KPMG

UNIVERSITY OF DELAWARE

Consolidated Financial Statements

June 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
University of Delaware:

We have audited the accompanying consolidated financial statements of the University of Delaware and subsidiaries, which comprise the consolidated balance sheet as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of Delaware and its subsidiaries as of June 30, 2016, and the changes in their net assets, their functional expenses, and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

__Report on Summarized Comparative Information__

We have previously audited the University of Delaware's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

November 2, 2016

UNIVERSITY OF DELAWARE

Consolidated Balance Sheet

June 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

(Dollars in thousands)

Assets		**2016**	**2015**
Cash and cash equivalents	$	121,580	39,658
Accounts and notes receivable, net		28,742	28,218
Prepaid expenses and inventories		5,604	5,817
Contributions receivable, net		30,355	30,945
Restricted deposits		83,590	94,862
Student loan receivables, net		13,673	13,401
Investments		1,646,593	1,782,506
Funds held in trust by others		69,072	66,681
Property, plant, and equipment, net		1,479,213	1,476,155
Total assets	$	3,478,422	3,538,243
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	91,082	101,819
Deferred revenue and student deposits		14,198	12,133
Long-term debt and capital leases		540,323	555,883
Postemployment benefit obligations		528,234	426,857
Other liabilities		92,459	67,152
Total liabilities		1,266,296	1,163,844
Net assets:			
Unrestricted		1,212,730	1,319,205
Temporarily restricted		593,112	663,306
Permanently restricted		406,284	391,888
Total net assets		2,212,126	2,374,399
Total liabilities and net assets	$	3,478,422	3,538,243

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Activities

Year ended June 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

(Dollars in thousands)

	2016				2015
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenue:					
Tuition and fees	$ 559,846	—	—	559,846	550,108
Less scholarships and fellowships	(147,605)	—	—	(147,605)	(143,804)
Net tuition and fees	412,241	—	—	412,241	406,304
Sales and services of auxiliary enterprises, net	129,691	—	—	129,691	128,117
Grants, contracts, and other exchange transactions	172,405	—	—	172,405	172,078
State operating appropriations	118,749	—	—	118,749	117,005
Contributions	11,004	18,388	—	29,392	31,732
Endowment distributions	50,358	112	—	50,470	50,152
Other investments income	15,847	62	—	15,909	11,390
Other revenue	35,924	—	—	35,924	36,664
Net assets released from restrictions	14,780	(14,780)	—	—	—
Total operating revenue	960,999	3,782	—	964,781	953,442
Operating expenses:					
Salaries and wages	423,340	—	—	423,340	416,815
Benefits	190,261	—	—	190,261	164,441
Supplies and general	210,386	—	—	210,386	207,858
Travel	25,812	—	—	25,812	26,080
Depreciation, amortization, and loss on disposals	75,189	—	—	75,189	67,257
Interest	21,104	—	—	21,104	20,780
Total operating expenses	946,092	—	—	946,092	903,231
Change in net assets from operating activities	14,907	3,782	—	18,689	50,211
Nonoperating activities:					
Investment return in excess of (less than) endowment distributions	(39,435)	(67,711)	(6,358)	(113,504)	14,879
Contributions restricted for endowment and capital	675	441	20,529	21,645	6,762
State capital appropriations	3,212	—	—	3,212	3,251
Change in postemployment benefit obligations	(71,239)	—	—	(71,239)	(123,858)
Other, net	(20,226)	(1,075)	225	(21,076)	16,856
Net assets released from restrictions	5,631	(5,631)	—	—	—
Change in net assets	(106,475)	(70,194)	14,396	(162,273)	(31,899)
Net assets at beginning of year	1,319,205	663,306	391,888	2,374,399	2,406,298
Net assets at end of year	$ 1,212,730	593,112	406,284	2,212,126	2,374,399

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Functional Expenses

Year ended June 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

(Dollars in thousands)

	2016									
	Instruction and departmental research	**Sponsored research**	**Extension and public service**	**Academic support**	**Student services**	**General institutional support**	**Student aid**	**Auxiliary enterprises**	**Total**	**2015 Total**
Operating expenses:										
Expenses:										
Salaries and wages	$ 220,721	62,785	24,715	35,587	15,671	51,354	3,935	8,572	423,340	416,815
Benefits	75,304	16,828	8,003	14,766	5,156	22,308	42	3,088	145,495	131,608
Postemployment benefits	29,824	4,432	1,923	3,027	985	3,910	—	665	44,766	32,833
Benefits	105,128	21,260	9,926	17,793	6,141	26,218	42	3,753	190,261	164,441
Supplies and general	65,294	44,453	13,836	13,107	10,486	38,056	441	69,620	255,293	254,636
Information processing	4	—	—	—	2,449	11,674	—	1	14,128	12,956
Scholarships, fellowships, and awards	—	—	—	—	—	—	2,259	—	2,259	2,221
Internal service (credits) charges	(18,981)	(4,233)	(1,542)	(4,419)	(1,848)	(29,073)	—	(1,198)	(61,294)	(61,955)
Supplies and general	46,317	40,220	12,294	8,688	11,087	20,657	2,700	68,423	210,386	207,858
Travel	16,495	3,724	1,505	1,539	1,084	1,226	95	144	25,812	26,080
Depreciation and accretion	16,114	8,339	1,845	12,376	609	10,964	—	20,666	70,913	67,868
Loss on disposals and other write-offs	98	190	7	82	—	169	—	4,678	5,224	172
Amortization of bond discount (premium)	(9)	23	—	—	(61)	—	—	(901)	(948)	(783)
Depreciation, amortization, and loss on disposals	16,203	8,552	1,852	12,458	548	11,133	—	24,443	75,189	67,257
Interest expense	3,177	301	16	25	151	225	—	17,209	21,104	20,780
Total operating expenses	$ 408,041	136,842	50,308	76,090	34,682	110,813	6,772	122,544	946,092	903,231

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Cash Flows

Year ended June 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

(Dollars in thousands)

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	(162,273)	(31,899)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation, amortization, and loss on disposals		78,195	67,966
Change in postemployment benefit obligations and other nonoperating activities		72,931	107,002
Net realized and unrealized losses (gains)		66,522	(58,071)
Change in fair value of swap		10,593	2,446
Gifts of equipment		(675)	(264)
State capital appropriations		(3,212)	(3,251)
Contributions restricted for endowment and capital		(15,357)	(6,762)
Endowment income restricted for reinvestment		(340)	(274)
Changes in operating assets and liabilities:			
Accounts and notes receivable, net		(524)	(589)
Prepaid expenses and inventories		213	(755)
Contributions receivable, net		1,736	1,690
Accounts payable, accrued and other liabilities		11,993	2,032
Deferred revenue and students deposits		2,065	6,741
Postemployment benefit obligations		30,139	25,879
Net cash provided by operating activities		92,006	111,891
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		1,886,099	1,165,998
Purchases of investments		(1,819,107)	(1,184,904)
Acquisitions of property, plant, and equipment		(91,265)	(134,084)
Disbursements of loans to students		(2,678)	(2,286)
Repayments of loans by students		2,406	2,508
Net cash used in investing activities		(24,545)	(152,768)
Cash flows from financing activities:			
Repayments of principal on long-term debt and capital leases		(14,687)	(15,476)
Net proceeds from issuance of long-term debt		—	58,701
State capital appropriations		3,212	3,251
Endowment income restricted for reinvestment		340	274
Contributions restricted for endowment and capital		14,211	13,298
Advances from federal government for student loans		113	118
Change in restricted deposits		11,272	(2,510)
Net cash provided by financing activities		14,461	57,656
Net increase in cash and cash equivalents		81,922	16,779
Cash and cash equivalents, beginning of year		39,658	22,879
Cash and cash equivalents, end of year	$	121,580	39,658
Supplemental disclosure of cash flow information:			
Interest paid	$	23,608	22,074

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 coeducational. The main campus is located in Newark, Delaware, a suburban community of 31,500, situated midway between Philadelphia and Baltimore. Courses are also offered at other locations throughout the State, including Wilmington, Lewes, Dover, Milford, and Georgetown.

The University receives an annual operating and capital appropriation from the State of Delaware. The University also participates in certain benefit plans of the State (note 11).

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

(b) Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the various academic and support divisions and other affiliated entities, including 1743 Holdings LLC, Blue Hen Wind, Inc., and Blue Hen Hotel LLC, controlled by the University. 1743 Holdings, LLC was created as a wholly owned subsidiary of the University for the purpose of purchasing and managing a 272-acre site, which is contiguous to the University's 968-acre Newark campus. Blue Hen Wind, Inc. operates a wind turbine adjacent to the University's Hugh R. Sharp campus in Lewes. All significant interentity activities and balances are eliminated for financial reporting purposes.

The consolidated statements of activities and functional expenses for the year ended June 30, 2016 is presented with certain summarized comparative information for the year ended June 30, 2015 in total but not by net asset class or by function. 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, 2015 from which the summarized information was derived. Internal service (credits) charges included on the consolidated statement of functional expenses represents expense allocations from its internal service centers to other functions and classes.

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

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

- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that are maintained permanently by the University. Generally, the donors of these assets permit the University to use all of, or part of, the total investment return on related investments for general or specific purposes.

In addition to the three primary financial statements presented under U.S. GAAP for not-for-profit organizations, the statement of functional expenses presents expenses by natural classification within functional categories. Operation and maintenance of plant, depreciation and accretion expense, and disposals are allocated based on square footage. Postemployment and fringe benefit expenses are allocated based on salaries and wages. Interest expense and amortization of bond discount are allocated to the functional classification that benefited from the use of the proceeds of the debt. Operation and maintenance of plant costs were approximately $57,654,000 and $57,083,000 and fund-raising costs were approximately $15,954,000 and $13,937,000 for the years ended June 30, 2016 and 2015, respectively.

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

(c) Cash and Cash Equivalents

Cash equivalents include all highly liquid interest-bearing deposits and short-term investments with maturities of three months or less at time of purchase, excluding amounts held for long-term investments as disclosed in notes 4 and 5.

(d) Contributions

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

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

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

- Changes 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.
- Changes 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.

(e) Split-Interest Agreements and Interests in Trusts

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

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

(f) Tuition and Fees and Student Financial Aid

Tuition and fees are recorded as revenue during the year the related academic services are rendered. Tuition and fees received in advance of services are recorded as deferred revenue and student deposits. The University provides financial aid to eligible students, generally in an "aid package" that includes loans, compensation under work-study programs, and/or grant and scholarship awards. The loans are provided primarily through programs of the U.S. government (including direct and guaranteed loan programs) under which the University is responsible only for certain administrative duties. These direct and guaranteed loans are not reflected on the University's financial statement as the loans are issued to the students. Grants and scholarships include awards provided from gifts and grants from private donors, income earned on endowment funds restricted for student aid, and University funds.

(g) Auxiliary Enterprises

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

(h) Grants and Contracts

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

(i) Investments

Investments are stated at fair value or estimated fair value, using net asset value as a practical expedient, as described in notes 4 and 5. Other investment income, including dividend and interest, is recognized when earned.

(j) Property, Plant, and Equipment

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

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

(k) Nonoperating Activities

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

(l) Income Taxes

The University and its affiliates have been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. Accordingly, no provisions for income taxes have been made in the accompanying consolidated financial statements. U.S. GAAP requires management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2016 and 2015, there are no uncertain positions. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(m) Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amount of revenue and expenses during the reporting period. The University's most significant estimates include the fair value of investments, allowances for uncollectible accounts and contributions receivable, and the actuarial assumptions used to determine postemployment benefit obligations. Actual results could differ from these estimates.

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

Student loan programs provided by the U.S. government under the Federal Perkins and Nursing Student Loan program are loaned to qualified students, administered by the University, and may be reloaned after collections. These funds, which are ultimately refundable to the government and are included in other liabilities, aggregated $15,469,000 and $15,356,000 as of June 30, 2016 and 2015, respectively.

(o) Derivative Financial Instruments

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

(p) Recently Issued Accounting Standards

Effective in 2016, the University adopted the provisions of ASU No. 2015-10, *Technical Corrections and Improvements*. This ASU clarified one aspect of the definition of readily determinable fair value (RDFV), thereby affecting the measurement of and disclosure about certain equity investments. During 2016, management evaluated its investments, historically measured using NAV as a practical expedient in structures with characteristics similar to a mutual fund, as to whether they have an RDFV. The adoption did not have a significant impact on its financial statements.

(2) Contributions Receivable

Contributions receivable as of June 30, 2016 and 2015 are summarized as follows (in thousands):

		2016	2015
Amounts due in:			
Less than one year	$	8,597	13,443
One to five years		22,724	18,217
		31,321	31,660
Less:			
Allowance for uncollectible pledges		(250)	—
Unamortized discounts		(716)	(715)
	$	30,355	30,945

Contributions to be received after one year are discounted at discount rates ranging from 1.1% to 2.4% for the years ended June 30, 2016 and 2015, respectively.

(3) Restricted Deposits

Restricted deposits as of June 30, 2016 and 2015 consisted of the following (in thousands):

		2016	2015
Unexpended bond proceeds	$	56,410	70,778
Debt service reserve funds		23,008	19,512
Other deposits		4,172	4,572
	$	83,590	94,862

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

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

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

(Continued)

(4) Investments

Investments are recorded at fair value, or estimated fair value as a practical expedient, as described in note 5. The fair value by investment class as of June 30, 2016 and 2015 was as follows (in thousands):

	2016	2015
Money market and other liquid funds	$ 67,131	50,652
U.S. government obligations	129,512	110,237
Corporate obligations	163,119	231,125
Stock and convertible securities	352,912	383,341
International equity investments	73,164	3,281
Limited partnerships and LLCs	856,523	998,971
Other	4,232	4,899
Total	$ 1,646,593	1,782,506

Included in the investments table above are $6,353,000 and $8,965,000 of annuity and life-income funds, at June 30, 2016 and 2015, respectively.

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

Net Asset Value, as a Practical Expedient for Fair Value

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

	2016	2015	Estimated remaining lives (years)	As of June 30, 2016 unfunded commitments	Redemption frequency	Redemption notice frequency
Limited partnerships and LLCs:						
U.S. corporate debt funds	$ 75,586	74,394			Monthly	45 days
International equity funds	213,676	305,652			Monthly	10 days
Multistrategy hedge funds	51,908	78,704			Annually	100 days
Long-short hedge funds	197,447	222,357			Annually	90 days
Private equity	58,491	55,535	1–10	$ 146,736	Not eligible	N/A
Venture capital	70,111	60,909	2–8	9,033	Not eligible	N/A
Hybrid fund of funds	34,624	36,131	1–6	13,649	Not eligible	N/A
Distressed securities	42,179	14,737	1–8	6,259	Not eligible	N/A
Real estate	48,019	59,957	1–10	28,097	Not eligible	N/A
Natural resources	34,496	33,881	1–13	4,998	Not eligible	N/A
Oil and gas	29,986	56,714	1–9	29,969	Not eligible	N/A
	$ 856,523	998,971		$ 238,741		

(a) U.S. Corporate Debt Funds and International Equity Funds

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

(b) Multistrategy Hedge Funds

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

(c) Long-Short Hedge Funds

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

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

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

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

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

(e) Real Estate

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

(f) Natural Resources and Oil and Gas

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

Investment Return

Investment return for fiscal years 2016 and 2015 was as follows (in thousands):

		2016	2015
Dividend and interest income	$	23,744	22,184
Net realized and unrealized (losses) gains		(66,522)	58,071
External investment management fees and expenses		(4,347)	(3,834)
Investment return	$	(47,125)	76,421

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

		2016	2015
Other investments income	$	15,909	11,390
Endowment distributions		50,470	50,152
Investment return in excess of (less than) endowment distributions		(113,504)	14,879
Investment return	$	(47,125)	76,421

(5) Fair Value Measurements

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

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

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

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

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

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

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

(a) Investments and Restricted Deposits

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

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

Valuations for limited partnerships, LLC, and inflation sensitive assets are based on net asset value or the equivalent, as reported by investment managers, as a practical expedient to estimate fair value without further adjustment.

Investments measured at net asset value, as a practical expedient for fair value, include the University's interests in limited partnerships and LLCs, are reported by investment managers, unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. As of June 30, 2016, the University had no plans or intentions to sell investments at amounts different from net asset value. The estimated fair values are reported by the general partners or fund managers and are reviewed and evaluated by the University. These estimated fair values may differ from the values that would have used had a ready market existed for these investments and the differences could be significant.

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

(b) Annuity and Life-Income Funds

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

The annuity and life-income funds payable represents the present value of future annuity payments due under these agreements, as calculated for each annuity using discount rates and actuarial assumptions consistent with American 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 judgment and estimation.

(Continued)

(c) Funds Held in Trust by Others

Funds held in trust by others represent amounts held by third parties where the University receives an income stream in perpetuity, but the assets are required to be held by a trustee. The University does not own the underlying assets, but rather has a beneficial interest in the trust. These trusts are invested in a combination of readily marketable assets, limited partnerships and land and have been classified as Level 3 since the University maintains an interest in the trust not the underlying investments.

(d) Debt Interest Rate Swap Agreements

The fair value of the University's interest rate swaps is based on a third-party valuation independent of the counterparty. 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.

The following table presents the University's fair value hierarchy for financial instruments that are measured at fair value on a recurring basis as shown on the June 30, 2016 consolidated balance sheet (in thousands):

	June 30, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Investments:				
Money market and other liquid funds	$ 67,131	67,030	101	—
U.S. government obligations:				
Mortgage-backed securities	40,116	—	40,116	—
Treasury obligations	79,826	76,791	3,035	—
Other	9,570	1,307	8,263	—
	129,512	78,098	51,414	—
Corporate obligations	163,119	481	162,638	—
Stock and convertible securities	352,912	350,511	2,401	—
International investments	73,164	70,318	2,846	—
Other	4,232	1,415	—	2,817
Investments measured at net asset value	856,523	—	—	—
	1,646,593	567,853	219,400	2,817
Restricted deposits	83,590	32,391	51,199	—
Funds held in trust by others	69,072	—	—	69,072
Total	$ 1,799,255	600,244	270,599	71,889
Financial liabilities, included in the other liabilities:				
Annuity and life income funds payable	$ 5,319	—	—	5,319
Interest rate swaps	37,398	—	—	37,398
Total	$ 42,717	—	—	42,717

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

(Continued)

The following table presents a reconciliation of the consolidated balance sheet amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2016 and 2015 (in thousands):

	Financial assets		Financial liabilities	
	Funds held in trust by others	Other	Interest rate swaps	Annuity and life income funds payable
Total at June 30, 2014	$ 67,867	3,838	$ 24,359	4,625
Net gains on investments	743	—	—	—
Net losses on liabilities	—	—	2,446	10
Purchases	19,340	119	—	157
Sales	(21,269)	(766)	—	(271)
Total at June 30, 2015	66,681	3,191	26,805	4,521
Net losses on investments	(1,522)	—	—	—
Net losses on liabilities	—	—	10,593	1,666
Purchases	46,972	86	—	212
Sales	(43,059)	(460)	—	(1,080)
Total at June 30, 2016	$ 69,072	2,817	$ 37,398	5,319
Change in unrealized losses related to financial instruments still held at June 30, 2016	$ (4,188)	—	$ (10,593)	(624)

Transfers between leveled assets are based upon beginning of year value of the asset, if any. During the years ended June 30, 2016 and 2015, there were no transfers between levels.

(6) Annuity and Life-Income Funds

The University held $6,353,000 and $8,965,000 in investments related to annuity and life-income funds as of June 30, 2016 and 2015, respectively. A related liability of $5,319,000 and $4,521,000 as of June 30, 2016 and 2015, respectively, represents the present value of future annuity payments due under these agreements, and was calculated for each annuity using discount rates and actuarial assumptions consistent with the terms of the gift. Such liabilities are included in other liabilities in the consolidated balance sheets.

The University is required by the laws of certain states to maintain reserves against charitable gift annuities. Such reserves amounted to $2,407,000 and $2,330,000 as of June 30, 2016 and 2015, respectively.

(7) Property, Plant, and Equipment

Property, plant, and equipment as of June 30, 2016 and 2015 consisted of the following (in thousands):

		2016	2015	Range of useful lives (years)
Land	$	54,366	54,366	n/a
Land improvements		75,449	65,743	15
Buildings		1,741,686	1,634,896	40
Equipment and furnishings		272,395	258,115	2–20
Library		237,982	226,270	10
Capital leasehold		46,017	44,910	29–40
Collections and works of art		9,183	8,756	n/a
Construction in progress		38,821	130,957	n/a
		2,475,899	2,424,013	
Less accumulated depreciation		(996,686)	(947,858)	
	$	1,479,213	1,476,155	

At June 30, 2016, the University had outstanding contractual commitments of $66,042,000 for building and renovation projects.

(8) Asset Retirement Obligations

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

The University had asset retirement obligations of $21,123,000 and $20,472,000 as of June 30, 2016 and 2015, respectively. The following table reconciles the obligation as of June 30, 2016 and 2015 (in thousands):

		2016	2015
Balance at beginning of year	$	20,472	20,541
Additional obligations incurred		—	7
Obligations settled in current period		(460)	(380)
Changes in estimates, including timing		528	(262)
Accretion expense		583	566
Balance at end of year	$	21,123	20,472

(Continued)

(9) Long-Term Debt and Capital Leases

Indebtedness at June 30, 2016 and 2015 consisted of the following (in thousands):

	Fiscal year of maturity	Interest rate(s)%	Outstanding principal 2016	Outstanding principal 2015
Variable-rate debt:				
Series 2004B	2035	3.73	$ 32,185	32,185
Series 2005	2036	4.32	32,925	32,925
Series 2013C	2038	4.15	57,475	57,475
Blue Hen Hotel LLC bonds	2028	5.85	7,500	7,925
Variable-rate debt			130,085	130,510
Fixed-rate bonds:				
Series 2009B	2027	3.00–5.00	33,155	37,435
Series 2010A Taxable (BABs)	2041	3.95	119,580	119,580
Series 2010B Taxable	2020	2.69–3.80	8,990	11,080
Series 2013A	2034	3.00–5.00	79,660	85,605
	2044	5.00	27,825	27,825
Series 2013B Taxable	2027	0.81–3.00	8,100	8,765
	2034	3.83	6,770	6,770
	2044	3.98	13,555	13,555
Series 2015	2036	4.00–5.00	25,060	25,060
	2041	5.00	11,385	11,385
	2046	5.00	14,625	14,625
Fixed-rate debt			348,705	361,685
Capital leases	2021–2043	3.68–4.11	33,271	34,553
			512,061	526,748
Premium on long-term debt, net of debt issue			28,262	29,135
Long-term debt and capital leases			$ 540,323	555,883

The bonds in the preceding table were primarily issued to finance capital projects associated with auxiliary services and are secured by a pledge of gross revenue received by the University from the operations of all project facilities including housing, dining, parking, and other revenue-producing facilities and mandatory student fees. All variable-rate debt referenced are subject to fixed-rate interest rate swap agreements and the corresponding interest rates for each issue includes the swap rate, credit costs, and remarketing fee.

The 2004B and 2005 bonds initially bear interest at a daily rate and can be converted to bear interest at a weekly, flexible, term, or fixed rate to maturity. The daily rate of interest on June 30, 2016 was 0.49% and 0.49% respectively.

The Series 2010A Taxable Revenue Bonds are Build America Bonds and the University receives payments from the U.S. Treasury equal to 32.6% of the corresponding interest payable on the bonds (the Subsidy Payments). For the year ended June 30, 2016, the University received Subsidy Payments of $2,288,000, which are included in other revenue. The bonds are subject to mandatory redemption from November 1, 2028 through November 1, 2040, but are subject to optional redemption and tender for purchase prior to maturity.

The 2013C bonds were converted from a term rate to bear interest at a daily rate on May 1, 2016. The bonds can be converted to bear interest at a weekly, flexible, term, or fixed rate to maturity. The daily rate of interest on June 30, 2016 was 0.40%.

The Blue Hen Hotel, LLC bonds, which are guaranteed by the University, bear interest at a weekly rate and can be converted to bear interest at a daily, flexible, term, or fixed rate to maturity. The weekly rate of interest on June 30, 2016 was 1.20%.

The rate ranges shown on the fixed-rate bonds depict the varying interest rate ranges of the serial bonds for those respective series through the fiscal year of maturity listed.

The University's debt agreements require that the University meet certain financial and other covenants. The University was in compliance with these covenants as of June 30, 2016.

The University has obligations under capital leases with annual lease payments ranging from $950,000 to $1,998,000. As of June 30, 2016, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases amounted to $46,017,000 and $5,655,000, respectively.

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

2017	$	15,241
2018		16,466
2019		13,673
2020		11,935
2021		14,453
Thereafter		440,293
	$	512,061

The University has Standby Bond Purchase Agreements (SBPA) for the Series 2004B, 2005, and 2013C variable-rate demand bonds to provide liquidity for the purchase of the bonds should the remarketing agent be unable to sell the bonds on the open market. The SBPAs provide for the banks to purchase any outstanding bonds not remarketed for a period of up to 90 days at variable interest rates as defined in the SBPAs. The SBPAs for the Series 2004B, 2005 and 2013C bonds expire on April 5, 2018, May 31, 2021, and April 30, 2019, respectively. An SBPA also exists for the Blue Hen Hotel LLC bonds and expires on December 31, 2016.

(10) Interest Rate Swap Agreements

The University has interest rate swap agreements for notional amounts of approximately $134,460,000 as of June 30, 2016 (in thousands):

	Balance sheet location	Location of gain (loss)	Fair value 2016	Fair value 2015	Amount of gain (loss) 2016	Amount of gain (loss) 2015
Interest rate swap agreements	Other liabilities	Other, net	$ 37,398	26,805	(10,593)	(2,446)

A portion of the total interest rate swap liabilities reported on the consolidated balance sheet, $35,367,000 at June 30, 2016, contains provisions that require the University's debt and the counterparty to maintain an investment grade credit rating from one or both of the major credit rating agencies. A downgrade of the University or the counterparty's rating may require that party to provide collateralization above a predetermined threshold on all rate swaps in net liability positions. To date, the University has not posted collateral.

(11) Employee Benefit Plans

(a) University Pension Plans – Defined Contribution

The University's 403(b) Retirement Savings Plan is available to substantially all faculty and professional employees. The University's contribution for this program is fixed at 11% of annual base salary for eligible employees who contribute a minimum of 4% of their annual salary. The policy of the University is to pay its share of the cost accrued in connection with the University Retirement Savings Plan. As a result, there are no unfunded benefits. Pension plan expense for the University's 403(b) Retirement Savings Plan was $29,477,000 in 2016 and $28,751,000 in 2015.

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

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

The Voluntary 457(b) Deferred Compensation Plan is available to all eligible full-time and part-time employees who are already making the maximum allowable contribution to the Voluntary 403(b) Retirement Plan and wish to make additional contributions to their retirement savings. The University makes no contributions to this plan, incurs no expense for the operation of this plan, and has no unfunded liability.

(b) Faculty Retirement

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

For the years ended June 30, 2016 and 2015, the University recognized expense related to this plan of $10,681,000 and $8,281,000, respectively. The University's estimated unfunded obligation related to this plan is $99,542,000 and $83,637,000, respectively, and is included in postemployment benefit obligations on the consolidated balance sheets as of June 30, 2016 and 2015. A change in unfunded postemployment benefit obligations of $12,888,000 was recognized in fiscal year 2016 within nonoperating activities.

The benefit obligation was determined using a discount rate of 3.75% as of June 30, 2016 and 4.70% as of June 30, 2015, and a rate of compensation increase of 2.00% in both years. As of June 30, 2016, the University's expected future benefit payments for fiscal years 2017 through 2021 are $8,723,000, $9,414,000, $8,940,000, $8,799,000, and $9,169,000, respectively.

(c) Postemployment

The University also provides postemployment benefits primarily for medical insurance to retired employees who are not eligible under the State Plan, as described below. The University recognizes the funded status (i.e., the difference between the fair value of plan assets and the accumulated postemployment benefit obligation) of its postemployment benefit plan in the consolidated balance sheets. Also, the University measures the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated balance sheets. As of June 30, 2016, the University has not funded these benefits.

Net periodic postemployment benefit cost for 2016 and 2015 includes the following components (in thousands):

		2016	2015
Service cost	$	13,214	10,353
Interest cost		17,252	13,292
Amortization of unrecognized loss		3,619	906
Net periodic postemployment benefit cost	$	34,085	24,551

The accumulated postemployment benefit obligation recognized in the consolidated balance sheets at June 30, 2016 and 2015 is as follows (in thousands):

		2016	2015
Accrued postemployment liability	$	290,330	263,210
Unrecognized net loss		138,362	80,010
Accumulated postemployment benefit obligation	$	428,692	343,220

Changes in the accumulated postemployment plan benefit obligation and funding status for 2016 and 2015 are as follows (in thousands):

		2016	2015
Benefit obligation at beginning of year	$	343,220	277,120
Service cost		13,214	10,353
Interest cost		17,252	13,292
Amortization of unrecognized loss		3,619	906
Actuarial loss		58,352	47,340
Disbursements		(6,965)	(5,791)
Benefit obligation at end of year		428,692	343,220
Fair value of plan assets at beginning of year		—	—
Employer contributions		6,965	5,791
Benefits paid		(6,965)	(5,791)
Fair value of plan assets at end of year		—	—
Funded status at end of year – liability included in other postemployment benefit obligations on the consolidated balance sheets	$	428,692	343,220

The University expects to contribute $9,151,000 to the plan for the year ending June 30, 2017.

The accumulated postemployment benefit obligation was determined using a discount rate of 4.24% and 4.95% in 2016 and 2015, respectively. The healthcare cost trend rates used reflect the differences between pre-65 and post-65 claims were 6.80% and 7.75%, respectively, in 2016, and 7.00% and 7.50%, respectively, in 2015. This rate gradually decreases to 4.50% by the year 2023 for pre-65 and by the year 2024 for post-65 claims.

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

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 postemployment benefit cost	$	7,983	(5,934)
Effect on benefit obligation as of June 30, 2016		96,434	(73,643)

At June 30, 2016, the University's expected future benefit payments for future service are as follows (in thousands):

Year ending June 30:		
2017	$	9,151
2018		10,197
2019		11,128
2020		12,164
2021		13,368
2022 through 2026		83,923

(d) Participation in State Retirement Plans

Salaried and hourly staff employees participate in the Delaware State Employees' Pension Plan (the State Plan), a cost sharing defined-benefit plan. The State Plan (established in 1970), is one of nine plans encompassed within the Delaware Public Employees' Retirement System (http://www.delawarepensions.com/FinancialReports/AnnualFinancialReports.shtml). Under the state pension statute, a mandatory pretax contribution of 5% of salary (or 3% if pension-creditable service began prior to January 1, 2012) in excess of $6,000 per year plus 5% of salary in excess of the social security wage base is required, by the employee (pension). In addition to these retirement benefits, salaried and hourly staff employees also receive postemployment healthcare benefits through the State Plan, which are funded by the State on a pay-as-you-go basis (OPEB).

The University is required to pay its share of the annual premium accrued in connection with the State Plan (inclusive of Pension and OPEB), which is based upon a percentage of covered payroll. The percentage of covered payroll was 21.16% in 2016 and 20.66% in 2015. Expense recognized for the State Plan was $12,323,000 and $11,999,000 in 2016 and 2015, respectively.

The State Plan for Pension financial statements and actuarial reports for June 30, 2015 (most recent available) indicate the following:

- The University has 1,351 active participants in the State Plan for Pension. The State Plan for Pension, in total, has 65,666 participants, 35,998 of which are active participants.

- The University's contribution to the State Plan for pension in fiscal year June 30, 2015 of $5,757,000 was approximately 3.23% of the $178,293,000 total annual required plan employer contributions to the plan.
- At June 30, 2015, the State Plan for Pension had a 91.6% funded ratio of the actuarial accrued liability.
- The funding objective of the State Plan for Pension is to establish contribution rates that, over time, will remain level as a percent of payroll. The contribution rate was developed to provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus level percent of payroll amortizations of each layer of the unfunded liability over a specified period. The participant organizations to the State Plan for Pension have consistently funded the full amounts required based on the actuarial valuations and specific statutory provisions.

As disclosed in the State of Delaware's Consolidated Annual Financial Report for the year ended June 30, 2015 (most recent available), the State Plan for OPEB as of June 30, 2015 indicated the State had an unfunded actuarial accrued liability of $6,009,000,000. The University's contribution to the State Plan for OPEB in fiscal year June 30, 2015 of $5,475,000 was approximately 2.4% of the $227,700,000 total annual required employer contributions to the plan.

(e) Participation in Other State Benefits

The University maintains health insurance benefits for its employee base through the State of Delaware. Premiums are established annually by the State, based upon employee elections for coverages. The University remits premiums monthly to the State. Depending on the plan selected by the employee, premiums are funded 86.75% to 96.00% by the University and 4.00% to 13.25% by employee contributions. Medical insurance expense for 2016 and 2015 was $56,452,000 and $45,783,000, respectively

(12) Net Assets

Temporarily restricted net assets include the following at June 30, 2016 and 2015 (in thousands):

	2016	2015
Contributions receivable	$ 16,580	21,917
Contributions restricted for buildings	789	7,999
Annuity and life-income funds	684	903
Accumulated gains on permanent endowment funds	546,970	622,899
Other time and purpose restrictions	28,089	9,588
	$ 593,112	663,306

Permanently restricted net assets include the following at June 30, 2016 and 2015 (in thousands):

		2016	2015
Contributions receivable	$	13,775	9,028
Permanent loan funds		357	344
Annuity and life-income funds		349	3,542
Funds held in trust by others		69,072	66,681
Permanent endowment funds		322,731	312,293
	$	406,284	391,888

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.

(13) Endowment

The University endowment consists of approximately 1,051 individual funds established for a variety of purposes. The endowment funds are subdivided into appropriate net asset classifications. The permanently restricted endowment funds represent gifts with a stipulation by the donor that the principal not be expended. Board-designated temporarily restricted and unrestricted endowment funds represent funds where there is no requirement to maintain the principal.

(a) Interpretation of Relevant Law

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

(b) Return Objectives and Risk Parameters

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

(c) Investment Strategy

To satisfy its long-term rate of return objectives, the University employs a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). The University's investment policy includes a target asset allocation, well diversified among suitable asset classes, that is expected to generate, on average, the level of expected return necessary to meet endowment objectives while assuming a level of risk (volatility) consistent with achieving that return.

(d) Spending Policy

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

The University endowment spending policy guidelines target an annual distribution in the range of 4.0% to 5.0% of the endowment pooled portfolio average market value over the 12 trailing quarters through December 31 of the year prior to the new fiscal year. The actual rate is set annually by the Board of Trustees, and was 4.30% and 4.29% at June 30, 2016 and 2015, respectively.

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

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. There were no significant deficiencies of this nature as of June 30, 2016 and 2015. Such deficiencies would be recorded in unrestricted net assets. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level would be classified as an increase in unrestricted net assets.

(Continued)

(f) *Net Asset Classification of Endowment Funds*

Endowment net assets by type of fund consist of the following as of June 30, 2016 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	$ —	545,937	322,731	868,668
Board designated	323,017	1,033	—	324,050
	$ 323,017	546,970	322,731	1,192,718

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	$ —	613,702	312,293	925,995
Board designated	339,500	9,197	—	348,697
	$ 339,500	622,899	312,293	1,274,692

Board-designated temporarily restricted net assets represent the income on restricted gifts to the University that the Board of Trustees has designated as endowment, but which cannot reasonably be expended within a year. As of June 30, 2016 and 2015, the amount of temporarily restricted endowment net assets, which may be used for purposes of the University as determined by the Board of Trustees, was $383,676,000 and $415,089,000, respectively. Additionally, $162,261,000 and $198,613,000 as of June 30, 2016 and 2015, respectively, are determined to be with purpose restrictions as set forth by the donors.

Changes in endowment net assets for the years ended June 30, 2016 and 2015 (in thousands) are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2014	$	329,429	615,636	297,201	1,242,266
Investment return:					
Investment income		18,053	7	245	18,305
Net appreciation – realized and unrealized		1,115	44,545	3,109	48,769
Total investment return		19,168	44,552	3,354	67,074
Contributions		—	—	11,388	11,388
Endowment spending distribution		(12,763)	(37,389)	—	(50,152)
Other changes		3,666	100	350	4,116
Endowment net assets, June 30, 2015		339,500	622,899	312,293	1,274,692
Investment return:					
Investment income		16,787	—	—	16,787
Net depreciation – realized and unrealized		(27,737)	(30,713)	(2,792)	(61,242)
Total investment return		(10,950)	(30,713)	(2,792)	(44,455)
Contributions		—	—	9,696	9,696
Endowment spending distribution		(13,728)	(36,742)	—	(50,470)
Other changes, including life income fund and other transfers		8,195	(8,474)	3,534	3,255
June 30, 2016	$	323,017	546,970	322,731	1,192,718

(14) 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.

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

The table below identifies this financial assistance by source and by student classification for the years ended June 30, 2016 and 2015 (in thousands):

	2016			2015		
	Undergraduate	Graduate	Total	Undergraduate	Graduate	Total
Tuition:						
Unrestricted	$ 70,500	56,382	126,882	65,595	59,674	125,269
Federal grants	700	1,335	2,035	747	1,119	1,866
State grants	10,913	72	10,985	10,971	71	11,042
Private gifts	2,851	669	3,520	2,840	623	3,463
Endowment	4,091	92	4,183	3,723	96	3,819
Total	89,055	58,550	147,605	83,876	61,583	145,459
Student aid expenses	2,797	3,975	6,772	2,612	3,429	6,041
Total	$ 91,852	62,525	154,377	86,488	65,012	151,500

(15) 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.

(16) Contingencies

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

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

(17) Subsequent Events

In connection with the preparation of the consolidated financial statements, the University evaluated subsequent events after the consolidated balance sheet date of June 30, 2016 through November 2, 2016, which was the date the consolidated financial statements were issued, and determined no additional disclosures are required.