Disbursements made directly to students for services or other costs are reported as expenses. 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 16).

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.

The composition of student tuition and fees, net revenue was as follows for the years ended June 30, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Undergraduate	\$ 337,019	372,820
Graduate	29,832	29,679
Other, primarily fees	<u>49,923</u>	<u>55,339</u>
Total	\$ <u>416,774</u>	<u>457,838</u>

Auxiliary services revenue consisted of the following for the years ended June 30, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Student housing (note 19)	\$ 23,515	44,133
Dining services (note 19)	11,720	30,330
Student health services	14,126	9,762
Parking	474	5,329
Conference services	66	1,793
Other	<u>35</u>	<u>2,750</u>
Total	\$ <u>49,936</u>	<u>94,097</u>

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

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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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.

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

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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.

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, 2021 and 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 been 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."

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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(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, 2021 and 2020, 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.

(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 \$8,586,000 and \$10,337,000 as of June 30, 2021 and 2020, 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 statements of activities.

(n) Recently Issued Accounting Standards

Effective July 1, 2020, the University adopted ASU 2016-02, *Leases (Topic 842)*, which requires lessees to report a right-of-use asset and lease liability for essentially all leases on the balance sheet. The Topic also requires increased disclosure regarding leases (note 10). The University elected to apply the modified prospective transition method and elected the practical expedients to not reassess: (1) whether an existing contract is or contains a lease; (2) lease classification for existing contracts; and (3) initial direct costs for existing contracts. The University elected the short-term lease exception and the practical expedient to combine lease and non-lease components, while declining to use hindsight when reassessing lease terms or impairment. Upon adoption, the University recognized operating leases right-of-use assets of \$18,609,000 as of July 1, 2020, and lease liabilities of \$18,057,000.

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Notes to Consolidated Financial Statements
June 30, 2021 and 2020

(2) Liquidity

The following table reflects the University's financial assets as of June 30, 2021 and 2020, available for general expenditures within one year (in thousands):

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 125,221	129,701
Operating investments	<u>151,073</u>	<u>161,593</u>
	276,294	291,294
Accounts and notes receivable collectible within one year	51,493	41,543
Estimated operating funds invested in pooled portfolio	278,347	227,384
Estimated endowment spending payout – 2022 and 2021	<u>53,048</u>	<u>52,215</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 659,182</u>	<u>612,436</u>

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. To help manage unanticipated liquidity needs, the University has a committed line of credit in the amount of \$100,000,000, which it could draw upon. Additionally, as of June 30, 2021 and 2020, the University had board-designated endowments and other investments of \$479,597,000 and \$357,273,000. 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.

(3) Contributions Receivable

Contributions receivable as of June 30, 2021 and 2020 are summarized as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Amounts due in:		
Less than one year	\$ 13,554	16,594
One to five years	17,096	22,903
Over five years	<u>8,280</u>	<u>8,640</u>
	38,930	48,137
Less:		
Allowance for uncollectible pledges	(1,141)	(1,190)
Unamortized discounts	<u>(3,063)</u>	<u>(3,710)</u>
	<u>\$ 34,726</u>	<u>43,237</u>

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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, 2021 and 2020, respectively.

(4) Restricted Deposits

Restricted deposits as of June 30, 2021 and 2020 consisted of the following (in thousands):

	<u>2021</u>	<u>2020</u>
Unexpended bond proceeds	\$ 61,714	67,371
Debt service reserve funds	12,059	11,093
Other deposits	<u>2,782</u>	<u>3,104</u>
	<u>\$ 76,555</u>	<u>81,568</u>

The unexpended bond proceeds represent the amount of unspent 2018 general obligation bond proceeds that are held internally by the University, to be used in certain capital projects. The unexpended bond proceeds 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 held with a 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 11. These funds are generally invested in cash equivalents, but not considered restricted cash equivalents for purposes of the statements of cash flows.

(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, 2021 and 2020 was as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Money market and other liquid funds	\$ 41,560	33,551
U.S. government obligations	157,295	165,799
Corporate obligations	91,125	158,649
Stock and convertible securities	597,872	434,381
International equity investments	2,271	54,334
Limited partnerships and limited liability corporations (LLCs)	1,427,676	933,590
Other	<u>5,021</u>	<u>4,747</u>
Total	<u>\$ 2,322,820</u>	<u>1,785,051</u>

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	2021	2020
Operating investments	\$ 151,073	161,593
Investments	2,171,747	1,623,458
	\$ 2,322,820	1,785,051

Included in the investments table above is \$7,132,000 and \$6,246,000 of annuity and life-income funds at June 30, 2021 and 2020, 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.

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):

	2021	2020	Estimated remaining lives (years)	As of June 30, 2021 unfunded commitments	Redemption frequency	Redemption notice frequency
Limited partnerships and LLCs:						
International equity funds	\$ 422,426	288,689	—	\$ —	Monthly	10 Days
Multistrategy hedge funds	243	24,152	—	—	Annually	100 Days
Long-short hedge funds	296,712	168,885	—	—	Annually	90 Days
Private equity	352,860	222,182	1-13	176,670	Not eligible	N/A
Venture capital	179,840	89,024	1-12	84,770	Not eligible	N/A
Hybrid fund of funds	9,434	10,145	1-5	1,300	Not eligible	N/A
Distressed securities	52,989	43,604	1-4	2,932	Not eligible	N/A
Real estate	52,124	39,346	1-11	39,663	Not eligible	N/A
Natural resources	33,484	28,588	1-11	1,805	Not eligible	N/A
Oil and gas	27,564	18,975	6-11	17,839	Not eligible	N/A
	\$ 1,427,676	933,590		\$ 324,979		

Subsequent to June 30, 2021, the University executed additional commitments of \$67,500,000.

(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.

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(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.

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, 2021 and 2020 was as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Dividend and interest income	\$ 19,504	27,451
Net realized and unrealized gains	616,293	21,962
External investment management fees and expenses	<u>(7,647)</u>	<u>(5,532)</u>
Investment return, net	<u>\$ 628,150</u>	<u>43,881</u>

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Investment return is presented for fiscal years ended June 30, 2021 and 2020 was as follows (in thousands):

	2021	2020
Without donor restrictions:		
Other investment income	\$ 16,041	20,824
Endowment distributions	53,048	52,215
Investment return in excess of (less than) endowment distributions	193,871	(8,940)
	262,960	64,099
With donor restrictions:		
Investment return in excess of (less than) endowment distributions	365,107	(20,542)
Other, net	83	324
	365,190	(20,218)
Investment return, net	\$ 628,150	43,881

(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.

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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 irrevocable charitable remainder trusts and charitable gift annuity agreements. 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.

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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, 2021 and 2020 consolidated balance sheets (in thousands):

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Money market and other liquid funds	\$ 41,560	41,438	122	—
U.S. government obligations:				
Mortgage-backed securities	21,756	—	21,756	—
Treasury obligations	134,398	134,393	5	—
Other	1,141	129	1,012	—
	<u>157,295</u>	<u>134,522</u>	<u>22,773</u>	<u>—</u>
Corporate obligations	91,125	496	90,629	—
Stock and convertible securities	597,872	595,166	2,706	—
International investments	2,271	86	2,185	—
Other	5,021	1,085	—	3,936
Investments measured at net asset value, as a practical expedient ⁽¹⁾	<u>1,427,676</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total investments	<u>2,322,820</u>	<u>772,793</u>	<u>118,415</u>	<u>3,936</u>
Restricted deposits	76,555	76,555	—	—
Funds held in trust by others	<u>93,659</u>	<u>—</u>	<u>—</u>	<u>93,659</u>
Total	<u>\$ 2,493,034</u>	<u>849,348</u>	<u>118,415</u>	<u>97,595</u>
Financial liabilities, included in the other liabilities:				
Annuity and life income funds payable	\$ 4,965	—	—	4,965
Interest rate swaps	<u>27,689</u>	<u>—</u>	<u>27,689</u>	<u>—</u>
Total	<u>\$ 32,654</u>	<u>—</u>	<u>27,689</u>	<u>4,965</u>

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	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	—
	165,799	148,775	17,024	—
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⁾	933,590	—	—	—
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	76,836	—	—	76,836
Total	\$ 1,943,455	746,115	183,425	80,325
Financial liabilities, included in the other liabilities:				
Annuity and life income funds payable	\$ 5,166	—	—	5,166
Interest rate swaps	38,044	—	38,044	—
Total	\$ 43,210	—	38,044	5,166

(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.

During the year ended June 30, 2021 and 2020, there were no transfers of assets between levels. The University's interest in funds held in trust by others changed in 2021 and 2020 primarily due to underlying investment gains.

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(7) Annuity and Life-Income Funds

The University held \$7,132,000 and \$6,246,000 in investments related to annuity and life income funds as of June 30, 2021 and 2020, respectively. A related liability of \$4,965,000 and \$5,166,000 as of June 30, 2021 and 2020, 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.

(8) Property, Plant, and Equipment

Property, plant, and equipment as of June 30, 2021 and 2020 consisted of the following (in thousands):

	<u>2021</u>	<u>2020</u>	<u>Range of useful lives (years)</u>
Land	\$ 58,942	58,375	N/A
Land improvements	82,630	82,630	15
Buildings	2,233,321	2,030,058	40
Equipment and furnishings	356,014	338,249	2–20
Library	297,535	287,617	10
Finance leasehold	85,853	103,029	29–40
Collections and works of art	9,545	9,156	N/A
Construction in progress	62,487	172,448	N/A
	<u>3,186,327</u>	<u>3,081,562</u>	
Less accumulated depreciation	<u>(1,325,613)</u>	<u>(1,243,981)</u>	
	<u>\$ 1,860,714</u>	<u>1,837,581</u>	

At June 30, 2021, the University had outstanding contractual commitments of \$38,635,000 for building and renovation projects. Interest costs associated with various construction projects of \$3,512,000 and \$6,763,000 were capitalized at June 30, 2021 and 2020, respectively.

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At June 30, 2021, right-of-use assets from finance leases of \$72,910,000 are included in finance leasehold, net of accumulated depreciation of \$12,944,000. Lease liabilities from finance leases are included in long-term debt and finance leases on the consolidated balance sheets.

(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 \$21,847,000 and \$21,631,000 as of June 30, 2021 and 2020, respectively, which is included in other liabilities on the accompanying consolidated balance sheets. The following table reconciles the obligation as of June 30, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 21,631	22,315
Additional obligations incurred	53	588
Obligations settled in current period	(302)	(1,620)
Changes in estimates, including timing	(152)	(301)
Accretion expense	<u>617</u>	<u>649</u>
Balance at end of year	<u>\$ 21,847</u>	<u>21,631</u>

(10) Leases

The University is the lessee of space under both operating and finance lease agreements. Lease right-of-use assets represent the University's right to use the underlying asset for the lease term. Lease liabilities represent the University's obligation to make lease payments arising from the lease. Leases with terms over twelve months are measured, classified, and recognized at lease commencement. Measurement is based on the present value of future minimum lease payments over the lease term, discounted at an appropriate incremental borrowing rate, which is based on the information available at the commencement date in determining the present value of lease payments. The present value of an option to extend or terminate a lease is included at commencement when it is reasonably certain to be exercised.

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Lease expense for lease payments is recognized on a straight-line basis over the term of the lease. Amortization expense and interest expense is recognized as a component of lease payments for finance leases. The following table summarizes the components of lease expense for the year ended June 30, 2021 (in thousands):

Finance lease expense:		
Amortization of right-of-use assets	\$	3,132
Interest on lease liabilities		2,471
Operating lease expense		<u>6,163</u>
Total lease expense	\$	<u><u>11,766</u></u>

The following table contains the maturity analysis of the annual undiscounted cash flows reconciled to the carrying value of the operating and finance lease liabilities as of June 30, 2021 (in thousands):

<u>Year</u>	<u>Operating</u>	<u>Finance</u>
2022	\$ 4,904	3,694
2023	4,094	3,694
2024	1,998	3,731
2025	767	3,734
2026	394	3,734
Thereafter	<u>210</u>	<u>75,988</u>
Total lease payments	12,367	94,575
Less: imputed interest	<u>113</u>	<u>36,365</u>
Present value of lease liabilities	\$ <u><u>12,254</u></u>	<u><u>58,210</u></u>

The weighted-average remaining lease term and discount rate for operating and finance leases as of June 30, 2021, are as follows (in thousands):

	<u>Operating</u>	<u>Finance</u>
Weighted average remaining lease term	3.1 Years	24.8 Years
Weighted average discount rate	0.55 %	4.19 %

The University leases as lessor rental properties to customers classified as operating leases. There are no sales-type or direct financing leases. Property owned by the University and leased to third parties remains in Property, plant, and equipment on the consolidated balance sheet. Revenue is recognized to the extent that amounts are determined to be collectible. The University recognized \$1.3 million in sublease income in fiscal year 2021.

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(11) Long-Term Debt and Finance Leases

Indebtedness at June 30, 2021 and 2020 consisted of the following (in thousands):

	Fiscal year of maturity	Interest rate(s)%	Outstanding principal	
			2021	2020
Variable-rate debt:				
Series 2004B	2035	3.65 %	\$ 29,305	29,305
Series 2005	2036	4.24	28,690	28,690
Series 2013C	2038	4.16	53,335	53,335
Variable-rate debt			111,330	111,330
Fixed-rate bonds:				
Series 2010A taxable Build America Bonds (BABs)	2041	3.93	119,580	119,580
Series 2013B taxable	2027	1.12–3.00	4,655	5,365
	2034	3.83	6,770	6,770
	2044	3.98	13,555	13,555
Series 2018 taxable	2051	4.07	76,770	76,770
	2059	4.22	123,230	123,230
Series 2019	2043	5.00	100,495	108,860
Series 2019A	2046	5.00	46,540	47,455
Fixed-rate debt			491,595	501,585
Finance leases (note 8)	2021–2049	4.11-4.25	58,210	60,373
			661,135	673,288
Premium on long-term debt, net of debt issue costs of \$2.8 million (2021) and \$2.9 million (2020)			35,744	36,055
Long-term debt and finance leases			\$ 696,879	709,343

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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.

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, 2021 was 0.01% 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 33.0% of the corresponding interest payable on the bonds (the Subsidy Payments). For the year ended June 30, 2021, the University received subsidy payments of \$2,125,000, 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, 2021 was 0.01%.

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 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, 2021.

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

2022		\$	11,680
2023			12,245
2024			12,894
2025			11,643
2026			12,207
Thereafter			600,466
		\$	661,135

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, 2024, May 31, 2024, and April 30, 2022, respectively.

(12) Interest Rate Swap Agreements

The University has interest rate swap agreements for notional amounts of approximately \$135,945,000 and \$141,088,000 as of June 30, 2021 and 2020 (in thousands):

	Consolidated balance sheets location	Location of change in fair value	Fair value		Change in fair value	
			2021	2020	2021	2020
Interest rate swap agreements	Other liabilities	Other, net	\$ 27,689	38,044	10,355	(9,691)

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.

(13) 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 \$35,819,000 in 2021 and \$36,239,000 in 2020.

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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, 2023, 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 2021 and 2020 includes the following components (in thousands):

	2021	2020
Operating expenses:		
Service cost	\$ 4,052	3,650
Nonoperating costs:		
Interest cost	1,340	2,094
Amortization of prior service cost and (gains) losses	4,681	4,286
	6,021	6,380
Net periodic postemployment benefit cost	\$ 10,073	10,030

The University's estimated unfunded obligation related to this plan is \$92,130,000 and \$83,135,000, respectively, and is included in postemployment benefit obligations on the consolidated balance sheets as of June 30, 2021 and 2020.

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The benefit obligation was determined using a discount rate of 2.54% as of June 30, 2021 and 2.58% as of June 30, 2020, and a rate of compensation increase of 3.00%. As of June 30, 2021, the University's expected future benefit payments for fiscal years 2022 through 2026 are \$13,163,000, \$12,010,000, \$11,808,000, \$28,670,000 and \$2,081,000, respectively, and \$14,010,000 thereafter. In fiscal year 2021, final faculty retirement determinations were made, thereby fixing retirement assumptions. The impact of this amendment on the change in the actuarially-determined obligation was approximately \$14,300,000.

(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 consolidated balance sheets. As of June 30, 2021, the University has not funded these benefits.

Net periodic postemployment benefit cost for 2021 and 2020 includes the following components (in thousands):

	2021	2020
Operating expenses:		
Service cost	\$ 14,345	11,179
Nonoperating costs:		
Interest cost	12,823	13,964
Amortization of prior service cost and losses (gains)	2,237	(1,160)
	15,060	12,804
Net periodic postemployment benefit cost	\$ 29,405	23,983

The accumulated postemployment benefit obligation recognized in the consolidated balance sheets at June 30, 2021 and 2020 is as follows (in thousands):

	2021	2020
Accrued postemployment liability	\$ 410,173	390,476
Unrecognized net loss	79,840	96,046
Accumulated postemployment benefit obligation	\$ 490,013	486,522

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Changes in the accumulated postemployment plan benefit obligation and funding status for 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Benefit obligation at beginning of year	\$ 486,522	426,750
Service cost	14,345	11,178
Interest cost	12,823	13,964
Plan amendment	2,477	—
Actuarial (gain) loss	(16,446)	43,801
Disbursements	<u>(9,708)</u>	<u>(9,171)</u>
Benefit obligation at end of year	<u>490,013</u>	<u>486,522</u>
Fair value of plan assets at beginning of year	—	—
Employer contributions	9,708	9,171
Benefits paid	<u>(9,708)</u>	<u>(9,171)</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status at end of year – liability included in other postemployment benefit obligations on the consolidated balance sheets	\$ <u>490,013</u>	<u>486,522</u>

The accumulated postemployment benefit obligation was determined using a discount rate of 3.33% and 3.25% as of June 30, 2021 and 2020, respectively. Net periodic postemployment benefit costs was determined using a discount rate of 3.25% and 3.91% in 2021 and 2020, respectively. The healthcare cost trend rates used reflect the differences between pre-65 and post-65 claims were 6.50% and 6.25%, respectively, in 2021 and 7.25% and 6.75%, respectively, in 2020. This rate gradually decreases to 4.50% by the year 2028 for pre-65 and post-65 claims. The actuarial (gains) losses relate to changes in assumptions in discount rates, mortality, healthcare cost trends, and withdrawal rates.

At June 30, 2021, the University's expected future benefit payments for future service are as follows (in thousands):

Year ending June 30:	
2022	\$ 11,888
2023	13,043
2024	14,028
2025	15,708
2026	16,545
2027 through 2031	93,169

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(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 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 22.95% and 23.02% in 2021 and 2020. Expense recognized for the State Plan was \$12,604,000 and \$14,142,000 in 2021 and 2020, respectively.

The State Plan's financial statements and actuarial reports for June 30, 2020 (most recent available) indicate the following:

The University has 1,299 active participants in the State Plan. The State Plan, in total, has 73,005 participants, 38,518 of which are active participants.

The University's contribution to the State Plan in fiscal year June 30, 2020 of \$7,405,000 was approximately 2.87% of the \$257,838,000 total annual required plan employer contributions to the State Plan.

At June 30, 2020, 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 Other Postemployment Benefits (OPEB) Fund Trust Schedules of Employer Allocations and OPEB Amounts by the Employer Report for the year ended June 30, 2020 (most recent available), the State had a net liability of \$10.4 billion. The University's contribution to the State Plan for OPEB in fiscal year June 30, 2020, of \$7,488,000 was approximately 2.7% of the \$276,336,000 total annual required employer contributions to the plan.

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(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 2021 and 2020 was \$65,148,000 and \$66,698,000, respectively.

(14) Net Assets

The University's net assets as of June 30, 2021 and 2020 includes (in thousands):

	2021	2020
Without donor restrictions:		
Undesignated	\$ 401,201	347,409
Board designated endowment	479,597	357,273
Commitments for postemployment obligations	(582,143)	(569,657)
Commitments for interest rate swap agreements	(27,689)	(38,044)
Net investment in plant	1,182,886	1,149,635
Total net assets without donor restrictions	\$ 1,453,852	1,246,616
With donor restrictions:		
Contributions receivable:		
For operations, primarily instruction	\$ 7,302	5,023
For buildings	19,897	25,422
For endowment	7,527	12,792
Total contributions receivable	34,726	43,237
Amounts received subject to expenditures for specified purposes:		
Student aid and instruction	23,337	21,470
Research and other	10,592	8,993
Capital additions	11,940	25,458
Total expendable subject to purpose restrictions	45,869	55,921
Endowment earnings subject to future appropriations:		
General institutional support	626,369	449,613
Student aid	134,123	68,819
Instruction	201,838	113,576
Research and other	30,919	14,046
	993,249	646,054

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	2021	2020
Perpetual endowment funds – original gift corpus:		
General institutional support	\$ 71,472	71,441
Student aid and instruction	283,613	280,650
Research and other	36,203	20,936
	391,288	373,027
Other funds	2,582	1,484
Funds held in trust by others, primarily for general institutional support	93,659	76,836
Total net assets with donor restrictions	\$ 1,561,373	1,196,559

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, 2021 and 2020 as follows (in thousands):

	2021	2020
Purpose restrictions accomplished – operating:		
Instruction and operations	\$ 6,953	6,198
Scholarships	3,172	2,834
Student services	97	160
Academic support	1,853	2,321
Other	2,730	3,038
Total purpose restrictions accomplished – operating	\$ 14,805	14,551
Purpose restrictions accomplished – non-operating:		
Capital asset additions	\$ 31,596	7,068

(15) Endowment

As of June 30, 2021, the University endowment consists of approximately 1,315 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 endowment funds with and without donor restrictions 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

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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 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 3.91% and 4.05% at June 30, 2021 and 2020, 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.

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(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 \$0 and \$85,000 as of June 30, 2021 and June 30, 2020, respectively. These deficiencies resulted from unfavorable market fluctuations.

(f) Net Asset Classification of Endowment Funds

Endowment net assets by type of fund consist of the following as of June 30, 2021 and 2020 (in thousands):

	2021		
	Without donor restrictions	With donor restrictions	Total
Donor restricted	\$ —	1,380,961	1,380,961
Board designated	479,597	3,576	483,173
	\$ 479,597	1,384,537	1,864,134
	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

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, 2021, 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 \$606,113,000. Additionally, \$383,560,000 as of June 30, 2021, is determined to be with purpose restrictions as set forth by the donors.

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Changes in endowment net assets for the years ended June 30, 2021 and 2020 (in thousands) are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2019	\$ 362,976	1,024,439	1,387,415
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>357,273</u>	<u>1,019,081</u>	<u>1,376,354</u>
Investment return:			
Investment income, net	3,603	10,402	14,005
Net appreciation – realized and unrealized	<u>131,596</u>	<u>376,437</u>	<u>508,033</u>
Total investment return	135,199	386,839	522,038
Contributions	887	16,620	17,507
Endowment spending distribution	(13,864)	(39,531)	(53,395)
Other changes, including life income fund and other transfers	<u>102</u>	<u>1,528</u>	<u>1,630</u>
Endowment net assets, June 30, 2021	<u>\$ 479,597</u>	<u>1,384,537</u>	<u>1,864,134</u>

(16) 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.

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The table below identifies this financial assistance by source and by student classification for the years ended June 30, 2021 and 2020 (in thousands):

	2021			2020		
	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>
Tuition:						
Unrestricted	\$ 108,656	62,786	171,442	98,349	68,120	166,469
Federal grants	937	2,065	3,002	923	1,882	2,805
State grants	15,295	823	16,118	12,769	1,179	13,948
Private gifts	3,727	1,508	5,235	3,117	1,011	4,128
Endow ment	4,717	208	4,925	4,711	152	4,863
Total	133,332	67,390	200,722	119,869	72,344	192,213
Student aid expenses	10,368	3,860	14,228	7,800	3,483	11,283
Total	\$ 143,700	71,250	214,950	127,669	75,827	203,496

(17) 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.

(18) 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, statements 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.

(19) COVID-19 Environment

After the first coronavirus (COVID-19) case was identified in March 2020, the University made the switch to conducting undergraduate and graduate course instruction virtually and most students vacated the campus. By Fall 2020, residence halls opened with limited occupancy as the majority of classes remained virtual. Spring 2021 saw increased campus life with more students in residence halls and more in person instruction.

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The University was granted student emergency grants under the CARES Act: Higher Education Emergency Relief Fund (HEERF) of approximately \$22,218,000 and \$6,087,000 for the years ended June 30, 2021 and June 30, 2020, respectively. In addition, another \$28,032,000 and \$6,087,000 was granted through HEERF during the years ended June 30, 2021 and June 30, 2020 to offset the University's institutional costs related to the pandemic. The University also received \$32,549,000 of relief funds through the State of Delaware. Total revenue of \$52,822,000 and \$9,362,000 is recognized as grants, contracts, and other exchange transactions in the consolidated statement of activities for the years ended June 30, 2021 and June 30, 2020, respectively. Additional revenue of \$32,789,000 is expected to be recognized in fiscal year 2022 when the remaining student grants are awarded and claimed.

The start of the 2022 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.

(20) 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, 2021 through November 12, 2021, which was the date the consolidated financial statements were issued and determined no adjustments or disclosures were required.