KPMG

UNIVERSITY OF DELAWARE

Consolidated Financial Statements

June 30, 2012

(With Independent Auditors' Report Thereon)

UNIVERSITY OF DELAWARE

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KPMG
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 statement of financial position of the University of Delaware and subsidiaries (the University) as of June 30, 2012, and the related consolidated statements of activities, expenses by natural classification, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized financial information has been derived from the University's 2011 consolidated financial statements and, in our report dated October 31, 2011, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Delaware and subsidiaries as of June 30, 2012, and the changes in their net assets and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 7, 2012

UNIVERSITY OF DELAWARE

Consolidated Statement of Financial Position

June 30, 2012
(with summarized financial information as of June 30, 2011)

(In thousands)

Assets		2012	2011
Cash and cash equivalents	$	45,433	40,677
Restricted cash and cash equivalents		58,321	111,984
Accounts and notes receivable		45,268	49,913
Prepaid expenses and inventories		5,813	4,708
Contributions receivable		32,273	22,041
Student loan receivables		14,123	14,719
Endowment funds and other investments		1,314,530	1,358,000
Annuity and life income funds		7,731	8,629
Funds held in trust by others		58,209	60,566
Property, plant, and equipment, net of depreciation		1,195,830	1,067,858
Total assets	$	2,777,531	2,739,095
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	77,451	71,799
Deferred revenues and student deposits		8,329	9,099
Obligations under capital leases		6,557	7,099
Notes and bonds payable		353,993	363,948
Interest rate swap liabilities		41,487	21,434
Annuity and life income funds payable		4,785	4,721
Compensated absences payable		13,465	13,434
Postretirement benefit obligation		283,690	209,491
Advances from federal government for student loans		14,995	14,903
Asset retirement obligation		20,889	20,185
Total liabilities		825,641	736,113
Unrestricted		1,085,224	1,115,786
Unrestricted – noncontrolling interest in First State Marine Wind, LLC		1,551	1,307
Temporarily restricted		533,671	566,294
Permanently restricted		331,444	319,595
Total net assets		1,951,890	2,002,982
Total liabilities and net assets	$	2,777,531	2,739,095

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Activities

Year ended June 30, 2012
(with summarized financial information for the year ended June 30, 2011)

(In thousands)

	2012				2011
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Operating revenue:					
Tuition and fees (less scholarships and fellowships of $106,186 during 2012, $97,287 during 2011)	$ 354,844	—	—	354,844	322,634
Contributions	21,354	3,694	—	25,048	18,816
Contracts and other exchange transactions	165,692	—	—	165,692	175,151
State operating appropriations	112,427	—	—	112,427	116,152
Endowment spending payout	44,603	—	—	44,603	43,902
Other investments payout (includes net realized gain of $3,473 during 2012 and $3,112 during 2011)	6,208	86	—	6,294	6,334
Activities of educational departments	13,919	—	—	13,919	10,388
Sales and services of auxiliary enterprises (less scholarships and fellowships of $1,113 during 2012, $1,092 during 2011)	110,657	—	—	110,657	101,902
Other revenue	17,501	—	—	17,501	14,808
Total operating revenue	847,205	3,780	—	850,985	810,087
Operating expenses:					
Educational and general:					
Instruction and departmental research	346,420	—	—	346,420	341,221
Sponsored research	135,079	—	—	135,079	130,400
Extension and public service	46,780	—	—	46,780	43,312
Academic support	58,566	—	—	58,566	59,480
Student services	28,821	—	—	28,821	28,002
General institutional support	82,114	—	—	82,114	74,205
Student aid	5,884	—	—	5,884	5,475
Independent operations	679	—	—	679	1,183
Total educational and general expenses	704,343	—	—	704,343	683,278
Auxiliary enterprises	95,633	—	—	95,633	93,981
Total operating expenses	799,976	—	—	799,976	777,259
Change in net assets from operating activities	47,229	3,780	—	51,009	32,828
Nonoperating activities:					
Net realized and unrealized gains (losses)	(40,544)	(19,421)	(1,463)	(61,428)	203,192
Decrease (increase) in postretirement benefit obligation	(59,476)	—	—	(59,476)	31,580
Endowment income	7,715	7,484	633	15,832	18,979
Endowment spending payout	(44,603)	—	—	(44,603)	(43,902)
Contributions for endowment and life income funds	—	223	12,810	13,033	5,338
Contributions for buildings and program activities	10,231	15,476	—	25,707	14,082
State capital appropriations	3,889	—	—	3,889	1,066
Hotel operations – net	(1,370)	—	—	(1,370)	(67)
Wind turbine operations – net	(194)	—	—	(194)	1,905
Net change in asset retirement obligation liability	38	—	—	38	6,226
Other	7,272	7	(808)	6,471	12,115
Reclassifications of funds	(1,684)	1,007	677	—	—
Net assets released from restrictions	41,179	(41,179)	—	—	—
Change in net assets	(30,318)	(32,623)	11,849	(51,092)	283,342
Net assets at beginning of year	1,117,093	566,294	319,595	2,002,982	1,719,640
Net assets at end of year	$ 1,086,775	533,671	331,444	1,951,890	2,002,982

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Expenses by Natural Classification

Year ended June 30, 2012
(with summarized financial information for the year ended June 30, 2011)

(In thousands)

	2012										2011
	Instruction and departmental research	**Sponsored research**	**Extension and public service**	**Academic support**	**Student services**	**General institutional support**	**Student aid**	**Auxiliary enterprises**	**Independent operations**	**Total**	**Total**
Operating expenses:											
Expenses:											
Salaries and wages	$ 191,535	61,467	22,727	27,153	12,973	38,314	2,835	8,063	—	365,067	352,777
Employee fringe benefits	53,343	14,585	6,680	10,822	3,882	15,606	—	2,680	—	107,598	104,507
Employee postretirement benefits	13,497	2,108	910	1,122	348	1,476	—	281	—	19,742	17,936
Supplies and general	36,730	35,915	10,202	4,545	6,919	20,384	977	61,486	43	177,201	175,594
Travel	14,825	3,347	1,147	796	555	636	87	79	1	21,473	20,252
Operation and maintenance of plant	23,597	6,983	2,769	5,168	1,255	9,475	—	—	630	49,877 (a)	55,165 (b)
Information processing	264	8	10	(12)	3,010	8,539	—	—	—	11,819	11,917
Interest expense	2,580	344	—	—	313	21	—	13,293	—	16,551	14,396
Scholarships, fellowships and awards	—	—	—	—	—	—	107,375	—	—	107,375	98,614
Depreciation and accretion	13,222	9,328	2,238	10,015	557	7,133	—	10,516	5	53,014	50,265
Loss on disposals	998	1,598	111	64	7	1,108	—	754	—	4,640	1,184
Amortization of bond discount (premium)	13	23	—	—	(25)	—	—	(180)	—	(169)	(82)
Internal service (credits) charges	(3,058)	4	(5)	(967)	(971)	(20,578)	—	(1,339)	—	(26,914)	(26,887)
Expense before scholarship allowance	347,546	135,710	46,789	58,706	28,823	82,114	111,274	95,633	679	907,274	875,638
Reconciliation to statement of activities:											
Scholarship allowance	(1,126)	(631)	(9)	(140)	(2)	—	(105,390)	—	—	(107,298)	(98,379)
Total operating expenses	$ 346,420	135,079	46,780	58,566	28,821	82,114	5,884	95,633	679	799,976	777,259

Notes:
(a) Includes salaries and wages of $24,613, fringe benefits of $13,555, employee postretirement benefits of $344, and depreciation expense for plant facilities of $955 during 2012.
(b) Includes salaries and wages of $23,790 fringe benefits of $12,475, employee postretirement benefits of $298, and depreciation expense for plant facilities of $1,139 during 2011.

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Cash Flows

Year ended June 30, 2012
(with summarized financial information for the year ended June 30, 2011)

(In thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(51,092)	283,342
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		54,487	52,029
Loss on disposals		4,640	1,184
Amortization of discounts and premiums on notes and bonds payable and capital lease obligations		(158)	(70)
Net realized and unrealized gains (losses)		38,996	(206,304)
Gifts of land, building, and equipment		(393)	(745)
State capital appropriations		(3,889)	(1,066)
Contributions for endowment		(13,033)	(5,338)
Contributions for buildings		(15,476)	(7,386)
Endowment income restricted for reinvestment		(633)	(1,086)
Changes in assets and liabilities:			
Accounts and notes receivable		4,645	(7,949)
Prepaid expenses and inventories		(1,105)	(1,382)
Contributions receivable		(10,232)	(6,696)
Accounts payable, accrued liabilities, and annuity and life income funds payable		(1,080)	17,884
Deferred revenues and students deposits		(770)	959
Interest rate swap liability		20,053	(4,684)
Asset retirement obligation		485	(5,728)
Compensated absences payable and postretirement benefit obligation		74,230	(17,571)
Net cash provided by operating activities		99,675	89,393
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		1,201,224	3,463,000
Purchases of investments		(1,193,499)	(3,445,824)
Acquisitions of property, plant, and equipment		(179,688)	(141,575)
Disbursements of loans to students		(1,633)	(1,507)
Repayments of loans		2,229	2,165
Net cash used in investing activities		(171,367)	(123,741)
Cash flows from financing activities:			
Repayments of principal of notes and bonds payable		(9,773)	(123,922)
Net proceeds from issuance of notes and bonds payable		—	244,213
Reduction in principal of capital leases		(565)	(540)
State capital appropriations		3,889	1,066
Endowment income restricted for reinvestment		633	1,086
Contributions for endowment		13,033	5,338
Contributions for buildings		15,476	7,386
Advances from federal government for student loans		92	96
Decrease (increase) in restricted cash and cash equivalents		53,663	(93,792)
Net cash provided by financing activities		76,448	40,931
Net increase in cash and cash equivalents		4,756	6,583
Cash and cash equivalents, beginning of year		40,677	34,094
Cash and cash equivalents, end of year	$	45,433	40,677
Supplemental disclosure of cash flow information:			
Interest paid	$	16,865	13,778

See accompanying notes to consolidated financial statements.

(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 co-educational. The main campus is located in Newark, Delaware, a suburban community of 30,000, situated midway between Philadelphia and Baltimore. Also, courses are offered at other locations throughout the State, including Wilmington, Lewes, Dover, Milford, and Georgetown.

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

(b) Basis of Presentation

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles (U.S. GAAP). Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2011, from which the summarized information was derived.

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

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be 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.

There are three financial statements presented under U.S. GAAP for not-for-profit organizations:

Statement of Financial Position – is a listing of the total assets, total liabilities, and net assets as of the end of a fiscal year.

Statement of Activities – is a summary of the financial activity during a fiscal year and reports the amounts of the changes in unrestricted net assets, temporarily restricted net assets, permanently restricted net assets, and total net assets.

Statement of Cash Flows – is a summary of the cash receipts and cash payments during a fiscal year.

As a supplement to the financial statements, the statement of expenses by natural classification presents expenses by natural classification within functional categories. Operation and maintenance of plant, depreciation and accretion expense, and disposals are allocated based on square footage. Postretirement benefit obligation expense and fringe benefit expense 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.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as released from restrictions between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

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

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

(c) Reclassifications of Funds

The reclassification of funds includes transfers of operating funds designated by the University for investment in endowment or in plant, and financial transactions between net asset classes.

(d) Auxiliary Operations

The operation of auxiliaries is supplementary to the primary educational function of the University. Accordingly, revenues of auxiliary enterprises provide for debt service, and renewal and replacement of equipment. Auxiliary operations primarily include the residence and dining halls, the bookstore, and student health service.

(e) Cash and Cash Equivalents

Cash equivalents include all highly liquid interest-bearing deposits and short-term investments with maturities of three months or less at time of purchase, excluding amounts held for long-term investments as disclosed in note 6. Deposits in escrow accounts for future bond interest payments and principal reduction and bond proceeds restricted to use on specific projects account for approximately 96% and 98% of restricted cash and cash equivalents as of June 30, 2012 and 2011, respectively. Other restrictions on use are for funds held for federal loan programs and funds held for the benefit of or under regulations promulgated by the federal government.

(f) Endowment Funds and Other Investments

Investments in stocks, bonds, and notes are stated at estimated fair value, as described in note 3.

(g) Compensated Absences Payable

Compensated absences payable represents vacation time earned by full-time professional and salaried staff employees, but not yet taken as of fiscal year-end. An employee is entitled to receive pay in lieu of vacation upon separation from the University. Employees may accrue a maximum of 25 days to 40 days based upon years of service.

(h) Operating versus Nonoperating

Operating activities consist principally of revenues and expenses related to the University's ongoing educational, research and public service mission, including endowment and other investment income appropriated by the University to support these programs.

(i) Income Taxes

The University has been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. Accordingly, no provisions for income taxes have been made in the accompanying consolidated financial statements. U.S. GAAP require management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(j) 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.

(k) Impact of Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* (ASU 2010-06), which adds new requirements for disclosures about transfers into and out of Level 1 and 2 in the fair value hierarchy and additional disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. Additionally, it clarifies existing fair value disclosures about the level of disaggregation about inputs and valuation techniques used to measure fair value. For public entities, ASU 2010-06 is generally effective for the first reporting period beginning after December 15, 2009, except for the requirement to provide Level 3 activity on a gross basis, which has an effective date for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-06 only required additional disclosures and did not have a material impact on the consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04), which do not extend the use of fair value, but rather provide guidance about how fair value should be determined where it is already required or permitted under International Financial Reporting Standards (IFRS) or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. For public entities, the ASU is effective for period beginning after December 15, 2011. The University does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In September 2011, FASB issued ASU 2011-09, *Compensation-Retirement Benefits-Multiemployer Plans (Subtopic 715-80)* (ASU 2011-09), which requires that employers provide additional separate disclosures for multiemployer pension plans and multiemployer other postretirement plans. For employers that participate in multiemployer pension plans, the amendments in this update require an employer to provide additional quantitative and qualitative disclosures about the employer’s involvement, and the nature of the employer’s commitment to the plan. For public entities, the amendments are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. The amendments should be applied retrospectively for all prior periods presented. The adoption of ASU 2011-09 only required additional disclosures and did not have a material impact on the consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210) Disclosure about Offsetting Assets and Liabilities* (ASU 2011-11). The amendments enhance disclosures about financial instruments and derivative instruments that are either offset in accordance with U.S. GAAP or are subject to an enforceable master netting arrangement or similar agreement. The disclosure provisions of ASU 2011-11 are effective for annual reporting periods beginning on or after January 1, 2013 and should be applied retrospectively for all comparative periods presented. The adoption of ASU 2011-11 will only require additional disclosures and will not have a material impact on the consolidated financial statements.

(l) Reclassifications

Certain 2011 financial information has been reclassified to conform to the 2012 presentation.

(2) Subsidiary Operations

In October 2009, Blue Hen Wind, Inc. was created as a wholly owned, for-profit, subsidiary of the University. Simultaneously, Blue Hen Wind, Inc. entered into a Limited Liability Company Agreement with Gamesa Technology Corporation, Inc. and formed First State Marine Wind, LLC for the purpose of constructing and operating a wind turbine adjacent to the University's Hugh R. Sharp campus in Lewes. At inception, Blue Hen Wind, Inc. had a 49% ownership interest in First State Marine Wind, LLC. As of February 15, 2011, Blue Hen Wind, Inc.'s ownership interest increased to approximately 69%.

The operations of Blue Hen Wind, Inc. are consolidated into the University's financial statements. Operations for the year ended June 30, 2012, resulted in revenues from third parties of $56,000 and expenses of $250,000 being recognized. Operations for the year ended June 30, 2011, resulted in revenues of $2,252,000 and expenses of $347,000 being recognized. Gamesa Technology Corporation, Inc.'s noncontrolling interest in First State Marine Wind, LLC is presented as a separate component of net assets in the statement of financial position.

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

The operations of 1743 Holdings, LLC are consolidated into the University's financial statements. Operations for the year ended June 30, 2012 resulted in operating expenses of $679,000 and nonoperating revenue – other of $6,786,000, which are presented in independent operations and nonoperating activities, respectively, in the statement of activities. Operations for the year ended June 30, 2011, resulted in operating expenses of $1,183,000 and nonoperating revenue – other of $9,775,000.

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

Operations of Blue Hen Hotel, LLC are reported as nonoperating activities and for the years ended June 30, 2012 and 2011 resulted in total revenues of $4,996,000 and $4,967,000, respectively, and losses of $1,370,000 and $67,000, respectively. See note 11 for the impact of a related interest rate swap.

(3) Fair Value Measurements

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

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

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

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 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage backed securities, corporate-debt securities certain private debt and equity funds, and certain alternative investments.

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. This category generally includes certain private debt and equity funds and certain other alternative investments.

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

The above methodology applies in instances in which other accounting pronouncements require or permit fair value measurements; it does not require any new fair value measurements. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short-term maturity of these financial instruments. The University measures its investments, liabilities related to annuity and life-income funds, interest rate swaps related to its debt, and contributions receivable at inception at fair value in accordance with other accounting pronouncements. Additionally, the University discloses the fair value of its outstanding debt. The valuation methodology for each of these items is described below:

(a) Investments

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

U.S. government obligations, stock and convertible securities, international investments, and stock futures held directly by the University are classified as Level 1 since quoted prices in active markets are available. When these types of investments are held as part of commingled funds, they are classified as Level 2; although the commingled fund net asset value is available, these funds are not traded in active public markets. Investments in commingled funds can be redeemed at net asset value on at least a monthly basis. Corporate obligations and obligations of agencies of the U.S. government 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.

Valuations for limited partnerships, Limited Liability Companies (LLC), and inflation sensitive assets are based on valuations provided by external investment managers or on audited financial statements when available. The University generally uses valuations as reported by investment managers as a practical expedient to estimate fair value without further adjustment. If the manager's reporting date is for a date prior to June 30, the University adjusts the net asset value for any capital contributions or distributions during the period from the investment manager measurement date to June 30. The University has classified those investments that can be redeemed at net asset value at or near the date of the consolidated statement of financial position as Level 2. The remaining investments contain illiquid underlying assets, which are not publicly traded and for which pricing inputs are unobservable, which may include situations where there is little, if any, market activity for the asset, and require significant judgment or estimation and, therefore, have been classified as Level 3. While manager estimates of fair value are obtained, the University cannot redeem its investments at these estimates for Level 3 assets. The stated lives of the investments vary and they offer no liquidity until the underlying assets are sold.

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

(b) Annuity and Life Income Funds

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

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

(c) Funds Held in Trust by Others

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

(d) Debt and Related Interest Rate Swaps

The fair value of the University's debt is presented in note 11. The fair value of variable rate long-term debt approximates the carrying value because these financial instruments bear interest rates, which approximate current market rates for loans with similar maturities and credit quality. The fair value of the University's fixed rate long-term debt is based upon a discounted cash flow model.

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

(e) Contributions Receivable

The University values contributions receivable using the present value of future cash flows as described in note 4. Contributions receivable are not measured at fair value subsequent to this initial measurement because the discount rate selected is to remain constant over time rather than adjusted to reflect changing financial conditions.

(f) Student Loan Programs

An estimate of the fair value of loans receivable from students under government loan programs cannot be made because the notes are not marketable and can only be assigned to the U.S. government or its designees.

The following tables present the University's fair value hierarchy for financial instruments that are measured at fair value on a recurring basis as shown on the June 30, 2012 and 2011 consolidated statements of financial position (in thousands):

	June 30, 2012			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Investments:				
Money market and other liquid funds	$ 17,614	17,313	301	—
U.S. government obligations:				
Mortgage-backed securities	40,650	9,316	31,334	—
Treasury obligations	51,327	48,014	3,313	—
Other	5,298	2,757	2,541	—
	97,275	60,087	37,188	—
Corporate obligations	167,715	—	167,715	—
Stock and convertible securities	177,518	174,901	2,617	—
International investments	83,759	81,747	2,012	—
Limited partnerships and LLCs	666,617	—	173,726	492,891
Inflation sensitive asset fund	45,614	—	45,614	—
Stock futures fund	33,117	—	33,117	—
Real estate investment trust	25,568	—	25,568	—
Other	7,464	—	1,758	5,706
Funds held in trust by others	58,209	—	—	58,209
Total	$ 1,380,470	334,048	489,616	556,806
Financial liabilities:				
Annuity and life income funds payable	$ 4,785	—	—	4,785
Interest rate swaps	41,487	—	—	41,487
Total	$ 46,272	—	—	46,272

	June 30, 2011			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Investments:				
Money market and other liquid funds	$ 11,851	11,142	709	—
U.S. government obligations:				
Mortgage-backed securities	60,655	8,846	51,809	—
Treasury obligations	33,052	24,292	8,760	—
Other	5,085	2,765	2,320	—
	98,792	35,903	62,889	—
Corporate obligations	167,217	3,164	164,053	—
Stock and convertible securities	159,222	157,951	1,271	—
International investments	92,077	91,002	1,075	—
Limited partnerships and LLCs	694,461	—	233,572	460,889
Inflation sensitive asset fund	64,707	—	64,707	—
Stock futures fund	30,534	—	30,534	—
Real estate investment trust	37,625	—	37,625	—
Other	10,143	—	3,008	7,135
Funds held in trust by others	60,566	—	—	60,566
Total	$ 1,427,195	299,162	599,443	528,590
Financial liabilities:				
Annuity and life income funds payable	$ 4,721	—	—	4,721
Interest rate swaps	21,434	—	—	21,434
Total	$ 26,155	—	—	26,155

The following tables present a reconciliation of the consolidated statements of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011 (in thousands):

		Limited Partnerships and LLCs	Funds held in trust by others	Other	Total
Financial assets:					
Balance at June 30, 2011	$	460,889	60,566	7,135	528,590
Net realized and unrealized gains (losses)		18,904	(753)	—	18,151
Purchases		61,598	26,925	282	88,805
Sales		(48,500)	(28,529)	(1,711)	(78,740)
Total at June 30, 2012	$	492,891	58,209	5,706	556,806
Change in unrealized gains (losses) related to financial instruments still held at June 30, 2012	$	10,606	(3,642)	—	6,964

		Interest rate swaps	Annuity and life income funds payable	Total
Financial liabilities:				
Balance at June 30, 2011	$	21,434	4,721	26,155
Net realized and unrealized (gains) losses		20,053	(31)	20,022
Purchases		—	698	698
Sales		—	(603)	(603)
Total at June 30, 2012	$	41,487	4,785	46,272
Change in unrealized (gains) losses related to financial instruments still held at June 30, 2012	$	20,053	(31)	20,022

		Limited Partnerships and LLCs	Funds held in trust by others	Other	Total
Financial assets:					
Balance at June 30, 2010	$	367,016	51,141	7,959	426,116
Net realized and unrealized gains (losses)		65,843	7,266	—	73,109
Purchases		44,556	29,768	339	74,663
Sales		(43,226)	(27,609)	(1,163)	(71,998)
Transfers into level 3		26,700	—	—	26,700
Total at June 30, 2011	$	460,889	60,566	7,135	528,590
Change in unrealized gains related to financial instruments still held at June 30, 2011	$	19,403	3,617	—	23,020

		Interest rate swaps	Annuity and life income funds payable	Total
Financial liabilities:				
Balance at June 30, 2010	$	26,118	4,959	31,077
Net realized and unrealized (gains) losses		(4,684)	(26)	(4,710)
Purchases		—	1,232	1,232
Sales		—	(1,444)	(1,444)
Total at June 30, 2011	$	21,434	4,721	26,155
Change in unrealized gains related to financial instruments still held at June 30, 2011	$	(4,684)	(26)	(4,710)

Transfers between leveled assets are based upon beginning of year value of the asset. As of June 30, 2012 and 2011 there were no transfers between Level 1 and Level 2. Transfers between Level 2 and Level 3 as of June 30, 2011 were due to a change in the redemption frequency of the long-short hedge fund from quarterly, including redeemable as of the date of the consolidated financial position, to annually at December 31.

(4) Contributions Receivable and Conditional Promises

Contributions receivable at June 30, 2012 and 2011 are summarized as follows:

		2012	2011
		(In thousands)	
Unconditional promises expected to be collected in:			
Less than one year	$	13,869	10,061
One year to five years		18,404	11,980
	$	32,273	22,041

The unamortized discount for contributions to be received after one year amounted to $1,163,000 and $537,000 in 2012 and 2011, respectively. Contributions to be received after one year are discounted at discount rates ranging from 1.5% to 5.0% and 2.3% to 5.1% for the years ended June 30, 2012 and 2011, respectively.

(5) Student Loan Programs

The student loan programs consist primarily of the Perkins Loan and Nursing Student Loan Programs. The U.S. government provides 75% of the funds for the Perkins loans and 90% for Nursing Student loans. The University provides 25% and 10% of the funds, respectively, to support these programs.

(6) Investments

Investments in stocks, bonds, and notes are recorded at fair value as described below and in note 3. Included in investments are endowment funds and other investments. The cost and market value at June 30, 2012 and 2011 were as follows:

		2012		2011	
		Cost	Fair value	Cost	Fair value
		(In thousands)			
Money market and other liquid funds	$	17,614	17,614	11,907	11,851
U.S. government obligations		93,740	97,275	96,689	98,792
Corporate obligations		164,897	167,715	167,047	167,217
Stock and convertible securities		156,686	177,518	134,863	159,222
International equity investments		97,430	83,759	85,992	92,077
Limited partnerships and LLCs		496,909	666,617	522,457	694,461
Inflation sensitive asset fund		44,413	45,614	55,803	64,707
Stock futures fund		33,892	33,117	33,177	30,534
Real estate investment trust		24,380	25,568	32,237	37,625
Other		7,464	7,464	10,157	10,143
Total	$	1,137,425	1,322,261	1,150,329	1,366,629

(Continued)

Included in the investments table above are $7,731,000 and $8,629,000 of annuity and life income funds, which are shown separately on the consolidated statement of financial position at June 30, 2012 and 2011, respectively. Additionally, the University has $58,209,000 and $60,566,000 of funds held in trust by others that are shown separately on the consolidated statement of financial position at June 30, 2012 and 2011, respectively, but which are not included in the above table of investments.

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.

The following table presents at June 30, 2012 the attributes of the University's investments in alternative assets that estimate fair value using the net asset value reported by the funds (in thousands):

	Fair value	Estimated remaining lives	Unfunded commitments	Redemption frequency	Redemption notice frequency
Inflation sensitive asset fund	$ 45,614	N/A	$ N/A	Monthly	15 days
Stock futures fund	33,117	N/A	N/A	Monthly	30 days
Real estate investment trust	25,568	N/A	N/A	Monthly Quarterly	15 days
Limited partnerships and LLCs:					
U.S. corporate debt funds	23,640	N/A	N/A	Monthly	45 days
U.S. equity funds	6,469	N/A	N/A	Monthly	30 days
International equity funds	143,617	N/A	N/A	Monthly	10 days
Multi-strategy fund of funds	187,278	N/A	N/A	Annually	100 days
Long-short hedge fund	28,672	N/A	N/A	Annually	90 days
Private equity	45,025	2 – 8 years	29,395	Not eligible	N/A
Venture capital	35,015	4 – 10 years	13,136	Not eligible	N/A
Hybrid fund of funds	53,181	2 – 8 years	6,180	Not eligible	N/A
Distressed securities	23,290	2 – 9 years	17,333	Not eligible	N/A
Real estate	49,159	1 – 12 years	18,626	Not eligible	N/A
Natural resources	37,560	5 – 11 years	13,513	Not eligible	N/A
Oil and gas	33,711	4 – 8 years	11,790	Not eligible	N/A
	666,617		109,973		
	$ 770,916		$ 109,973		

The following table presents at June 30, 2011 the attributes of the University's investments in alternative assets that estimate fair value using the net asset value reported by the funds (in thousands):

	Fair value	Estimated remaining lives	Unfunded commitments	Redemption frequency	Redemption notice frequency
Inflation sensitive asset fund	$ 64,707	N/A	$ N/A	Monthly	15 days
Stock futures fund	30,534	N/A	N/A	Monthly	30 days
Real estate investment trust	37,625	N/A	N/A	Monthly Quarterly	15 days
Limited partnerships and LLCs:					
U.S. corporate debt funds	44,971	N/A	N/A	Monthly	45 days
U.S. equity funds	29,759	N/A	N/A	Monthly	30 days
International equity funds	163,631	N/A	N/A	Monthly	10 days
Multi-strategy fund of funds	201,901	N/A	N/A	Annually	100 days
Long-short hedge fund	25,544	N/A	N/A	Annually	90 days
Private equity	36,744	2 – 8 years	29,159	Not eligible	N/A
Venture capital	27,218	4 – 10 years	18,810	Not eligible	N/A
Hybrid fund of funds	54,055	2 – 8 years	10,030	Not eligible	N/A
Distressed securities	12,594	2 – 9 years	21,909	Not eligible	N/A
Real estate	35,420	1 – 12 years	20,454	Not eligible	N/A
Natural resources	32,950	5 – 11 years	20,728	Not eligible	N/A
Oil and gas	29,674	4 – 8 years	18,660	Not eligible	N/A
	694,461		139,750		
	$ 827,327		$ 139,750		

(a) Inflation Sensitive Asset Fund

Inflation sensitive assets include liquid investments in assets that are viewed as positively correlated with inflation, including common stocks in energy and other extractive industries, commodities and inflation linked bonds. The investment is made through a commingled fund vehicle.

(b) Stock Futures Fund

The stock futures fund is a pooled fund that uses stock index futures and options in combination with short-term and other liquid debt instruments to approximate the total return of the Standard & Poor's 500 Index. The derivatives are not used to leverage the underlying cash position of this investment, but rather to meet the endowment asset allocation and spending policy targets. The futures contracts and options are stated at fair market value based on their quoted daily settlement prices.

(c) Real Estate Investment Trust

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

(d) U.S. Corporate Debt Funds, U.S. Equity Funds, International Equity Funds

These categories are investments that can be redeemed at net asset value at or near the date of the statement of financial position and therefore classified as level 2 assets in the fair value hierarchy tables in note 3.

(e) Multi-strategy Fund of Funds

This category includes investments in funds of funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds that make up these funds of 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. The investments in this category are classified as level 3 assets.

(f) Long-Short Hedge Fund

This category includes investments both long and short in U.S. and non-U.S. stocks and other marketable assets. The investment is made through a commingled fund vehicle. The fund is redeemable annually at December 31, and therefore classified as a level 3 asset.

All of the following University partnerships and LLCs receive distributions through the liquidation of the underlying assets of the fund. These investments can never be redeemed with the funds. 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. The timing and amounts of the contributions will be determined by the general partner of the respective limited partnership.

(a) 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 and are classified as level 3 assets in the fair value hierarchy tables in note 3.

(b) Real Estate

This category includes illiquid investments in residential and commercial real estate assets, projects, or land held in commingled limited partnership funds. The investments in this category are classified as level 3 assets.

(c) 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 and are classified as level 3 assets in the fair value hierarchy tables in note 3.

Dividends and interest from investments during the periods were as follows:

		2012	2011
		(In thousands)	
Operating (a)	$	3,030	3,347
Endowment (b)		15,832	18,979
	$	18,862	22,326

(a) Includes interest from Auxiliary operations of $137,000 and $124,000 in 2012 and 2011, respectively.

(b) Includes earnings of funds held in trust by others distributed to the University of $2,668,000 and $2,295,000 in 2012 and 2011, respectively.

(7) Endowment Funds

The University endowment consists of approximately 895 individual funds established for a variety of purposes. The endowment funds are subdivided into appropriate net asset classifications. The permanently restricted endowment funds, primarily consisting of funds whose return is unrestricted, represent gifts received under circumstances indicating a stipulation of the donor that principal is not to be expended. Temporarily restricted and unrestricted endowment funds represent funds where there is no requirement to maintain the principal.

(a) Interpretation of Relevant Law

Based upon its interpretation of the provisions of Delaware's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the University classifies the portion of donor-restricted endowment funds that is not classified as permanently restricted net assets as temporarily restricted net assets, unless it has previously been appropriated for use by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. At the time of appropriation by the University, and providing there are no additional purpose restrictions in place, the temporarily restricted net assets will be reclassified to unrestricted net assets. As of June 30, 2012 and 2011, the amount of temporarily restricted endowment funds having no purpose restriction was $342,664,000 and $367,843,000, respectively. The University classifies as permanently restricted net assets the historical cost value of the original donor-restricted endowment.

(b) Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets 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 assets 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 assets 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) Strategies Employed for Achieving Objectives

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 and How the Investment Objectives Relate to Spending Policy

In accordance with Delaware's enacted version of UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the organization 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 organization; and (7) the investment policies of the organization.

The University endowment spending policy guidelines target an annual distribution in the range of 4.5% to 5.5% 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 4.2% and 4.0% at June 30, 2012 and 2011, 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 assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. Deficiencies of this nature were approximately $563,000 and $16,000 as of June 30, 2012 and June 30, 2011, respectively. Such deficiencies are recorded in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(f) Net Asset Classification of Endowment Funds

Net asset composition by type of fund consists of the following as of June 30, 2012 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (563)	473,394	270,809	743,640
Board-designated endowment funds	278,473	7,548	—	286,021
	$ 277,910	480,942	270,809	1,029,661

Net asset composition by type of fund consists of the following as of June 30, 2011 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (16)	518,271	256,369	774,624
Board-designated endowment funds	295,205	7,808	—	303,013
	$ 295,189	526,079	256,369	1,077,637

Board-designated temporarily restricted funds represent the income on nonendowed purpose restricted gifts to the University that the Board of Trustees has designated as endowment, but which cannot reasonably be expended within a year.

Changes in endowment net assets for the year ended June 30, 2012 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	295,189	526,079	256,369	1,077,637
Investment return:					
Investment income		7,715	7,484	633	15,832
Net (depreciation) appreciation – realized and unrealized		(15,068)	(19,685)	1,107	(33,646)
Total investment return		287,836	513,878	258,109	1,059,823
Contributions		—	171	12,700	12,871
Endowment spending payout		(11,496)	(33,107)	—	(44,603)
Other changes		1,570	—	—	1,570
	$	277,910	480,942	270,809	1,029,661

Changes in endowment net assets for the year ended June 30, 2011 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	253,631	423,813	250,086	927,530
Investment return:					
Investment income		10,833	7,060	1,086	18,979
Net appreciation – realized and unrealized		43,857	127,515	407	171,779
Total investment return		308,321	558,388	251,579	1,118,288
Contributions		—	116	4,790	4,906
Endowment spending payout		(11,477)	(32,425)	—	(43,902)
Other changes		(1,655)	—	—	(1,655)
	$	295,189	526,079	256,369	1,077,637

(Continued)

(8) Annuity and Life-Income Funds

The University held $7,731,000 and $8,629,000 in investments related to annuity and life-income funds as of June 30, 2012 and 2011, respectively. A related liability of $4,785,000 and $4,721,000 as of June 30, 2012 and 2011, respectively, represents the present value of future annuity payments due under these agreements, and was calculated for each annuity using discount rates and actuarial assumptions consistent with the terms of the gift.

The University's annuity and life income funds include charitable gift annuities, charitable remainder annuity trusts, and charitable remainder unitrusts.

The University is required by the laws of certain states to maintain reserves against charitable gift annuities. Such reserves amounted to $151,000 and $38,000 as of June 30, 2012 and 2011, respectively.

(9) Property, Plant, and Equipment

Land is recorded at cost or appraised value at time of receipt if contributed, including land deeded by the Board of Trustees of Delaware College to the State in the early 1900s and thereafter used by the University, as successor, for the purposes of the University.

Buildings are recorded at cost of initial construction, including buildings on land deeded to the State and thereafter used for the purposes of the University. Costs of major renovations to buildings are capitalized. Costs of equipment in excess of $5,000 with a useful life expectancy of two or more years are also capitalized.

The University uses the straight-line method of depreciation for its plant assets based on the following estimated useful lives:

	Estimated lives (years)
Land improvements	15
Buildings	40
Equipment and furnishings	2 – 20

Property, plant, and equipment as of June 30, 2012 and 2011 consisted of the following:

		2012	2011
		(In thousands)	
Land and improvements	$	101,346	99,860
Buildings		1,223,193	1,162,413
Equipment and furnishings		423,016	404,136
Collections and works of art		8,872	8,872
Capital leasehold		15,235	15,003
Construction in progress		203,740	107,297
Total property, plant, and equipment		1,975,402	1,797,581
Less accumulated depreciation		(779,572)	(729,723)
Total property, plant, and equipment, net	$	1,195,830	1,067,858

The University has five major building and renovation projects as of June 30, 2012 budgeted to cost $270,900,000. At year-end, $111,062,000 has been disbursed with $159,838,000 committed to complete these projects.

(10) Obligations Under Capital Leases

The University has obligations under capital leases that amounted to $6,557,000 and $7,099,000 as of June 30, 2012 and 2011, respectively. The University's obligation at June 30, 2012 includes a building lease with Delaware Technology Park for the Delaware Biotechnology Institute, a unit of the University. The lease consists of annual lease payments ranging from $345,000 to $900,000 to be paid over a 20-year term.

The aggregate amount of principal and interest payments on the University's obligation under capital leases is due as follows:

		Principal	Interest	Total
			(In thousands)	
2013	$	572	320	892
2014		607	287	894
2015		642	254	896
2016		682	214	896
2017		717	177	894
Thereafter		3,337	292	3,629
	$	6,557	1,544	8,101

(11) Notes and Bonds Payable

Indebtedness at June 30, 2012 and 2011 consisted of the following:

		2012	2011
	$	(In thousands)	
Series 2004B Revenue Bonds (a)		39,720	40,835
Series 2005 Revenue Bonds (b)		43,750	45,315
Series 2009A Revenue Bonds (c)		68,600	68,600
Series 2009B Revenue Bonds (d)		55,085	60,625
Series 2010A Revenue Bonds(e)		119,580	119,580
Series 2010B Revenue Bonds (f)		11,080	12,080
Blue Hen Hotel LLC Bonds (g)		9,055	9,390
University Early Learning Center Line of Credit (h)		3,251	3,470
		350,121	359,895
Premiums on notes and bonds payable		3,872	4,053
Notes and bonds payable	$	353,993	363,948

(a) Series 2004B Revenue Bonds

In April 2004, the University issued $40,835,000 of Series 2004B Variable Rate Demand Revenue Bonds. The Series 2004B Bonds were used to construct a parking garage, to demolish existing University dormitories, to construct three new dormitory buildings, and for other capital improvements.

The Series 2004B Bonds initially bear interest at a Daily Rate (0.20% at June 30, 2012) and will continue to bear interest at a Daily Rate until converted to bear interest at a Weekly, Flexible, Term, or Fixed Rate to maturity. The interest rate to be in effect for a particular period of time will be reset by the Remarketing Agent and will never exceed 12% per annum. A 3.25% interest cost through fiscal year 2035 is anticipated based on an existing interest rate exchange agreement, with additional costs of remarketing and a Standby Bond Purchase Agreement (SBPA) with a scheduled termination date of April 5, 2015. The Bonds are secured by a pledge of gross revenues received by the University from the operations of all project facilities including housing, dining, parking, and other revenue producing facilities. The Series 2004B Bonds mature on November 1, 2034, but are subject to optional redemption and tender for purchase prior to maturity.

(b) Series 2005 Revenue Bonds

In July 2005, the University issued $49,945,000 of Series 2005 Variable Rate Demand Revenue Bonds. $37,880,000 of the Series 2005 Bonds were used to complete the construction of three new dormitory buildings, the demolition of some existing University dormitories, and other capital improvements started with proceeds of the Series 2004B Revenue Bonds. In addition, $12,065,000 was used to advance refund a portion of the Series 1997 Bonds.

The Series 2005 Bonds initially bear interest at a Daily Rate (0.16% at June 30, 2012) and will continue to bear interest at a Daily Rate until converted to bear interest at a Weekly, Flexible, Term, or Fixed Rate to maturity. The interest rate to be in effect for a particular period of time will be reset by the Remarketing Agent and will never exceed 12% per annum. A 3.87% interest cost through fiscal year 2036 is anticipated on the $37,880,000 project funds and 3.75% interest cost through fiscal year 2022 on the $12,065,000, both based on existing interest rate exchange agreements, with additional costs of remarketing and a SBPA with scheduled termination date of May 31, 2016 at which time it may be terminated, extended or replaced. The Bonds are secured by a pledge of gross revenues received by the University from the operations of all project facilities including housing, dining, parking, and other revenue producing facilities. The Series 2005 Bonds mature on November 1, 2035, but are subject to optional redemption and tender for purchase prior to maturity.

(c) Series 2009A Revenue Bonds

In March 2009, the University issued $71,310,000 of Series 2009A Variable Rate Revenue Bonds in term mode with a termination date of May 31, 2011. On June 1, 2011, replacement term mode bonds were issued for $68,600,000 with a mandatory remarketing date of June 4, 2013, at which time, the bonds will be converted to any mode consistent with and as permitted by the Supplemental Agreement to the Trust Agreement for the 2009A bonds. These bonds were issued for the purpose of refinancing a taxable bank demand note, which was entered into on July 10, 2008, the proceeds of which the University used to redeem its Auction Rate Revenue Bonds Series 2007.

The Series 2009A Bonds issued June 1, 2011 initially bear interest at a Term Rate of 0.85% and will continue to bear interest at a Term Rate until converted to bear interest at a Daily, Weekly, Flexible, or Fixed Rate to maturity. The interest rate to be in effect for a particular Interest Period when the Term Rate is in effect, will be set by the Remarketing Agent as the minimum per annum rate of interest that is necessary to market the Series 2009A Bonds at a price equal to 100% of their principal amount plus accrued interest. The initial interest period extends until June 4, 2013 with interest payments on each June 1 and December 1.

(d) Series 2009B Revenue Bonds

In December 2009, the University issued $64,000,000 of Series 2009B Revenue Bonds in fixed rate mode with the sole purpose of refunding the Series 1998, 2001A, and 2001B Variable Rate Demand Bonds and terminating related interest rate exchange agreements as discussed above.

The Series 2009B Bonds will bear interest rates ranging from 2% to 4%, maturing over various dates through November 2026, and are secured by a pledge of gross revenues received by the University from the operations of all project facilities including housing, dining, parking, and other revenue producing facilities.

(e) Series 2010A Revenue Bonds

In November 2010, the University issued $119,580,000 of Series 2010A Revenue Bonds in fixed rate mode with the purposes of providing funds for certain project facilities. The American Recovery and Reinvestment Act of 2009 (ARRA) permitted the University to issue the 2010A Bonds as “Build America Bonds” to finance capital expenditures for the purposes for which it could have issued tax-exempt bonds and to elect to receive payments from U.S. Treasury equal to 35% of the corresponding interest payable on 2010A Bonds (the Subsidy Payments). For the year ended June 30, 2012, the University received Subsidy Payments of $2,455,000, which are included in other operating revenue on the consolidated statement of activities. Interest income on these bonds is taxable to the bond holder. The Series 2010A 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 Series 2010A Bonds will bear the fixed interest rate of 5.866% (3.8129% after Subsidy Payments are received) and are secured by a pledge of gross revenues received by the University from the operations of all project facilities including housing and other revenue producing facilities.

(f) Series 2010B Revenue Bonds

In November 2010, the University issued $12,080,000 of Series 2010B Revenue Bonds in fixed rate mode with the purpose of providing funds for certain project facilities.

The Series 2010B Bonds will bear interest rates ranging from 0.65% to 3.796%, maturing on November 1 from 2012 to 2019. Interest income on these bonds is taxable to the bond holder. The Bonds are subject to optional redemption and tender for purchase prior to maturity.

(g) Blue Hen Hotel LLC Bonds

In September 2001, the Blue Hen Hotel, LLC, a Company wholly owned (note 2) by the University and consolidated into the University’s financial statements, issued $11,500,000 of Blue Hen Hotel, LLC Variable Rate Demand Bonds, Series 2001 (Series 2001 Bonds), which were also guaranteed by the University. The Series 2001 Bonds funded the design, construction, and start-up operating costs of the hotel.

The Series 2001 Bonds will initially bear interest at a Weekly Rate (0.27% at June 30, 2012) and will continue to bear interest at a Weekly Rate until converted to bear interest at a Daily, Flexible, Term, or Fixed Rate to maturity. The interest rate to be in effect for a particular period of time will be reset by the Remarketing Agent and will never exceed 18% per annum. A 5.50% interest cost through September 1, 2027 is anticipated based on an existing interest rate exchange agreement, with additional costs of remarketing and a SBPA with a scheduled termination date of December 12, 2012. The swap agreement counterparty has the right to terminate the agreement under certain market conditions in which the daily weighted average of the one-month LIBOR equals or exceeds 9.00% for the previous six-month period. If such right is exercised, the bond interest would revert to the market rate for weekly traded variable rate demand bonds.

The Series 2001 Bonds mature on September 1, 2027, but are subject to optional redemption and tender for purchase prior to maturity.

To date, the Blue Hen Hotel, LLC has called $2,445,000 of its outstanding bonds.

(h) Early Learning Center Line of Credit

In December 2008, the University obtained a five-year extension to the $5,000,000 line of credit that was originally opened in December 2003 to renovate the University Early Learning Center facility. The interest rate is a variable rate of 65% of the Bank's National Commercial Rate (calculated to be 2.60% at June 30, 2012) and there is an outstanding balance of $3,251,000 at June 30, 2012.

The University has entered into SBPAs for the variable rate demand bonds of the Series 2004B and 2005 Bonds with Bank of America and TD Bank respectively 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. Remarketing efforts on the open market would continue during the 90-day period. Should efforts to remarket any or all of the bonds be unsuccessful throughout the 90-day period, the University would be required to use available cash resources to redeem the bonds from the SBPA provider.

The University's debt agreements require that the University meet certain financial, and other, covenants. The University was in compliance with these covenants at June 30, 2012 and 2011.

The carrying amount of variable rate long-term debt approximates fair value because these financial instruments bear interest at rates, which approximate current market rates for loans with similar maturities and credit quality. The fair value of fixed and variable rate Revenue Bonds (par amount of $337,815,000) approximates $380,044,000. Such amount has been estimated by discounting the future cash outflows associated with such debt by current market rates for loans with similar maturities and credit quality.

Certain long-term debt obligations expose the University to cash flow risk related to changes in interest rates. Management believes it is prudent and cost effective to hedge some of its exposure to interest rate risk. To achieve this objective, management has interest rate swap agreements for approximately $167,525,000 (including $9,055,000 related to the Blue Hen Hotel, LLC, note 2) of long-term debt obligations as of June 30, 2012. In accordance with FASB standards, not-for-profit organizations recognize the gain or loss on a hedging instrument as a change in net assets in the period of change. Accordingly, for the year ended June 30, 2012, the University has recognized an unrealized loss of $20,053,000 (including a loss of $1,084,000 related to the Blue Hen Hotel, LLC) in the consolidated statement of activities for the decrease in fair value of its interest rate swaps and a corresponding increase in the fair value of its interest rate swap liability in the consolidated statement of financial position.

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The aggregate amount of principal payments on the University's note and bonds payable are due as follows (in thousands):

2013	$	6,380
2014		6,594
2015		6,914
2016		5,171
2017		5,194
Thereafter		323,740
	$	353,993

(12) Derivative Instruments

The University employs derivatives in the form of interest rate swap agreements to manage market risk associated with outstanding debt (in thousands).

	Statement of financial position location	Location of gain (loss)	Fair value 2012	Fair value 2011	Amount of gain (loss) 2012	Amount of gain (loss) 2011
Interest rate swap agreements	Interest rate swap liabilities	Net realized and unrealized gains $	41,487	21,434	(20,053)	4,684

A portion of the total interest rate swap liabilities reported on the consolidated statement of financial position, $38,642,000 at June 30, 2012, 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. The University's current rating of AA+ by Standard & Poor's would have to drop five levels or more to a rating of A – or below, at which time the University might be required to post collateral. To date, the University has not posted collateral for any rate swap agreements.

(13) Employee Benefit Plans

The University's 403(b) Retirement Annuity Program is available to substantially all faculty and professional employees. This plan is administered through Fidelity Investments (Fidelity) and Teachers Insurance and Annuity Association (TIAA) – College Retirement Equities Fund (CREF). The University's contribution for this program is fixed at 11 percent of annual base salary for eligible employees who contribute a minimum of four percent of their annual salary. The policy of the University is to pay its share of the annual premium accrued in connection with the University Retirement Annuity Program. As a result, there are no unfunded benefits. Pension plan expense for the University's 403(b) Retirement Annuity Program was $26,330,000 in 2012 and $25,263,000 in 2011.

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/financials.shtml). Under the state pension statute, a mandatory pre-tax contribution of three percent of salary in excess of $6,000 per year plus five percent of salary in excess of the social security wage base is required. The policy of the University is to pay its share of the annual premium accrued in connection with the State Plan. As a result, there are no unfunded benefits. Pension plan expense for the State Plan was $10,520,000 and $9,756,000 in 2012 and 2011, respectively.

The State Plan financial statements and actuarial reports for June 30, 2011 (most recent available) do not include separate reportable information for each participant organization in the plan. However, the following information was derived from the data available:

- The University has 1,349 active participants in the State Plan. The State Plan, in total, has 60,919 participants, 35,572 of which are active participants.
- The University's contribution to the State Plan in fiscal year June 30, 2011 of $9,756,000 was approximately 7.6% of the $128,020,000 total annual required plan employer contributions to the plan.
- At June 30, 2011, the State Plan had a 94% funded ratio of the actuarial accrued liability, and the accrued benefit funding ratio was 108.4% at this same point in time.
- 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.

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

The Voluntary 403(b) Retirement Plan, administered through Fidelity and TIAA-CREF, is available to all eligible full 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, administered through Fidelity TIAA-CREF, is available to all eligible full 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.

In addition to retirement benefits, the University also provides postretirement benefits primarily for medical insurance to retired employees who are not eligible under the State Plan. The University recognizes the funded status (i.e., the difference between the fair value of plan assets and the accumulated postretirement benefit obligation) of its postretirement benefit plan in the consolidated statement of

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financial position. Also, the University measures the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated statement of financial position. As of June 30, 2012, the University has not funded these benefits.

Net periodic postretirement benefit cost for 2012 and 2011 includes the following components:

		2012	**2011**
		(In thousands)	
Service cost	$	7,513	7,204
Interest cost		12,573	11,030
Amortization of unrecognized loss		—	—
Net periodic postretirement benefit cost	$	20,086	18,234

The accumulated postretirement benefit obligation recognized in the consolidated statement of financial position at June 30, 2012 and 2011 is as follows:

		2012	**2011**
		(In thousands)	
Accrued postretirement liability	$	210,759	196,036
Unrecognized net loss		72,931	13,455
Accumulated postretirement benefit obligation	$	283,690	209,491

Changes in the accumulated postretirement plan benefit obligation and funding status for 2012 and 2011 are as follows:

		2012	**2011**
		(In thousands)	
Benefit obligation at beginning of year	$	209,491	227,509
Service cost		7,513	7,204
Interest cost		12,573	11,030
Actuarial (gain) or loss		59,466	(31,580)
Disbursements		(5,353)	(4,672)
Benefit obligation at end of year		283,690	209,491
Fair value of plan assets at beginning of year		—	—
Employer contributions		5,353	4,672
Benefits paid		(5,353)	(4,672)
Fair value of plan assets at end of year		—	—
Funded Status at end of year	$	283,690	209,491

(Continued)

The University expects to contribute $6,385,000 to the plan for the year ended June 30, 2013.

The accumulated postretirement benefit obligation was determined using a discount rate of 4.90% and 5.90% in 2012 and 2011, respectively. The health care cost trend rates used reflect the differences between pre-65 and post-65 claims were 8.00% and 6.50%, respectively, in 2012, and 8.00% and 7.00%, respectively, in 2011. This rate gradually decreases to 5.00% by the year 2021 and 2015 for pre-65 and post-65 claims, respectively.

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

		Increase	Decrease
Effect on service cost and interest cost components of net periodic postretirement benefit cost	$	4,548	(3,510)
Effect on benefit obligation as of June 30, 2012		57,565	(44,719)

At June 30, 2012, the University's expected future benefit payments for future service are as follows (in thousands):

Year ended June 30:		
2013	$	6,385
2014		7,133
2015		7,966
2016		8,711
2017		9,564
2018 through 2022		61,842

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

(14) 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 $20,889,000 and $20,185,000 as of June 30, 2012 and 2011, respectively. The following table reconciles the obligation as of June 30, 2012 and 2011 (in thousands):

		2012	2011
Balance at beginning of year	$	20,185	18,136
Additional obligations incurred		1,365	40
Obligations settled in current period		(1,316)	9
Changes in estimates, including timing		131	(249)
Accretion expense		524	2,249
Balance at end of year	$	20,889	20,185

(15) Net Assets

Temporarily restricted net assets include the following at June 30, 2012 and 2011 (in thousands):

		2012	2011
Contributions receivable	$	32,273	22,041
Annuity and life income funds		832	1,548
Accumulated gains on permanent endowment funds		480,942	526,079
Other time and purpose restrictions		19,624	16,626
	$	533,671	566,294

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

Permanently restricted net assets include the following at June 30, 2012 and 2011 (in thousands):

		2012	2011
Permanent loan funds	$	311	300
Annuity and life income funds		2,115	2,360
Funds held in trust by others		58,209	60,566
Permanent endowment funds		270,809	256,369
	$	331,444	319,595

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(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 sales of auxiliary enterprises.

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

The table below identifies this financial assistance by source and by student classification for the year ended June 30, 2012.

		Undergraduate	Graduate	Total
			(In thousands)	
Unrestricted	$	36,437	52,386	88,823
Federal grants		642	842	1,484
State grants		10,353	143	10,496
Private gifts		2,155	505	2,660
Endowment		3,832	4	3,836
Total	$	53,419	53,880	107,299

An additional $5,884,000 of University-provided financial assistance was utilized by students for books, supplies, and off-campus living expenses.

(17) Fundraising Costs

Fundraising costs were approximately $10,844,000 and $10,506,340 for the years ended June 30, 2012 and 2011, respectively.

(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 financial position, statement of activities, or cash flows.

(19) Subsequent Events

In connection with the preparation of the consolidated financial statements, the University evaluated subsequent events after the statement of financial position date of June 30, 2012 through November 7, 2012, which was the date the consolidated financial statements were issued.

Subsequent to year end, the University entered into a series of leasing transactions related to the redevelopment of approximately 15 acres of land on the University's 272 acre STAR campus. The property which comprises the STAR campus was acquired by the University in November 2009 for the purpose of expanding the University's overall campus and to provide a site for, among other things, high technology, medical, and educational partnerships between the University, federal and state government, and leaders in various technology, medical, and educational fields.

On August 17, 2012, 1743 Holdings, LLC entered into a ground lease with a third-party for approximately six of the acres, and the structures thereon, for the purpose of renovating and expanding the existing structures and then leasing the space in the renovated unit to the University for use primarily by the College of Health Sciences. The ground lease has an initial term of 75 years, with a nominal rent while the University is occupying the unit. Rent reverts to a market-based rent at the time the University ceases to lease the unit. The space lease was entered into simultaneously with the ground lease and has an initial term of 29 ½ years, with the option of twelve additional 5-year extensions.

These transactions are structured to create the same economic effect as if the University built and owned the building, and as such, the University will reflect the costs associated with the renovation of the unit as an asset in the consolidated statement of financial position and will also record a corresponding financing obligation. All costs are flowed through to the University as if it were the owner of the unit through rent. At the end of the initial term of the space lease, however, the rent will cease to be tied to the financing of the unit, and will revert to a percentage of market rent. The renovations are expected to cost approximately $30,500,000, and be completed by January 2014.

On August 29, 2012, 1743 Holdings, LLC entered into an additional ground lease with a third-party for the additional nine acres, and the structures thereon, for the purpose of renovating and expanding the existing structures, and leasing the units to entities external to the University, and, to the extent possible, entities that are related to health sciences. This ground lease has an initial term of 75 years, and rent is based upon formulas contained within the lease and approximate market rent. The University has no obligation, nor does it intend, to lease any space within these units.