UNIVERSITY OF DELAWARE

Consolidated Financial Statements

June 30, 2018
(With Summarized Comparative Financial Information
for the Year Ended June 30, 2017)

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
University of Delaware:

We have audited the accompanying consolidated financial statements of the University of Delaware and its subsidiaries, which comprise the consolidated balance sheet as of June 30, 2018, 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 Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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, 2018, 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 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated November 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

Philadelphia, Pennsylvania
December 3, 2018

UNIVERSITY OF DELAWARE

Consolidated Balance Sheet

June 30, 2018
(with summarized comparative financial information
for the year ended June 30, 2017)

(Dollars in thousands)

Assets		**2018**	**2017**
Cash and cash equivalents	$	85,022	51,024
Accounts and notes receivable, net		41,360	45,409
Prepaid expenses and inventories		1,974	5,811
Contributions receivable, net		35,244	26,983
Restricted deposits		199,811	50,124
Student loan receivables, net		12,199	13,266
Investments		1,924,752	1,865,325
Funds held in trust by others		77,067	74,131
Property, plant, and equipment, net		1,580,965	1,506,826
Total assets	$	3,958,394	3,638,899
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	115,376	89,047
Deferred revenue and student deposits		28,926	21,812
Long-term debt and capital leases		732,906	524,210
Postemployment benefit obligations		497,803	550,410
Other liabilities		71,603	81,370
Total liabilities		1,446,614	1,266,849
Net assets:			
Unrestricted		1,372,661	1,292,198
Temporarily restricted		706,222	660,014
Permanently restricted		432,897	419,838
Total net assets		2,511,780	2,372,050
Total liabilities and net assets	$	3,958,394	3,638,899

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Activities

Year ended June 30, 2018
(with summarized comparative financial information
for the year ended June 30, 2017)

(Dollars in thousands)

	2018				2017
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenue:					
Tuition and fees	$ 610,320	—	—	610,320	575,451
Less scholarships and fellowships	(165,596)	—	—	(165,596)	(152,347)
Net tuition and fees	444,724	—	—	444,724	423,104
Sales and services of auxiliary enterprises, net	136,607	—	—	136,607	129,036
Grants, contracts, and other exchange transactions	181,600	—	—	181,600	180,417
State operating appropriations	118,794	—	—	118,794	121,186
Contributions	12,218	12,997	—	25,215	28,706
Endowment distributions	51,422	7	—	51,429	51,033
Other investments income	20,386	75	—	20,461	17,842
Other revenue	44,782	—	—	44,782	40,679
Net assets released from restrictions	11,954	(11,954)	—	—	—
Total operating revenue	1,022,487	1,125	—	1,023,612	992,003
Operating expenses:					
Salaries and wages	468,823	—	—	468,823	441,762
Benefits	182,133	—	—	182,133	177,323
Supplies and general	232,487	—	—	232,487	217,158
Travel	29,002	—	—	29,002	27,349
Depreciation and amortization	73,586	—	—	73,586	70,283
Loss on disposals and other write-offs	10,382	—	—	10,382	438
Interest	21,887	—	—	21,887	20,582
Total operating expenses	1,018,300	—	—	1,018,300	954,895
Change in net assets from operating activities	4,187	1,125	—	5,312	37,108
Nonoperating activities:					
Investment return in excess of endowment distributions	12,655	28,693	3,188	44,536	111,261
Contributions restricted for endowment and capital	414	17,830	11,529	29,773	8,662
State capital appropriations	827	—	—	827	5,781
Postemployment costs other than service costs	(30,398)	—	—	(30,398)	(35,314)
Other changes in postemployment benefit obligations	86,604	—	—	86,604	20,271
Other, net	2,554	2,180	(1,658)	3,076	12,155
Net assets released from restrictions	3,620	(3,620)	—	—	—
Change in net assets	80,463	46,208	13,059	139,730	159,924
Net assets at beginning of year	1,292,198	660,014	419,838	2,372,050	2,212,126
Net assets at end of year	$ 1,372,661	706,222	432,897	2,511,780	2,372,050

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Functional Expenses

Year ended June 30, 2018
(with summarized comparative financial information
for the year ended June 30, 2017)

(Dollars in thousands)

	2018									
	Instruction and departmental research	**Sponsored research**	**Extension and public service**	**Academic support**	**Student services**	**General institutional support**	**Student aid**	**Auxiliary enterprises**	**Total**	**2017 Total**
Operating expenses:										
Expenses:										
Salaries and wages	$ 251,047	66,627	26,412	39,465	18,999	53,271	4,111	8,891	468,823	441,762
Benefits	85,046	19,052	8,927	16,532	6,903	22,671	20	3,325	162,476	154,086
Postemployment benefits	12,625	1,945	883	1,502	512	1,937	—	253	19,657	23,237
Benefits	97,671	20,997	9,810	18,034	7,415	24,608	20	3,578	182,133	177,323
Supplies and general	79,291	50,846	13,974	13,989	12,203	31,825	388	73,158	275,674	261,572
Information processing	2	—	—	—	2,651	12,747	—	—	15,400	14,477
Scholarships, fellowships, and awards	—	—	—	—	—	—	3,071	—	3,071	2,849
Internal service (credits) charges	(22,147)	(6,129)	(1,140)	(3,720)	(2,964)	(24,481)	—	(1,077)	(61,658)	(61,740)
Supplies and general	57,146	44,717	12,834	10,269	11,890	20,091	3,459	72,081	232,487	217,158
Travel	18,852	3,507	1,837	1,675	1,317	1,596	65	153	29,002	27,349
Depreciation and accretion	20,854	13,664	737	12,181	1,969	3,555	—	21,492	74,452	71,164
Amortization of bond discount (premium)	(21)	23	—	—	(33)	—	—	(835)	(866)	(881)
Depreciation, accretion, and amortization	20,833	13,687	737	12,181	1,936	3,555	—	20,657	73,586	70,283
Loss on disposals and other write-offs	7,258	140	73	2,886	—	6	—	19	10,382	438
Interest	3,454	435	—	—	64	23	—	17,911	21,887	20,582
Total operating expenses	$ 456,261	150,110	51,703	84,510	41,621	103,150	7,655	123,290	1,018,300	954,895

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Cash Flows

Year ended June 30, 2018
(with summarized comparative financial information
for the year ended June 30, 2017)

(Dollars in thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	139,730	159,924
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation, amortization, and loss on disposals		85,932	69,901
Change in postemployment benefit obligations and other nonoperating activities		(51,117)	17,184
Net realized and unrealized gains		(96,469)	(163,221)
Change in fair value of swap		(7,591)	(11,983)
Gifts of equipment		(414)	(1,051)
State capital appropriations		(827)	(5,781)
Contributions restricted for endowment and capital		(29,160)	(8,061)
Endowment income restricted for reinvestment		(200)	(316)
Changes in operating assets and liabilities:			
Accounts and notes receivable, net		4,049	(16,667)
Prepaid expenses and inventories		3,837	(207)
Contributions receivable, net		3,792	2,320
Accounts payable, accrued and other liabilities		8,781	(3,539)
Deferred revenue and students deposits		7,114	7,614
Postemployment benefit obligations		3,600	7,132
Net cash provided by operating activities		71,057	53,249
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		1,548,329	1,366,470
Purchases of investments		(1,514,224)	(1,427,032)
Acquisitions of property, plant, and equipment		(114,174)	(97,252)
Disbursements of loans to students		(1,167)	(1,897)
Repayments of loans by students		2,234	2,305
Net cash used in investing activities		(79,002)	(157,406)
Cash flows from financing activities:			
Repayments of principal on long-term debt and capital leases		(23,041)	(15,241)
Net proceeds from issuance of long-term debt		199,002	—
State capital appropriations		827	5,781
Endowment income restricted for reinvestment		200	316
Contributions restricted for endowment and capital		17,107	9,113
(Advances) repayments from federal government for student loans		(2,465)	166
Change in restricted deposits		(149,687)	33,466
Net cash provided by financing activities		41,943	33,601
Net increase (decrease) in cash and cash equivalents		33,998	(70,556)
Cash and cash equivalents, beginning of year		51,024	121,580
Cash and cash equivalents, end of year	$	85,022	51,024
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized	$	22,563	23,035
Construction – Accounts payable	$	24,607	9,770
Property additions through capital leases	$	33,508	—

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. Blue Hen Hotel LLC is a limited liability company originally formed on May 4, 2001. It was formed for the sole purpose of developing, managing, and operating a 125-room Courtyard Marriott Hotel adjacent to the Clayton Hall Conference Facility located in Newark, Delaware and owned by the University. All significant inter-entity activities and balances are eliminated for financial reporting purposes.

The consolidated statements of activities and functional expenses for the year ended June 30, 2018 is presented with certain summarized comparative information for the year ended June 30, 2017 in total but not by net asset class nor 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, 2017 from which the summarized information was derived. Internal service (credits) charges included on the consolidated statement of functional expenses represent 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 consolidated financial statements presented under U.S. GAAP for not-for-profit organizations, the consolidated statement of functional expenses presents expenses by natural classification within functional categories. 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 $65,434,000 and $61,608,000 and fund-raising costs were approximately $21,131,000 and $17,901,000 for the years ended June 30, 2018 and 2017, 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 that 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 and cash equivalents include all highly liquid, interest-bearing deposits and short-term investments with maturities of three months or less at time of purchase, excluding amounts held for long-term investments, as disclosed in notes 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 revenue is recognized at the date the trusts or agreements are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the values of the assets, accretion of the discounts, and other changes in estimates of future benefits.

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

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

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

(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, as discussed in Note 1(b); 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. Management has analyzed the tax positions taken by the University and has concluded that as of June 30, 2018 and 2017, 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.

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(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, the actuarial assumptions used to determine postemployment benefit obligations, and allocation of functional expenses. 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 $13,171,000 and $15,636,000 as of June 30, 2018 and 2017, 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

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which reduces the number of net asset classes, requires the presentation of expenses by natural class and by function, and enhances the qualitative and quantitative disclosures around liquidity. The ASU is effective for the University in fiscal 2019.

On February 25, 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The objective of the ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. ASU No. 2016-02 is applicable for the University in fiscal year 2020.

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes 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. Topic 606 is effective for the University in fiscal year 2019.

(2) Contributions Receivable

Contributions receivable as of June 30, 2018 and 2017 are summarized as follows (in thousands):

		2018	2017
Amounts due in:			
Less than one year	$	7,829	9,461
One to five years		21,799	18,707
Over five years		10,637	132
		40,265	28,300
Less:			
Allowance for uncollectible pledges		(500)	(700)
Unamortized discounts		(4,521)	(617)
	$	35,244	26,983

Contributions to be received after one year are discounted at discount rates ranging from 1.1% to 3.5% for the years ended June 30, 2018 and 2017, respectively.

(3) Restricted Deposits

Restricted deposits as of June 30, 2018 and 2017 consisted of the following (in thousands):

		2018	2017
Unexpended bond proceeds	$	175,914	20,749
Debt service reserve funds		20,536	24,334
Other deposits		3,361	5,041
	$	199,811	50,124

The unexpended bond proceeds represent the amount of unspent bond proceeds that remain on deposit. Approximately $171,000 are related to the 2018 general obligation bonds and are held by the University, to be used in financial certain capital projects, with the remainder being held with the trustee. Under terms of the trust agreement, these proceeds are not released to the University until expenditures related to the specific purpose of the bond indenture have occurred. The unexpected bond proceeds 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

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disclosed in note 9. These funds are generally invested in cash equivalents and short-term U.S. government securities.

(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, 2018 and 2017 was as follows (in thousands):

		2018	2017
Money market and other liquid funds	$	44,093	33,974
U.S. government obligations		146,628	191,189
Corporate obligations		281,114	218,870
Stock and convertible securities		412,438	420,943
International equity investments		96,500	87,426
Limited partnerships and limited liability corporations (LLCs)		937,659	907,658
Other		6,320	5,265
Total	$	1,924,752	1,865,325

Included in the investments table above is $6,576,000 and $6,533,000 of annuity and life-income funds at June 30, 2018 and 2017, 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.

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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):

	2018	2017	Estimated remaining lives (years)	As of June 30, 2018 unfunded commitments	Redemption frequency	Redemption notice frequency
Limited partnerships and LLCs:						
U.S. corporate debt funds	$ 82,053	79,540	—	$ —	Monthly	45 Days
International equity funds	266,718	259,728	—	—	Monthly	10 Days
Multistrategy hedge funds	41,964	36,878	—	—	Annually	100 Days
Long-short hedge funds	174,667	187,039	—	—	Annually	90 Days
Private equity	123,428	82,588	1–13	262,421	Not eligible	N/A
Venture capital	73,816	69,111	1–15	70,480	Not eligible	N/A
Hybrid fund of funds	22,902	27,065	1–8	9,281	Not eligible	N/A
Distressed securities	43,660	43,390	1–8	15,451	Not eligible	N/A
Real estate	30,668	40,119	1–9	30,733	Not eligible	N/A
Natural resources	33,677	41,533	1–14	1,001	Not eligible	N/A
Oil and gas	44,106	40,667	1–10	15,420	Not eligible	N/A
	$ 937,659	907,658		$ 404,787		

(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 multistrategy funds. These investments are subject to risks, including market risk, manager risk, and liquidity risk. The goal of these investments is to provide returns that exhibit lower correlations and lower volatility than the public equity markets.

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

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

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

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

(e) Real Estate

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

(f) Natural Resources and Oil and Gas

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

Investment Return

Investment return for fiscal years 2018 and 2017 was as follows (in thousands):

		2018	2017
Dividend and interest income	$	28,206	24,771
Net realized and unrealized gains		96,469	163,221
External investment management fees and expenses		(8,249)	(7,856)
Investment return, net	$	116,426	180,136

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

		2018	2017
Other investments income	$	20,461	17,842
Endowment distributions		51,429	51,033
Investment return in excess of endowment distributions		44,536	111,261
Investment return, net	$	116,426	180,136

(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. Additional considerations used to categorize investments include:

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

Investments measured at net asset value, as a practical expedient for fair value, include the University's interests in limited partnerships and LLCs and are reported by investment managers unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. As of June 30, 2018, 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 assets represent the fair value of assets held in charitable gift annuities, charitable remainder annuity trusts, and charitable remainder unitrusts. These assets consist primarily of corporate obligations, stock and convertible securities, and international investments and have been classified as Level 2 using the same methodology described above for similar types of underlying assets.

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

(c) Funds Held in Trust by Others

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

(d) Debt Interest Rate Swap Agreements

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

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, 2018 consolidated balance sheet (in thousands):

	June 30, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Investments:				
Money market and other liquid funds	$ 44,093	43,973	120	—
U.S. government obligations:				
Mortgage-backed securities	26,838	—	26,838	—
Treasury obligations	111,024	107,979	3,045	—
Other	8,766	1,313	7,453	—
	146,628	109,292	37,336	—
Corporate obligations	281,114	304	280,810	—
Stock and convertible securities	412,438	409,963	2,475	—
International investments	96,500	94,515	1,985	—
Other	6,320	2,901	—	3,419
Investments measured at net asset value [(1)]	937,659	—	—	—
Total investments	1,924,752	660,948	322,726	3,419
Restricted deposits	199,811	135,048	64,763	—
Funds held in trust by others	77,067	—	—	77,067
Total	$ 2,201,630	795,996	387,489	80,486
Financial liabilities, included in the other liabilities:				
Annuity and life income funds payable	$ 4,467	—	—	4,467
Interest rate swaps	17,824	—	17,824	—
Total	$ 22,291	—	17,824	4,467

(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.

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 year ended June 30, 2018 (in thousands):

		Financial assets		Financial liabilities
		Funds held in trust by others	Other	Annuity and life income funds payable
Total at June 30, 2017	$	74,131	3,149	4,977
Net gains on investments		5,112	—	—
Net losses on liabilities		—	—	(67)
Purchases		22,916	559	140
Sales		(25,092)	(289)	(583)
Total at June 30, 2018	$	77,067	3,419	4,467

During the year ended June 30, 2018, there were no transfers of assets between levels.

(6) Annuity and Life-Income Funds

The University held $6,576,000 and $6,533,000 in investments related to annuity and life income funds as of June 30, 2018 and 2017, respectively. A related liability of $4,467,000 and $4,977,000 as of June 30, 2018 and 2017, 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 $2,285,000 and $2,369,000 as of June 30, 2018 and 2017, respectively.

(Continued)

(7) Property, Plant, and Equipment

Property, plant, and equipment as of June 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017	Range of useful lives (years)
Land	$ 55,534	54,366	n/a
Land improvements	78,252	75,681	15
Buildings	1,837,009	1,778,631	40
Equipment and furnishings	294,498	278,556	2–20
Library	262,765	250,603	10
Capital leasehold	46,017	46,017	29–40
Collections and works of art	8,674	8,757	n/a
Construction in progress	118,947	75,087	n/a
	2,701,696	2,567,698	
Less accumulated depreciation	(1,120,731)	(1,060,872)	
	$ 1,580,965	1,506,826	

At June 30, 2018, the University had outstanding contractual commitments of $63,298,000 for building and renovation projects. Interest costs associated with various construction projects of $2,059,000 and $1,826,000 were capitalized at June 30, 2018 and 2017, respectively.

(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 $21,395,000 and $21,291,000 as of June 30, 2018 and 2017, respectively, which is included in other liabilities on the accompanying consolidated balance sheets. The following table reconciles the obligation as of June 30, 2018 and 2017 (in thousands):

	2018	2017
Balance at beginning of year	$ 21,291	21,123
Additional obligations incurred	3	58
Obligations settled in current period	(1,013)	(750)
Changes in estimates, including timing	505	257
Accretion expense	609	603
Balance at end of year	$ 21,395	21,291

(9) Long-Term Debt and Capital Leases

Indebtedness at June 30, 2018 and 2017 consisted of the following (in thousands):

	Fiscal year of maturity	Interest rate(s)%	Outstanding principal 2018	2017
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	2018	6.05	—	7,050
Variable-rate debt			122,585	129,635
Fixed-rate bonds:				
Series 2009B	2027	3.00–5.00	24,040	28,645
Series 2010A taxable Build America Bonds (BABs)	2041	3.95	119,580	119,580
Series 2010B taxable	2020	2.97–3.80	4,640	6,845
Series 2013A	2034	3.00–5.00	67,270	73,535
	2044	5.00	27,825	27,825
Series 2013B taxable	2027	1.12–3.00	6,750	7,430
	2034	3.83	6,770	6,770
	2044	3.98	13,555	13,555
Series 2015	2036	4.00–5.00	24,235	25,060
	2041	5.00	11,385	11,385
	2046	5.00	14,625	14,625
Series 2018 taxable	2051	4.07	76,770	—
	2059	4.22	123,230	—
Fixed-rate debt			520,675	335,255
Capital leases	2021–2049	3.68–4.25	64,027	31,930
			707,287	496,820
Premium on long-term debt, net of debt issue costs			25,619	27,390
Long-term debt and capital leases			$ 732,906	524,210

With the exception of the Blue Hen Hotel LLC and Series 2018 bonds, the bonds in the preceding table were primarily issued to finance capital projects associated with auxiliary services and are secured by a pledge of gross revenue received by the University from the operations of all project facilities including housing, dining, parking, and other revenue-producing facilities and mandatory student fees. The Series

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

The 2004B and 2005 bonds initially bear interest at a daily rate and can be converted to bear interest at a weekly, flexible, term, or fixed rate to maturity. The daily rate of interest on June 30, 2018 was 1.55% and 1.55%, 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, 2018, the University received Subsidy Payments of $2,293,000, 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, 2018 was 1.51%.

On July 6, 2017, the Blue Hen Hotel LLC Bonds were mandatorily tendered, repaid in full, and are no longer outstanding from that day forward. The University will continue to service the outstanding swap agreement associated with this debt.

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

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, 2018.

The University has obligations under capital leases with annual lease payments ranging from $900,000 to $2,169,000. As of June 30, 2018, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases amounted to $46,017,000 and $8,457,000, respectively.

(Continued)

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

2019	$	13,653
2020		11,906
2021		14,411
2022		13,997
2023		14,642
Thereafter		638,678
	$	707,287

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

(10) Interest Rate Swap Agreements

The University has interest rate swap agreements for notional amounts of approximately $131,935,000 and $133,235,000 as of June 30, 2018 and 2017 (in thousands):

	Consolidated balance sheet location	Location of gain		Fair value 2018	Fair value 2017	Amount of gain 2018	Amount of gain 2017
Interest rate swap agreements	Other liabilities	Other, net	$	17,824	25,415	7,591	11,983

A portion of the total interest rate swap liabilities reported on the consolidated balance sheet 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's Retirement Savings Plan. As a result, there are no unfunded benefits. Pension plan expense for the University's 403(b) Retirement Savings Plan was $32,445,000 in 2018 and $30,482,000 in 2017.

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

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

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

(b) Faculty Retirement

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

For the years ended June 30, 2018 and 2017, the University recognized service costs related to this plan of $3,269,000 and $5,314,000, respectively. Postemployment costs other than service costs was $5,646,000 in 2018 and $8,659,000 in 2017. The University's estimated unfunded obligation related to this plan is $64,658,000 and $69,112,000, respectively, and is included in postemployment benefit obligations on the consolidated balance sheets as of June 30, 2018 and 2017.

The benefit obligation was determined using a discount rate of 4.20% as of June 30, 2018 and 3.62% as of June 30, 2017, and a rate of compensation increase between 2.50% and 3.00%. As of June 30, 2018, the University's expected future benefit payments for fiscal years 2019 through 2023 are $8,973,000, $8,973,000, $8,895,000, $7,093,000, and $4,233,000, 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, 2018, the University has not funded these benefits.

Net periodic postemployment benefit cost for 2018 and 2017 includes the following components (in thousands):

		2018	2017
Operating expenses:			
Service cost	$	16,387	17,923
Nonoperating costs:			
Interest cost		19,358	18,974
Amortization of unrecognized loss		5,393	7,681
		24,751	26,655
Net periodic postemployment benefit cost	$	41,138	44,578

The accumulated postemployment benefit obligation recognized in the consolidated balance sheets at June 30, 2018 and 2017 is as follows (in thousands):

		2018	2017
Accrued postemployment liability	$	359,065	326,715
Unrecognized net loss		74,080	154,583
Accumulated postemployment benefit obligation	$	433,145	481,298

Changes in the accumulated postemployment plan benefit obligation and funding status for 2018 and 2017 are as follows (in thousands):

		2018	2017
Benefit obligation at beginning of year	$	481,298	428,692
Service cost		16,387	17,923
Interest cost		19,358	18,974
Amortization of unrecognized loss		5,393	7,681
Actuarial (gain) loss		(80,503)	16,221
Disbursements		(8,788)	(8,193)
Benefit obligation at end of year		433,145	481,298
Fair value of plan assets at beginning of year		—	—
Employer contributions		8,788	8,193
Benefits paid		(8,788)	(8,193)
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	$	433,145	481,298

The accumulated postemployment benefit obligation was determined using a discount rate of 4.45% and 4.22% in 2018 and 2017, respectively. The healthcare cost trend rates used reflect the differences between pre-65 and post-65 claims were 7.5% and 8.25%, respectively, in 2018 and 7.50% and 8.00%, respectively, in 2017. This rate gradually decreases to 4.50% by the year 2026 for pre-65 and by the year 2027 for post-65 claims. The actuarial gain in 2018 relates to changes in assumptions in discount rates, mortality, healthcare cost trends, and withdrawal rates.

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	$	10,307	(7,501)
Effect on benefit obligation as of June 30, 2018		87,913	(68,296)

At June 30, 2018, the University's expected future benefit payments for future service are as follows (in thousands):

Year ending June 30:		
2019	$	11,406
2020		12,580
2021		13,858
2022		15,078
2023		16,133
2024 through 2028		96,905

(d) Participation in State Retirement Plans

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

The University is required to pay its share of the annual premium accrued in connection with the State Plan (inclusive of Pension and OPEB), which is based upon a percentage of covered payroll. The percentage of covered payroll was 21.77% in 2018 and 22.28% in 2017. Expense recognized for the State Plan was $13,151,000 and $13,090,000 in 2018 and 2017, respectively.

The State Plan's financial statements and actuarial reports for June 30, 2017 (most recent available) indicate the following:

- The University has 1,324 active participants in the State Plan. The State Plan, in total, has 68,910 participants, 37,119 of which are active participants.
- The University's contribution to the State Plan in fiscal year June 30, 2017 of $5,866,000 was approximately 3.14% of the $186,625,000 total annual required plan employer contributions to the State Plan.
- At June 30, 2017, the State Plan had an 86.5% funded ratio of the actuarial accrued liability.
- The funding objective of the State Plan is to establish contribution rates that, over time, will remain level as a percent of payroll. The contribution rate was developed to provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus level percent of payroll amortizations of each layer of the unfunded liability over a specified period. The participant organizations to the State Plan have consistently funded the full amounts required based on the actuarial valuations and specific statutory provisions.

As disclosed in the State of Delaware's Consolidated Annual Financial Report for the year ended June 30, 2017 (most recent available), the State Plan for OPEB as of June 30, 2017 indicated the State had an unfunded actuarial accrued liability of $8.25 billion. The University's contribution to the State Plan for OPEB in fiscal year June 30, 2017 of $5,850,000 was approximately 2.4% of the $240,900,000 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 2018 and 2017 was $63,450,000 and $61,729,000, respectively.

(12) Net Assets

Temporarily restricted net assets include the following at June 30, 2018 and 2017 (in thousands):

		2018	2017
Contributions receivable	$	24,715	12,687
Contributions restricted for buildings		9,262	2,550
Annuity and life-income funds		679	467
Accumulated gains on permanent endowment funds		638,982	612,384
Other time and purpose restrictions		32,584	31,926
	$	706,222	660,014

Permanently restricted net assets include the following at June 30, 2018 and 2017 (in thousands):

		2018	2017
Contributions receivable	$	10,529	14,296
Permanent loan funds		380	368
Annuity and life-income funds		1,429	1,091
Funds held in trust by others		77,067	74,131
Permanent endowment funds		343,492	329,952
	$	432,897	419,838

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.

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(13) Endowment

The University endowment consists of approximately 1,140 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 the State'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 provided 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 the State's enacted version of UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the University and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation,

(Continued)

(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 4.14% and 4.15% at June 30, 2018 and 2017, 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, 2018 and 2017. 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.

(f) Net Asset Classification of Endowment Funds

Endowment net assets by type of fund consist of the following as of June 30, 2018 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	$	—	637,808	343,492	981,300
Board designated		353,656	1,174	—	354,830
	$	353,656	638,982	343,492	1,336,130

Endowment net assets by type of fund consist of the following as of June 30, 2017 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	$	—	611,256	329,952	941,208
Board designated		347,589	1,128	—	348,717
	$	347,589	612,384	329,952	1,289,925

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, 2018 and 2017, 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 $431,624,000 and $417,803,000, respectively. Additionally, $206,184,000 and $193,453,000 as of June 30, 2018 and 2017, respectively, is determined to be with purpose restrictions as set forth by the donors.

Changes in endowment net assets for the years ended June 30, 2018 and 2017 (in thousands) are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2016	$	323,017	546,970	322,731	1,192,718
Investment return:					
Investment income		4,358	11,801	—	16,159
Net appreciation (depreciation) – realized and unrealized		33,773	91,010	(40)	124,743
Total investment return		38,131	102,811	(40)	140,902
Contributions		187	19	6,547	6,753
Endowment spending distribution		(13,936)	(37,403)	—	(51,339)
Other changes, including life income fund and other transfers		190	(13)	714	891
Endowment net assets, June 30, 2017		347,589	612,384	329,952	1,289,925
Investment return:					
Investment income		4,311	11,974	—	16,285
Net appreciation – realized and unrealized		19,389	52,387	7	71,783
Total investment return		23,700	64,361	7	88,068
Contributions		104	14	13,098	13,216
Endowment spending distribution		(13,864)	(37,777)	—	(51,641)
Other changes, including life income fund and other transfers		(3,873)	—	435	(3,438)
Endowment net assets, June 30, 2018	$	353,656	638,982	343,492	1,336,130

(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, 2018 and 2017 (in thousands):

	2018			2017		
	Undergraduate	Graduate	Total	Undergraduate	Graduate	Total
Tuition:						
Unrestricted	$ 82,317	62,566	144,883	72,776	57,980	130,756
Federal grants	820	1,373	2,193	714	1,099	1,813
State grants	10,887	95	10,982	11,081	368	11,449
Private gifts	2,167	1,202	3,369	2,284	1,938	4,222
Endowment	3,978	191	4,169	3,935	172	4,107
Total	100,169	65,427	165,596	90,790	61,557	152,347
Student aid expenses	3,618	4,037	7,655	3,270	3,964	7,234
Total	$ 103,787	69,464	173,251	94,060	65,521	159,581

(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.

(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, 2018 through December 3, 2018, which was the date the consolidated financial statements were issued, and determined no additional disclosures are required.