KPMG

UNIVERSITY OF DELAWARE

Consolidated Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

UNIVERSITY OF DELAWARE

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
University of Delaware:

We have audited the accompanying consolidated financial statements of the University of Delaware and subsidiaries (the University), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, expenses by natural classification, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of Delaware and its subsidiaries as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the University's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
October 15, 2014

UNIVERSITY OF DELAWARE

Consolidated Statement of Financial Position

June 30, 2014
(with summarized financial information as of June 30, 2013)

(In thousands)

Assets		**2014**	**2013**
Cash and cash equivalents	$	22,879	41,717
Accounts and notes receivable		27,629	38,637
Prepaid expenses and inventories		5,062	4,624
Restricted deposits		92,352	146,452
Contributions receivable		39,171	34,771
Student loan receivables		13,623	13,286
Endowment funds and other investments		1,695,137	1,460,586
Annuity and life income funds		9,206	8,377
Funds held in trust by others		67,867	60,653
Property, plant, and equipment, net of depreciation		1,393,097	1,321,631
Total assets	$	3,366,023	3,130,734
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	84,682	88,820
Deferred revenues and student deposits		5,392	8,943
Financing obligations		35,610	17,985
Notes and bonds payable		477,821	489,049
Interest rate swap liabilities		24,359	24,478
Annuity and life income funds payable		4,625	4,986
Compensated absences payable		14,337	13,904
Postretirement benefit obligation		277,120	264,738
Advances from federal government for student loans		15,238	15,094
Asset retirement obligation		20,541	22,112
Total liabilities		959,725	950,109
Unrestricted		1,356,991	1,248,794
Unrestricted – noncontrolling interest in First State Marine Wind, LLC		1,241	1,341
Temporarily restricted		679,073	587,306
Permanently restricted		368,993	343,184
Total net assets		2,406,298	2,180,625
Total liabilities and net assets	$	3,366,023	3,130,734

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Activities

Year ended June 30, 2014
(with summarized financial information for the year ended June 30, 2013)

(In thousands)

	2014				2013
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenue:					
Tuition and fees (less scholarships and fellowships of $131,010 during 2014, $117,508 during 2013)	$ 381,515	—	—	381,515	370,912
Contributions	24,971	3,902	—	28,873	23,483
Contracts and other exchange transactions	170,948	—	—	170,948	172,725
State operating appropriations	117,044	—	—	117,044	115,072
Endowment spending payout	48,187	—	—	48,187	46,557
Other investments payout (includes net realized gain of $4,357 during 2014, $4,141 during 2013)	6,307	50	—	6,357	6,110
Activities of educational departments	17,486	—	—	17,486	16,466
Sales and services of auxiliary enterprises (less scholarships and fellowships of $2,114 during 2014, $1,930 during 2013)	121,734	—	—	121,734	116,795
Other revenue	15,964	—	—	15,964	16,300
Total operating revenue	904,156	3,952	—	908,108	884,420
Operating expenses:					
Educational and general:					
Instruction and departmental research	372,045	—	—	372,045	359,645
Sponsored research	135,143	—	—	135,143	139,473
Extension and public service	49,907	—	—	49,907	47,905
Academic support	65,631	—	—	65,631	65,316
Student services	31,886	—	—	31,886	30,541
General institutional support	95,286	—	—	95,286	90,260
Student aid	6,044	—	—	6,044	6,521
Total educational and general expenses	755,942	—	—	755,942	739,661
Auxiliary enterprises	104,961	—	—	104,961	100,209
Independent operations	606	—	—	606	884
Total operating expenses	861,509	—	—	861,509	840,754
Change in net assets from operating activities	42,647	3,952	—	46,599	43,666
Nonoperating activities:					
Net realized and unrealized gains	57,769	115,501	9,328	182,598	139,489
Decrease in postretirement benefit obligation	1,873	—	—	1,873	38,387
Endowment income	1,899	8,306	636	10,841	11,613
Endowment spending payout	(48,187)	—	—	(48,187)	(46,557)
Contributions for endowment and life income funds	—	239	17,135	17,374	9,823
Contributions for buildings and program activities	4,400	2,353	—	6,753	17,001
State capital appropriations	7,244	—	—	7,244	14,380
Hotel operations – net	233	—	—	233	49
Wind turbine operations – net	(300)	—	—	(300)	(380)
Net change in asset retirement obligation liability	2,159	—	—	2,159	(425)
Other	28	195	(1,737)	(1,514)	1,689
Reclassifications of funds	(2,046)	1,599	447	—	—
Net assets released from restrictions	40,378	(40,378)	—	—	—
Change in net assets	108,097	91,767	25,809	225,673	228,735
Net assets at beginning of year	1,250,135	587,306	343,184	2,180,625	1,951,890
Net assets at end of year	$ 1,358,232	679,073	368,993	2,406,298	2,180,625

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Expenses by Natural Classification

Year ended June 30, 2014
(with summarized financial information for the year ended June 30, 2013)

(In thousands)

	2014										2013
	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	$ 201,117	61,244	24,095	27,936	14,766	41,034	3,127	8,333	—	381,652	383,320
Employee fringe benefits	57,187	14,739	7,392	11,123	4,545	16,747	—	2,875	—	114,608	110,711
Employee postretirement benefits	13,106	1,947	874	1,086	400	1,512	—	277	—	19,202	24,351
Supplies and general	40,869	37,588	11,265	7,073	7,048	22,601	929	66,208	240	193,821	189,515
Travel	16,451	3,126	1,230	1,082	1,048	848	69	109	2	23,965	21,976
Operation and maintenance of plant	26,895	8,183	2,976	6,002	1,409	13,106	—	—	142	58,713 (a)	51,809 (b)
Information processing	91	—	—	(1)	2,804	9,094	—	—	—	11,988	11,437
Interest expense	3,277	350	6	120	219	193	—	17,944	—	22,109	17,425
Scholarships, fellowships and awards	—	—	—	—	—	—	132,301	—	—	132,301	119,613
Depreciation and accretion	17,199	8,616	1,914	12,111	701	10,630	—	10,921	209	62,301	54,115
Loss on disposals	303	223	148	7	7	106	—	12	13	819	1,187
Amortization of bond discount (premium)	20	23	—	—	(63)	—	—	(455)	—	(475)	(293)
Internal service (credits) charges	(2,659)	(66)	42	(858)	(993)	(20,574)	—	(1,263)	—	(26,371)	(24,974)
Expense before scholarship allowance	373,856	135,973	49,942	65,681	31,891	95,297	136,426	104,961	606	994,633	960,192
Reconciliation to statement of activities:											
Scholarship allowance	(1,811)	(830)	(35)	(50)	(5)	(11)	(130,382)	—	—	(133,124)	(119,438)
Total operating expenses	$ 372,045	135,143	49,907	65,631	31,886	95,286	6,044	104,961	606	861,509	840,754

Notes:
(a) Includes salaries and wages of $26,401, fringe benefits of $14,648, employee postretirement benefits of $354, and depreciation expense for plant facilities of $2,013 during 2014.
(b) Includes salaries and wages of $24,746, fringe benefits of $13,502, employee postretirement benefits of $455, and depreciation expense for plant facilities of $1,043 during 2013.

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Cash Flows

Year ended June 30, 2014
(with summarized financial information for the year ended June 30, 2013)

(In thousands)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	225,673	228,735
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		64,961	55,720
Loss on disposals		819	1,187
Amortization of discounts and premiums on notes and bonds payable and capital lease obligations		(465)	(283)
Net realized and unrealized gains		(178,876)	(122,072)
Gifts of land, building, and equipment		(974)	(473)
State capital appropriations		(7,244)	(14,380)
Contributions for endowment		(17,374)	(9,823)
Contributions for buildings		(2,353)	(14,503)
Endowment income restricted for reinvestment		(636)	(718)
Changes in assets and liabilities:			
Accounts and notes receivable		11,008	6,631
Prepaid expenses and inventories		(438)	1,189
Contributions receivable		(4,400)	(2,498)
Accounts payable, accrued liabilities, and annuity and life income funds payable		7,037	11,278
Deferred revenues and students deposits		(3,551)	614
Interest rate swap liability		(119)	(15,038)
Asset retirement obligation		(1,598)	944
Compensated absences payable and postretirement benefit obligation		12,815	(18,513)
Net cash provided by operating activities		104,285	107,997
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		1,702,888	1,665,970
Purchases of investments		(1,766,606)	(1,693,039)
Acquisitions of property, plant, and equipment		(129,281)	(170,169)
Disbursements of loans to students		(2,530)	(1,594)
Repayments of loans		2,193	2,431
Net cash used in investing activities		(193,336)	(196,401)
Cash flows from financing activities:			
Repayments of principal of notes and bonds payable		(10,740)	(13,139)
Net proceeds from issuance of notes and bonds payable		—	148,501
Reduction in principal of capital leases		(898)	(595)
Termination of interest rate swap agreements		—	(1,971)
Increase in financing obligations		—	500
State capital appropriations		7,244	14,380
Endowment income restricted for reinvestment		636	718
Contributions for endowment		17,374	9,823
Contributions for buildings		2,353	14,503
Advances from federal government for student loans		144	99
Decrease (increase) in restricted deposits		54,100	(88,131)
Net cash provided by financing activities		70,213	84,688
Net decrease in cash and cash equivalents		(18,838)	(3,716)
Cash and cash equivalents, beginning of year		41,717	45,433
Cash and cash equivalents, end of year	$	22,879	41,717
Supplemental disclosure of cash flow information:			
Interest paid	$	22,159	17,425

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. Courses are also offered at other locations throughout the State, including Wilmington, Lewes, Dover, Milford, and Georgetown.

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

(b) Basis of Presentation

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, 2013, 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.

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.

(Continued)

(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.

(f) Restricted Deposits

Restricted deposits as of June 30, 2014 and 2013 consisted of the following (in thousands):

		2014	2013
Unexpended bond proceeds	$	69,952	125,467
Debt service reserve funds		18,689	16,861
Other deposits		3,711	4,124
	$	92,352	146,452

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

Debt service reserve funds are also held with the trustee. The University transfers funds to the trustee in accordance with bond covenant agreements to meet future bond payments. These funds remain on deposit until scheduled interest payments and scheduled or optional redemption principal payments are made, as disclosed in note 11. These funds are generally invested in cash equivalents.

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

(g) Endowment Funds and Other Investments

Investments are stated at estimated fair value, as described in note 3.

(h) 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.

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(i) Nonoperating Activities

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

(j) 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, 2014, 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.

(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) Impact of Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (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 were effective for annual reporting periods beginning on or after January 1, 2013. In January 2012, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210) Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (ASU 2013-01), which clarifies that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging. Entities* with other types of financial assets and financial liabilities subject to a master netting arrangement, or similar agreement, also were affected because the amendments made them no longer subject to the disclosure requirements in ASU 2011-11. The adoption of ASU 2011-11 and ASU 2013-01 did not have a material impact on the consolidated financial statements.

(Continued)

In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows (Topic 230) Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, (ASU 2012-05), which requires a Not-for-Profit (NFP) to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. ASU 2012-05 was effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption was permitted, as was early adoption from the beginning of the fiscal year of adoption. The adoption of this ASU did not have a material impact on its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-04, *Liabilities (Topic 405) Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* (ASU 2013-04). This ASU applies to all entities that have obligations resulting from joint and several liability arrangements for which the total amount of the obligation within this guidance is fixed at the reporting date and for which no specific guidance exists. It specifies that the obligation be measured at the reporting date as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement amount its co-obligors, plus any additional amount the reporting entity expects to pay on behalf of its co-obligors. The ASU also requires an entity to disclose the nature, amount and other specified information about the obligation. ASU 2013-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The University does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958), Services Received from Personnel of an Affiliate* (ASU 2013-06), which require a recipient NFP entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. The ASU is effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter, but allows a recipient NFP entity to apply the amendments using a modified retrospective approach under which all periods presented upon the date of adoption should be adjusted, but no adjustment should be made to the beginning balance of net assets of the earliest period presented. Early adoption is permitted. The University does not expect the adoption of ASU 2013-06 to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, a five step process is prescribed: identify the contract with a customer; identify the performance obligations in the contracts; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. For public entities, the ASU is effective for annual reporting periods beginning after December 15, 2016. Early application is not permitted. The University is currently evaluating the impact of this ASU on its consolidated financial statements.

(m) Reclassifications

Certain prior year financial information has been reclassified to conform to the current year 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. Blue Hen Wind, Inc.'s ownership interest has subsequently increased to approximately 69% at June 30, 2014.

The operations of Blue Hen Wind, Inc. are consolidated into the University's financial statements. Operations for the year ended June 30, 2014, resulted in revenues from third parties of $70,000 and expenses of $370,000 being recognized. Operations for the year ended June 30, 2013, resulted in revenues from third parties of $29,000 and expenses of $409,000 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 consolidated 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, 2014 resulted in operating expenses of $606,000, nonoperating expenses of $1,714,000 and nonoperating revenue – other of $1,125,000, which are presented in independent operations and nonoperating activities in the consolidated statement of activities. Operations for the year ended June 30, 2013 resulted in operating expenses of $884,000, nonoperating expenses of $496,000 and nonoperating revenue – other of $4,008,000, which are presented in independent operations and nonoperating activities in the consolidated statement of activities.

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, 2014 and 2013 resulted in total revenues of $5,674,000 and $5,480,000, respectively, and a net gain of $358,000 and $912,000, 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 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 net asset value 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 (within 90 days) 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 net asset value are obtained, the University cannot redeem in the near term its investments at these estimates for Level 3 assets. The stated lives of the investments vary and they may 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.

(g) *Other Financial Instruments*

The fair value of cash and cash equivalents, student and other accounts receivable, prepaid expenses, accounts payable and accrued liabilities approximate their respective carrying amounts because of the short-term maturity of these financial instruments.

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, 2014 and 2013 consolidated statements of financial position (in thousands):

	June 30, 2014			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Investments:				
Money market and other liquid funds	$ 46,606	46,263	343	—
U.S. government obligations:				
Mortgage-backed securities	50,213	5,411	44,802	—
Treasury obligations	30,159	26,674	3,485	—
Other	7,536	6,536	1,000	—
	87,908	38,621	49,287	—
Corporate obligations	231,113	—	231,113	—
Stock and convertible securities	362,858	135,479	227,379	—
International investments	3,342	55	3,287	—
Limited partnerships and LLCs	965,744	—	383,532	582,212
Real estate investment trust	1,242	—	1,242	—
Other	5,530	—	1,692	3,838
Funds held in trust by others	67,867	—	—	67,867
Total	$ 1,772,210	220,418	897,875	653,917
Financial liabilities:				
Annuity and life income funds payable	$ 4,625	—	—	4,625
Interest rate swaps	24,359	—	—	24,359
Total	$ 28,984	—	—	28,984

	June 30, 2013			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Investments:				
Money market and other liquid funds	$ 16,986	16,637	349	—
U.S. government obligations:				
Mortgage-backed securities	42,513	5,539	36,974	—
Treasury obligations	48,250	44,724	3,526	—
Other	14,373	7,149	7,224	—
	105,136	57,412	47,724	—
Corporate obligations	221,064	—	221,064	—
Stock and convertible securities	162,911	159,761	3,150	—
International investments	28,179	45	28,134	—
Limited partnerships and LLCs	840,149	—	324,815	515,334
Inflation sensitive asset fund	29,520	—	29,520	—
Stock futures fund	35,972	—	35,972	—
Real estate investment trust	22,807	—	22,807	—
Other	6,239	—	1,472	4,767
Funds held in trust by others	60,653	—	—	60,653
Total	$ 1,529,616	233,855	715,007	580,754
Financial liabilities:				
Annuity and life income funds payable	$ 4,986	—	—	4,986
Interest rate swaps	24,478	—	—	24,478
Total	$ 29,464	—	—	29,464

(Continued)

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, 2014 and 2013 (in thousands):

		Limited Partnerships and LLCs	Funds held in trust by others	Other	Total
Financial assets:					
Balance at June 30, 2013	$	515,334	60,653	4,767	580,754
Net realized and unrealized gains		55,877	10,197	—	66,074
Purchases		82,710	24,148	212	107,070
Sales		(71,709)	(27,131)	(1,141)	(99,981)
Total at June 30, 2014	$	582,212	67,867	3,838	653,917
Change in unrealized gains related to financial instruments still held at June 30, 2014	$	54,384	6,520	—	60,904

		Interest rate swaps	Annuity and life income funds payable	Total
Financial liabilities:				
Balance at June 30, 2013	$	24,478	4,986	29,464
Net realized and unrealized (gains)		(119)	(222)	(341)
Purchases		—	126	126
Sales		—	(265)	(265)
Total at June 30, 2014	$	24,359	4,625	28,984
Change in unrealized (gains) losses related to financial instruments still held at June 30, 2014	$	(119)	(222)	(341)

		Limited Partnerships and LLCs	Funds held in trust by others	Other	Total
Financial assets:					
Balance at June 30, 2012	$	492,891	58,209	5,706	556,806
Net realized and unrealized gains		42,597	6,363	—	48,960
Purchases		35,166	28,945	217	64,328
Sales		(55,320)	(32,864)	(1,156)	(89,340)
Total at June 30, 2013	$	515,334	60,653	4,767	580,754
Change in unrealized gains related to financial instruments still held at June 30, 2013	$	31,414	4,662	—	36,076

		Interest rate swaps	Annuity and life income funds payable	Total
Financial liabilities:				
Balance at June 30, 2012	$	41,487	4,785	46,272
Net realized and unrealized (gains) losses		(17,009)	147	(16,862)
Purchases		—	680	680
Sales		—	(626)	(626)
Total at June 30, 2013	$	24,478	4,986	29,464
Change in unrealized (gains) losses related to financial instruments still held at June 30, 2013	$	(15,038)	147	(14,891)

Transfers between leveled assets are based upon beginning of year value of the asset. As of June 30, 2014 and 2013 there were no transfers between Levels.

(4) Contributions Receivable and Conditional Promises

Contributions receivable at June 30, 2014 and 2013 are summarized as follows (in thousands):

		2014	2013
Unconditional promises expected to be collected in:			
Less than one year	$	10,950	10,015
One year to five years		28,221	24,756
	$	39,171	34,771

The unamortized discount for contributions to be received after one year amounted to $1,307,000 and $1,288,000 in 2014 and 2013, respectively. Contributions to be received after one year are discounted at discount rates ranging from 1.5% to 3.4% and 1.5% to 5.0% for the years ended June 30, 2014 and 2013, 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. The portion of the loan program funds that are returnable to the federal government in event of termination of the programs is reflected as advances from federal government for student loans on the consolidated statement of financial position.

(6) Investments

Investments 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, 2014 and 2013 were as follows (in thousands):

		2014		2013	
		Cost	Fair value	Cost	Fair value
Money market and other liquid funds	$	46,563	46,606	16,972	16,986
U.S. government obligations		86,547	87,908	104,767	105,136
Corporate obligations		225,806	231,113	219,194	221,064
Stock and convertible securities		319,859	362,858	126,032	162,911
International equity investments		2,945	3,342	34,908	28,179
Limited partnerships and LLCs		645,898	965,744	606,540	840,149
Inflation sensitive asset fund		—	—	30,823	29,520
Stock futures fund		—	—	30,614	35,972
Real estate investment trust		—	1,242	19,999	22,807
Other		5,425	5,530	6,239	6,239
Total	$	1,333,043	1,704,343	1,196,088	1,468,963

(Continued)

Included in the investments table above are $9,206,000 and $8,377,000 of annuity and life income funds, which are shown separately on the consolidated statement of financial position at June 30, 2014 and 2013, respectively. Additionally, the University has $67,867,000 and $60,653,000 of funds held in trust by others that are shown separately on the consolidated statement of financial position at June 30, 2014 and 2013, respectively, and 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, 2014, 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
Real estate investment trust	$ 1,242	N/A	$ N/A	Quarterly	15 days
Limited partnerships and LLCs:					
U.S. corporate debt funds	72,585	N/A	N/A	Monthly	45 days
International equity funds	310,947	N/A	N/A	Monthly	10 days
Multi-strategy fund of funds	193,676	N/A	N/A	Annually	100 days
Long-short hedge fund	79,918	N/A	N/A	Annually	90 days
Private equity	47,106	1 – 9 years	21,342	Not eligible	N/A
Venture capital	48,947	3 – 9 years	10,325	Not eligible	N/A
Hybrid fund of funds	46,939	1 – 8 years	12,441	Not eligible	N/A
Distressed securities	17,508	1 – 6 years	8,875	Not eligible	N/A
Real estate	61,314	1 – 10 years	20,862	Not eligible	N/A
Natural resources	38,551	3 – 16 years	11,640	Not eligible	N/A
Oil and gas	48,253	1 – 10 years	34,434	Not eligible	N/A
	965,744		119,919		
	$ 966,986		$ 119,919		

The following table presents at June 30, 2013, 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	$ 29,520	N/A	$ N/A	Monthly	15 days
Stock futures fund	35,972	N/A	N/A	Monthly	30 days
Real estate investment trust	22,807	N/A	N/A	Quarterly	15 days
Limited partnerships and LLCs:					
U.S. corporate debt funds	41,211	N/A	N/A	Monthly	45 days
U.S. equity funds	33,337	N/A	N/A	Monthly	30 days
International equity funds	250,267	N/A	N/A	Monthly	10 days
Multi-strategy fund of funds	197,213	N/A	N/A	Annually	100 days
Long-short hedge fund	29,922	N/A	N/A	Annually	90 days
Private equity	45,502	2 – 8 years	24,795	Not eligible	N/A
Venture capital	37,099	4 – 10 years	9,782	Not eligible	N/A
Hybrid fund of funds	49,283	2 – 8 years	23,445	Not eligible	N/A
Distressed securities	14,507	2 – 9 years	18,745	Not eligible	N/A
Real estate	64,502	1 – 12 years	21,568	Not eligible	N/A
Natural resources	37,454	5 – 11 years	18,445	Not eligible	N/A
Oil and gas	39,852	4 – 8 years	30,302	Not eligible	N/A
	840,149		147,082		
	$ 928,448		$ 147,082		

The above assets are classified as either level 2 or level 3 in the fair value hierarchy tables in note 3 based on their redemption provisions. Assets redeemable at net asset value at or near (within 90 days) the date of the statement of financial position are classified as level 2.

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 and are classified as level 2 assets. The investment is made through a commingled fund vehicle. The University exited this fund in 2014.

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 and are classified as level 2 assets. The University exited this fund in 2014.

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. The investments in this category are classified as level 2 assets.

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.

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.

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.

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.

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.

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.

(Continued)

Return on investments during the periods was as follows (in thousands):

		2014	2013
Interest and dividends	$	12,885	13,646
Net realized and unrealized gains		186,837	128,855
Return on investments	$	199,722	142,501

Return on investments is classified on the consolidated statement of activities as follows (in thousands):

		2014	2013
Other investments payout	$	6,357	6,110
Sales and services of auxiliary enterprises		45	64
Net realized and unrealized gains		182,479	124,714
Endowment income		10,841	11,613
Return on investments	$	199,722	142,501

(7) Endowment Funds

The University endowment consists of approximately 977 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, 2014 and 2013, the amount of temporarily restricted endowment funds having no purpose restriction was $424,789,000 and $370,457,000, 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 after inflation 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 University and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the University; and (7) the investment policies of the University.

The University endowment spending policy guidelines target an annual distribution in the range of 4.0% to 5.0% of the endowment pooled portfolio average market value over the 12 trailing quarters through December 31 of the year prior to the new fiscal year. The actual rate is set annually by the Board of Trustees, and was 4.29% and 4.50% at June 30, 2014 and 2013, 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.

(Continued)

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. There were no deficiencies of this nature for the year ending June 30, 2014 and approximately $9,000 as of June 30, 2013. 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, 2014 (in thousands):

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

Net asset composition by type of fund consists of the following as of June 30, 2013 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (9)	523,056	279,434	802,481
Board-designated endowment funds	299,617	8,415	—	308,032
	$ 299,608	531,471	279,434	1,110,513

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, 2014 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 299,608	531,471	279,434	1,110,513
Investment return:				
Investment income	1,899	8,306	636	10,841
Net appreciation (depreciation) – realized and unrealized	40,148	111,575	(4)	151,719
Total investment return	341,655	651,352	280,066	1,273,073
Contributions	—	86	17,135	17,221
Endowment spending payout	(12,385)	(35,802)	—	(48,187)
Other changes	159	—	—	159
	$ 329,429	615,636	297,201	1,242,266

Changes in endowment net assets for the year ended June 30, 2013 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 277,910	480,942	270,809	1,029,661
Investment return:				
Investment income	2,869	8,026	718	11,613
Net (depreciation) appreciation – realized and unrealized	33,076	74,556	(2,055)	105,577
Total investment return	313,855	563,524	269,472	1,146,851
Contributions	—	7	8,776	8,783
Endowment spending payout	(12,099)	(34,458)	—	(46,557)
Other changes	(2,148)	2,398	1,186	1,436
	$ 299,608	531,471	279,434	1,110,513

(Continued)

(8) Annuity and Life-Income Funds

The University held $9,206,000 and $8,377,000 in investments related to annuity and life-income funds as of June 30, 2014 and 2013, respectively. A related liability of $4,625,000 and $4,986,000 as of June 30, 2014 and 2013, 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 $2,302,000 and $2,282,000 as of June 30, 2014 and 2013, 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	29.5 – 40
Equipment and furnishings	2 – 20

Property, plant, and equipment as of June 30, 2014 and 2013 consisted of the following (in thousands):

		2014	2013
Land and improvements	$	118,789	101,499
Buildings		1,609,649	1,415,789
Equipment and furnishings		458,914	443,247
Collections and works of art		8,756	8,756
Capital leasehold		15,235	15,235
Construction in progress		63,992	164,359
Total property, plant, and equipment		2,275,335	2,148,885
Less accumulated depreciation		(882,238)	(827,254)
Total property, plant, and equipment, net	$	1,393,097	1,321,631

The University has two major building and renovation projects as of June 30, 2014 budgeted to cost $109,000,000. At year-end, $33,903,000 has been disbursed with $75,097,000 committed to complete these projects.

(10) Financing Obligations

The University has obligations under capital leases that amounted to $5,379,000 and $5,985,000 as of June 30, 2014 and 2013, respectively. The University's obligation at June 30, 2014 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 (in thousands):

		Principal	Interest	Total
2015	$	642	254	896
2016		682	214	896
2017		717	177	894
2018		762	154	916
2019		807	105	912
Thereafter		1,769	32	1,801
	$	5,379	936	6,315

In August 2012, 1743 Holdings, LLC entered into a ground lease with a third-party for approximately six acres of land, 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. Construction of the unit has been completed at a cost of $30,500,000.

These transactions were structured to create the same economic effect as if the University built and owned the building, and as such, at the time of occupancy, the University reflected the costs associated with the renovation of the unit as property, plant, and equipment in the consolidated statement of financial position, and also recorded a corresponding financing obligation.

The University commenced occupancy of the unit in January 2014. Base rental and additional rental payments for the year ended June 30, 2014, were $999,000 and $193,000, respectively. The estimated future minimum rental payments are as follows (in thousands):

2015	$	1,998
2016		1,998
2017		1,998
2018		1,998
2019		1,998
Thereafter		47,960
	$	57,950

(11) Notes and Bonds Payable

Indebtedness at June 30, 2014 and 2013 consisted of the following (in thousands):

		2014	2013
Series 2004B Revenue Bonds (a)	$	32,185	33,375
Series 2005 Revenue Bonds (b)		32,925	34,615
Series 2009B Revenue Bonds (c)		43,495	49,305
Series 2010A Revenue Bonds(d)		119,580	119,580
Series 2010B Revenue Bonds (e)		11,080	11,080
Series 2013A Revenue Bonds (f)		119,210	119,210
Series 2013B Revenue Bonds (g)		29,755	29,755
Series 2013C Revenue Bonds (h)		57,475	57,475
Blue Hen Hotel LLC Bonds (i)		8,325	8,700
University Early Learning Center Line of Credit (j)		1,352	3,027
		455,382	466,122
Premiums on notes and bonds payable		22,439	22,927
Notes and bonds payable	$	477,821	489,049

(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 (0.07% at June 30, 2014) 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 University plans to renew the agreement prior to its expiration. 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. On May 1, 2013, $5,195,000 from 2013A Bonds was used to refund a portion of the Series 2004B Bonds.

(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 (0.06% at June 30, 2014) 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 of 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. On May 1, 2013, $7,505,000 from 2013A Bonds was used to refund a portion of the Series 2005 Bonds.

(c) 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.

(d) 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, 2014, the University received Subsidy Payments of $2,278,300, 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.

(e) 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.

(f) Series 2013A Revenue Bonds

In March 2013, the University issued $119,210,000 of Series 2013A Revenue Bonds in fixed rate mode to fund certain capital projects, refund portions of the 2004B, 2005, and 2009A issues, and terminate the maturities of interest rate swap agreements related to the refunded bonds.

The Series 2013A Bonds will bear interest rates ranging from 3.00% to 5.00%, maturing on November 1, from 2014 to 2033. In addition there is a 5.00% term bond maturity in the amount of $27,825,000 on November 1, 2043. The Bonds are subject to optional redemption and tender for purchase prior to maturity.

(g) Series 2013B Revenue Bonds

In March 2013, the University issued $29,755,000 of Series 2013B Federally Taxable Revenue Bonds in fixed rate mode to fund certain capital projects.

The Series 2013B Bonds will bear interest rates ranging from 0.488% to 2.997%, maturing from 2014 to 2026. In addition there is a 3.831% term bond in the amount of $6,770,000 maturing on November 1, 2033 and a 3.981% Term Bond in the amount of $13,555,000 maturing on November 1, 2043. The Bonds are subject to optional redemption and tender for purchase prior to maturity.

(h) Series 2013C Revenue Bonds

In March 2013, the University issued $57,475,000 of Series 2013C Variable Rate Revenue Bonds with a mandatory remarketing date of May 1, 2016, 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 2013C Bonds. The bond proceeds together with a University Equity contribution of approximately $4,295,500 was used to refund the remaining Series 2009A that were not refunded by the Series 2013A Bonds described above.

The Series 2013C Bonds will initially bear interest at a Term Rate of 0.70% 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 2013C Bonds at a price equal to 100% of their principal amount plus accrued interest. The initial period extends until May 1, 2016 with interest payments on each May 1 and November 1.

(i) 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 (0.15% at June 30, 2014) 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 that was renewed on November 15, 2012 with a scheduled termination date of December 12, 2014. 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.

(j) Early Learning Center Line of Credit

In December 2013, 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 Wall Street Journal Prime Rate (calculated to be 2.115% at June 30, 2014) and there is an outstanding balance of $1,352,000 at June 30, 2014.

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, 2014 and 2013.

The carrying amount of variable rate long-term debt approximates fair value because these financial instruments bear interest at rates that approximate current market rates for loans with similar maturities and credit quality. The fair value of fixed and variable rate Revenue Bonds (par amount of $445,705,000) approximates $490,076,000. 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 notional amounts of approximately $133,243,000 (including $8,325,000 related to the Blue Hen Hotel, LLC, note 2) of long-term debt obligations as of June 30, 2014. 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, 2014, the University has recognized an unrealized gain of $119,000 (including a gain of $125,000 related to the Blue Hen Hotel, LLC) in the consolidated statement of activities for the increase in fair value of its interest rate swaps and a corresponding decrease in the fair value of its interest rate swap liability in the consolidated statement of financial position.

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

2015	$	12,602
2016		10,987
2017		11,402
2018		11,647
2019		10,732
Thereafter		398,012
	$	455,382

(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 2014	Fair value 2013	Amount of gain (loss) 2014	Amount of gain (loss) 2013
Interest rate swap agreements	Interest rate swap liabilities	Net realized and unrealized gains	$	24,359	24,478	119	15,038

A portion of the total interest rate swap liabilities reported on the consolidated statement of financial position, $22,501,000 at June 30, 2014, 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% 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 $28,085,000 in 2014 and $27,542,000 in 2013.

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/actuarial_valuation_reports_2013.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. Pension plan expense for the State Plan was $12,060,000 and $11,419,000 in 2014 and 2013, respectively.

The State Plan financial statements and actuarial reports for June 30, 2013 (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 1,446 active participants in the State Plan. The State Plan, in total, has 62,955 participants, 35,571 of which are active participants.
- The University's contribution to the State Plan in fiscal year June 30, 2013 of $11,419,000 was approximately 7.1% of the $160,612,000 total annual required plan employer contributions to the plan.
- At June 30, 2013, the State Plan had a 91.1% 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.

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 and 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, salaried and hourly staff employees also receive postretirement health care benefits through the State Plan, which are funded by the State on a pay-as-you-go basis. 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 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, 2014, the University has not funded these benefits.

Net periodic postretirement benefit cost for 2014 and 2013 includes the following components (in thousands):

		2014	2013
Service cost	$	7,674	9,588
Interest cost		11,882	13,050
Amortization of unrecognized loss		—	2,157
Net periodic postretirement benefit cost	$	19,556	24,795

The accumulated postretirement benefit obligation recognized in the consolidated statement of financial position at June 30, 2014 and 2013 is as follows (in thousands):

		2014	2013
Accrued postretirement liability	$	244,450	230,195
Unrecognized net loss		32,670	34,543
Accumulated postretirement benefit obligation	$	277,120	264,738

Changes in the accumulated postretirement plan benefit obligation and funding status for 2014 and 2013 are as follows (in thousands):

		2014	2013
Benefit obligation at beginning of year	$	264,738	283,690
Service cost		7,674	9,588
Interest cost		11,882	13,050
Amortization of unrecognized loss		—	2,157
Actuarial (gain) or loss		(1,873)	(38,387)
Disbursements		(5,301)	(5,360)
Benefit obligation at end of year		277,120	264,738
Fair value of plan assets at beginning of year		—	—
Employer contributions		5,301	5,360
Benefits paid		(5,301)	(5,360)
Fair value of plan assets at end of year		—	—
Funded status at end of year	$	277,120	264,738

The University expects to contribute $7,038,000 to the plan for the year ending June 30, 2015.

(Continued)

The accumulated postretirement benefit obligation was determined using a discount rate of 4.70% and 5.40% in 2014 and 2013, respectively. The health care cost trend rates used reflect the differences between pre-65 and post-65 claims were 7.20% and 6.00%, respectively, in 2014, and 7.60% and 5.00%, respectively, in 2013. This rate gradually decreases to 5.00% by the year 2020 for both pre-65 and post-65 claims.

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	$	4,478	(3,442)
Effect on benefit obligation as of June 30, 2014		55,219	(43,450)

At June 30, 2014, the University's expected future benefit payments for future service are as follows (in thousands):

Year ended June 30:		
2015	$	7,038
2016		7,746
2017		8,524
2018		9,335
2019		10,071
2020 through 2024		63,343

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 $20,541,000 and $22,112,000 as of June 30, 2014 and 2013, respectively. The following table reconciles the obligation as of June 30, 2014 and 2013 (in thousands):

		2014	2013
Balance at beginning of year	$	22,112	20,889
Additional obligations incurred		22	1,154
Obligations settled in current period		(732)	(694)
Changes in estimates, including timing		(1,422)	221
Accretion expense		561	542
Balance at end of year	$	20,541	22,112

(15) Operating Leases

The University has entered into a series of leasing transactions related to the redevelopment of the University's 272 acre STAR campus. The property which comprises the STAR campus was acquired 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.

In March 2012, 1743 Holdings, LLC entered into a ground lease with a third-party for approximately 50 acres of unimproved land on the southern portion of the STAR campus. The lease has an initial term of 25 years and may be extended for up to 4 consecutive additional terms of 5 years each. Base rent for the initial term of the lease is nominal, and was paid upon execution of the lease. In a related transaction, the University entered into a grant agreement with the Delaware Economic Development Authority to offset certain costs affiliated with infrastructure and other related costs on the STAR campus. As of June 30, 2014, $2,981,000 has been drawn against the grant.

In August 2012, 1743 Holdings, LLC entered into an additional ground lease with a third-party for an additional nine acres of land, and the structures thereon, adjacent to the unit to be occupied by the College of Health Sciences. The lease was entered into 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. Rent is based upon formulas contained within the lease, considers factors such as gross rentable square footage of improvements, and approximate market rent. As only construction of the first phase of these units is nearing completion, it is not currently possible to reasonably estimate the future minimum rental income from this lease.

As of June 30, 2014, the land and structures subject to the ground lease noted above are included in the consolidated statement of financial position at $1,137,000, and $1,417,000 (net of accumulated depreciation of $24,000), respectively.

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

Year ended June 30:		
2015	$	—
2016		140
2017		140
2018		152
2019		154
Thereafter		10,497
	$	11,083

In December 2012, 1743 Holdings, LLC entered into a ground lease with a third-party for approximately 43 acres of unimproved land on the north-west portion of the STAR campus. The lease had an initial term of 75 years which could have been extended for up to 4 consecutive additional terms of 5 years each. Rent was to be based upon formulas contained within the lease, considering factors such as gross building square footage of constructed improvements, and approximate market rent.

In July 2014, 1743 Holdings, LLC gave the third-party written notice that the University was terminating the lease based upon the third-party's noncompliance with specified sections of the lease agreement. One of the grounds for termination listed in the termination notice allowed for a 60 day period to remedy the instance of noncompliance. That time period has expired.

(16) Net Assets

Temporarily restricted net assets include the following at June 30, 2014 and 2013 (in thousands):

		2014	2013
Contributions receivable	$	39,171	34,771
Annuity and life income funds		989	617
Accumulated gains on permanent endowment funds		615,636	531,471
Other time and purpose restrictions		23,277	20,447
	$	679,073	587,306

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, 2014 and 2013 (in thousands):

		2014	2013
Permanent loan funds	$	333	323
Annuity and life income funds		3,592	2,774
Funds held in trust by others		67,867	60,653
Permanent endowment funds		297,201	279,434
	$	368,993	343,184

(17) Scholarship Allowance

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

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

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

		Undergraduate	Graduate	Total
Unrestricted	$	53,385	59,553	112,938
Federal grants		691	1,093	1,784
State grants		10,912	54	10,966
Private gifts		3,157	537	3,694
Endowment		3,657	85	3,742
Total	$	71,802	61,322	133,124

An additional $6,044,000 of University-provided financial assistance was utilized by students for books, supplies, and off-campus living expenses.

(18) Fundraising Costs

Fundraising costs were approximately $12,888,000 and $11,531,000 for the years ended June 30, 2014 and 2013, respectively.

(19) 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.

(20) 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.

(21) 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, 2014 through October 15, 2014, which was the date the consolidated financial statements were issued, and noted no matters requiring additional disclosure.