UNIVERSITY OF DELAWARE

Consolidated Financial Statements

June 30, 2019 and 2018

(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 sheets as of June 30, 2019 and 2018, the related consolidated statements of activities, and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended June 30, 2019, 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, 2019 and 2018, and the changes in their net assets, and their cash flows for the years then ended, and their functional expenses for the year ended June 30, 2019, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1(n) to the consolidated financial statements, in 2019, University of Delaware adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*, ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. Our opinion is not modified with respect to these matters.

KPMG LLP

Philadelphia, Pennsylvania
November 14, 2019

UNIVERSITY OF DELAWARE

Consolidated Balance Sheets

June 30, 2019 and 2018

(Dollars in thousands)

Assets		**2019**	**2018**
Cash and cash equivalents	$	111,398	85,022
Operating investments		177,487	316,988
		288,885	402,010
Accounts and notes receivable, net		40,865	41,360
Prepaid expenses and inventories		1,621	1,974
Contributions receivable, net		49,517	35,244
Restricted deposits		209,516	199,811
Student loan receivables, net		10,419	12,199
Investments		1,655,963	1,607,764
Funds held in trust by others		78,655	77,067
Property, plant, and equipment, net		1,706,809	1,580,965
Total assets	$	4,042,250	3,958,394
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	125,653	115,376
Deferred revenue and student deposits		36,750	28,926
Long-term debt and capital leases		718,624	732,906
Postemployment benefit obligations		505,986	497,803
Other liabilities		82,912	71,603
Total liabilities		1,469,925	1,446,614
Net assets:			
Without donor restrictions		1,365,974	1,372,661
With donor restrictions		1,206,351	1,139,119
Total net assets		2,572,325	2,511,780
Total liabilities and net assets	$	4,042,250	3,958,394

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statements of Activities

Years ended June 30, 2019 and 2018

(Dollars in thousands)

	2019	2018
Changes in net assets without donor restrictions:		
Operating revenues:		
Tuition and fees, net of scholarships and fellowships ($185,078 in 2019 and $165,596 in 2018)	$ 455,052	444,724
Sales and services of auxiliary enterprises	137,576	136,607
Grants, contracts, and other exchange transactions	201,657	181,600
State operating appropriations	122,320	118,794
Contributions	9,868	12,218
Endowment distributions	51,877	51,422
Other investment income	26,782	20,386
Other revenue	45,889	44,782
Net assets released from restrictions	18,373	11,954
Total operating revenues	1,069,394	1,022,487
Operating expenses:		
Salaries and wages	492,916	468,823
Benefits	170,752	162,476
Postemployment	13,825	19,657
Total compensation	677,493	650,956
Supplies, materials and purchased services	249,715	232,487
Travel	30,918	29,002
Depreciation and amortization	76,332	73,586
Interest	28,772	21,887
Total operating expenses before loss on disposals and write-offs	1,063,230	1,007,918
Change in net assets from operating activities before loss on disposals and write-offs	6,164	14,569
Loss on disposals and write-offs	22,659	10,382
Total operating expenses	1,085,889	1,018,300
Change in net assets from operating activities	(16,495)	4,187
Other changes in net assets without donor restrictions:		
Investment return in excess of endowment distributions	19,726	12,655
Contributions	1,465	414
Postemployment costs other than service costs	(22,258)	(30,398)
Other changes in postemployment benefit obligations	10,166	86,604
Other, net	(2,658)	2,554
Net assets released from restrictions	3,366	3,620
Other changes in net assets without donor restrictions	9,807	75,449
Total changes in net assets without donor restrictions	(6,688)	79,636
Changes in net assets with donor restrictions:		
Investment return in excess of endowment distributions	27,220	31,881
Contributions	56,533	42,356
State capital appropriations	187	827
Endowment distributions	61	7
Other investment income	75	75
Other, net	4,896	522
Net assets released from restrictions	(21,739)	(15,574)
Total changes in net assets with donor restrictions	67,233	60,094
Total changes in net assets	60,545	139,730
Net assets at beginning of year	2,511,780	2,372,050
Net assets at end of year	$ 2,572,325	2,511,780

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Functional Expenses

Year ended June 30, 2019 with summarized information for 2018

(Dollars in thousands)

	2019									
	Instruction and departmental research	Sponsored research	Extension and public service	Academic support	Student services	Student aid	Auxiliary enterprises	General institutional support	Total	2018 Total
Operating expenses:										
Expenses:										
Salaries and wages	$ 265,690	68,771	27,526	40,306	20,140	4,390	9,412	56,681	492,916	468,823
Benefits	89,560	19,400	8,082	16,771	7,305	(79)	3,792	25,921	170,752	162,476
Postemployment benefits	9,329	1,230	552	935	340	—	173	1,266	13,825	19,657
Total compensation	364,579	89,401	36,160	58,012	27,785	4,311	13,377	83,868	677,493	650,956
Supplies, materials and purchased services	64,000	47,653	12,920	12,405	12,087	3,238	70,702	26,710	249,715	232,487
Travel	19,645	3,728	1,783	1,785	1,547	156	145	2,129	30,918	29,002
Depreciation and amortization	26,190	14,026	1,182	12,500	2,338	—	14,939	5,157	76,332	73,586
Interest	11,696	776	—	—	22	—	16,248	30	28,772	21,887
Total operating expenses before loss on disposals and write-offs	486,110	155,584	52,045	84,702	43,779	7,705	115,411	117,894	1,063,230	1,007,918
Loss on disposals and write-offs	3,486	1,128	38	—	—	—	18,007	—	22,659	10,382
Total operating expenses	489,596	156,712	52,083	84,702	43,779	7,705	133,418	117,894	1,085,889	1,018,300
Other changes in net assets without donor restrictions:										
Postemployment other than service costs	15,638	1,812	813	1,377	500	—	254	1,864	22,258	30,398
Total functional expenses 2019	$ 505,234	158,524	52,896	86,079	44,279	7,705	133,672	119,758	1,108,147	1,048,698
Total functional expenses 2018	$ 476,037	153,048	53,037	86,779	42,394	7,655	123,672	106,075	1,048,698	

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(Dollars in thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	60,545	139,730
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation, amortization, and loss on disposals		98,663	85,932
Change in postemployment benefit obligations and other nonoperating activities		14,188	(51,117)
Net realized and unrealized gains		(96,408)	(96,469)
Change in fair value of swap		10,529	(7,591)
Gifts of equipment		(1,235)	(414)
State capital appropriations		(187)	(827)
Contributions restricted for endowment and capital		(41,983)	(29,160)
Endowment income restricted for reinvestment		(281)	(200)
Changes in operating assets and liabilities:			
Accounts and notes receivable, net		495	4,049
Prepaid expenses and inventories		353	3,837
Contributions receivable, net		3,850	3,792
Accounts payable, accrued and other liabilities		10,888	8,781
Deferred revenue and students deposits		7,824	7,114
Postemployment benefit obligations		(3,909)	3,600
Net cash provided by operating activities		63,332	71,057
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		1,739,372	1,548,329
Purchases of investments		(1,553,250)	(1,514,224)
Acquisitions of property, plant, and equipment		(226,317)	(114,174)
Disbursements of loans to students		(256)	(1,167)
Repayments of loans by students		2,035	2,234
Net cash used in investing activities		(38,416)	(79,002)
Cash flows from financing activities:			
Repayments of principal on long-term debt and capital leases		(149,121)	(23,041)
Net proceeds from issuance of long-term debt		135,788	199,002
State capital appropriations		187	827
Endowment income restricted for reinvestment		281	200
Contributions restricted for endowment and capital		23,860	17,107
Repayments (advances) from federal government for student loans		170	(2,465)
Change in restricted deposits		(9,705)	(149,687)
Net cash provided by financing activities		1,460	41,943
Net increase in cash and cash equivalents		26,376	33,998
Cash and cash equivalents, beginning of year		85,022	51,024
Cash and cash equivalents, end of year	$	111,398	85,022
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized	$	31,926	22,563
Construction – accounts payable		37,777	24,607
Property additions through capital leases		325	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 33,700 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 12).

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

(b) Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the various academic and support divisions and other affiliated entities, including 1743 Holdings, LLC; Blue Hen Wind, Inc.; and Blue Hen Hotel LLC, controlled by the University. 1743 Holdings, LLC was created as a wholly owned subsidiary of the University for the purpose of purchasing and managing a 272-acre site, which is contiguous to the University's 968-acre Newark campus. Blue Hen Wind, Inc. operates a wind turbine adjacent to the University's Hugh R. Sharp campus in Lewes. Blue Hen Hotel LLC is a limited liability company originally formed on May 4, 2001. It was formed for the sole purpose of developing, managing, and operating a 125-room Courtyard Marriott Hotel adjacent to the Clayton Hall Conference Facility located in Newark, Delaware and owned by the University. All significant inter-entity activities and balances are eliminated for financial reporting purposes.

Accordingly, net assets of the University and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated by the Board of Trustees for specific or general purposes.
- Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time, and net assets subject to donor-imposed stipulations that are maintained permanently by the University. Generally, the donors of these assets permit the University to use all of, or part of, the total investment return on related investments for general or specific purposes.

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. Functional categories are programmatic with the exception of general institutional support, which is management and general. Operation and maintenance of plant, depreciation and accretion expense, and disposals are allocated based on square footage. Postemployment and fringe benefit expenses are allocated based on salaries and wages. Interest expense and amortization of bond discount are allocated to the functional classification that benefited from the use of the proceeds of the debt. Operation and maintenance of plant costs were approximately $70,076,000 and $65,434,000, and fund-raising costs were approximately $23,799,000 and $21,131,000 for the years ended June 30, 2019 and 2018, respectively.

Revenue is reported as increases in net assets without donor restrictions unless its use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions that reflect reclassifications from net assets with donor restrictions to net assets without donor restrictions. Releases from restrictions are presented as either operating or nonoperating. Nonoperating releases represent capital gifts for which the related assets were placed into service, and operating releases represent utilization of restricted gifts for program and operating purposes and related pledge payments.

(c) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid, interest-bearing deposits and short-term investments with maturities of three months or less at time of purchase, excluding amounts held for long-term investments, as disclosed in notes 5 and 6.

(d) Revenue Recognition – Contracts with Customers and Accounts Receivable

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which, along with related amendments, replaces existing revenue recognition requirements. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange. In addition, Topic 606 requires disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Revenues from student education (tuition and fees) are reflected net of reductions from scholarships and fellowships, while residence, dining services, and student health services are not reflected net of financial aid. All of these revenues are recognized as the services are provided over the academic year, which generally aligns with the University’s fiscal year. Disbursements made directly to students for services or other costs are reported as an expense. Scholarships are funded from unrestricted resources as well as funds from donors, federal, and state governments, and endowment income restricted to use for student financial assistance (see note 15). Disbursements made directly to students for services or other costs are reported as an expense. Scholarships are funded from unrestricted resources as well as funds from donors, federal, and state governments, and endowment income restricted to use for student financial assistance (see note 15).

The University provides financial aid to eligible students, generally in an “aid package” that includes loans, compensation under work-study programs, and/or grant and scholarship awards. The loans are provided primarily through programs of the U.S. government (including direct and guaranteed loan programs) under which the University is responsible only for certain administrative duties. These direct and guaranteed loans are not reflected on the University's consolidated financial statements as the loans are issued to the students.

Payments for student services are generally received prior to the commencement of each academic term and are reported as deferred revenue to the extent services will be rendered in the following fiscal year.

The composition of student tuition and fees, net revenue was as follows for the years ended June 30, 2019 and 2018 (in thousands):

		2019	2018
Undergraduate	$	367,747	365,249
Graduate		33,397	35,213
Other		53,908	44,262
Total	$	455,052	444,724

Auxiliary services revenue consisted of the following for the years ended June 30, 2019 and 2018 (in thousands):

		2019	2018
Student housing	$	65,067	62,513
Dining services		47,581	46,809
Student health services		10,022	10,055
Parking		7,498	7,042
Conference services		3,891	4,576
Other		3,517	5,612
Total	$	137,576	136,607

Other revenue includes revenues from service centers, program accounts, and other miscellaneous activities. Such revenues are recognized when goods or services are provided to customers.

Student receivables are invoiced based upon contractual terms with students. The University maintains allowances for doubtful accounts to reflect management's best estimate of probable losses inherent in receivable balances. Management determines the allowances for doubtful accounts based on known troubled accounts, historical experience, and other currently available evidence.

(e) Revenue Recognition – Contributions, including Government Grants and Contracts

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this ASU to reduce diversity in reporting by clarifying (1) whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance and (2) whether a contribution is conditional.

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

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

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenue in net assets without donor restrictions. Income and realized and unrealized net gains (losses) on investments of donor-restricted endowment and similar funds are reported as follows:

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

State operating appropriations are provided by the State of Delaware to support the general operations of the University. Funds are to be spent in accordance with applicable law and revenue is recognized ratably over the fiscal year as the funds are received and expended.

The University conducts sponsored program activity with various sponsors, including agencies and departments of the federal government, local government entities, and foundations. Such grants and contracts revenue (research and other programs) are recognized as the related qualifying expenses are incurred.

State construction grants are provided by the state of Delaware to fund certain capital projects in support of the University's mission. This revenue is classified as with donor restrictions until the capital project is completed and placed in service, at such time the net assets are released from restrictions.

(f) Split-Interest Agreements and Interests in Trusts

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

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

(g) Investments

Investments are stated at fair value or estimated fair value using net asset value as a practical expedient, as described in notes 5 and 6. Other investment income, including dividend and interest, is recognized when earned.

Investments measured at net asset value, as a practical expedient for fair value, include the University's interests in limited partnerships and LLCs and are reported by investment managers unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. As of June 30, 2019, 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.

(h) 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.

(i) Nonoperating Activities

Nonoperating activities include investment gains (losses), net of endowment distributions for operations; contributions and appropriations for endowment and plant purposes; the operations of subsidiaries ancillary to the University's mission, as discussed in note 1(b); changes in postemployment benefit and asset retirement obligations; and nonrecurring or unusual transactions. Nonoperating activities are presented in the statement of activities in the "other changes in net assets without donor restrictions" and "changes in net assets with donor restrictions."

(j) Income Taxes

The University and its affiliates have been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code except for taxes on income from activities unrelated to its exempt purpose. Accordingly, no provisions for income taxes have been made in the accompanying consolidated financial statements. Management has analyzed the tax positions taken by the University and has concluded that as of June 30, 2019 and 2018, there are no uncertain positions. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(k) Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates.

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

Student loan programs provided by the U.S. government under the Federal Perkins and Nursing Student Loan program are loaned to qualified students, administered by the University, and may be reloaned after collections. These funds, which are ultimately refundable to the government and are included in other liabilities, aggregated $13,340,000 and $13,171,000 as of June 30, 2019 and 2018, respectively.

(m) Derivative Financial Instruments

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

(n) Recently Issued Accounting Standards

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities* (ASU 2016-14). The ASU is effective, and has been adopted, for fiscal year 2019 including the required reclassification of the 2018 activities. ASU 2016-14 reduces the number of net assets classes from three to two, increases disclosure regarding liquidity (note 2), and requires expenses to be reported by their natural and functional classifications in one location (statement of functional expenses).

With respect to the net asset classes, net assets without donor restrictions were previously reported as of June 30, 2018 as unrestricted net assets ($1,372,661) and net assets with donor restrictions were previously reported as temporarily restricted ($706,222) and permanently restricted ($432,897) net assets as of June 30, 2018. Additional disclosures related to the University’s net assets are included in note 13.

(Continued)

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The University has implemented the provision of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements on a modified retrospective basis in 2019, with no substantive change.

In 2019, the University adopted ASU 2014-09, *Revenue from Contracts with Customers,* as amended. 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. The University adopted the ASU on the modified retrospective basis. The guidance did not significantly impact the timing of the University's revenue recognition.

(o) Upcoming Accounting Pronouncements Not Yet Adopted

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU is effective for fiscal year 2020 and will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The ASU requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. The University is currently working on the implementation of this ASU but does not expect the adoption of this standard to have a significant impact on its financial position or activities.

(p) Reclassifications

Certain amounts in 2018 have been reclassified to conform to 2019 presentation.

(2) Liquidity

The following table reflects the University's financial assets as of June 30, 2019 and 2018, available for general expenditures within one year (in thousands):

		2019	2018
Cash and cash equivalents	$	111,398	85,022
Operating investments		177,487	316,988
Less: Donor restricted gifts for capital projects		(4,217)	(9,262)
		284,668	392,748
Accounts and notes receivable collectible within one year		40,865	41,360
Operating funds invested in pooled portfolio		247,785	250,311
Endowment spending payout		51,877	51,877
Financial assets available to meet cash needs for general expenditures within one year	$	625,195	736,296

The University manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments or fixed income securities. Additionally, as of June 30, 2019 and 2018, the University had board-designated endowments and other investments of $362,976,000 and $353,656,000. Although the University does not intend to spend from these investments, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, they could be made available if necessary, subject to liquidity of the underlying investments.

(3) Contributions Receivable

Contributions receivable as of June 30, 2019 and 2018 are summarized as follows (in thousands):

		2019	2018
Amounts due in:			
Less than one year	$	11,352	7,829
One to five years		34,193	21,799
Over five years		9,270	10,637
		54,815	40,265
Less:			
Allowance for uncollectible pledges		(610)	(500)
Unamortized discounts		(4,688)	(4,521)
	$	49,517	35,244

Contributions to be received after one year are discounted at discount rates ranging from 2.5% to 3.5% for the years ended June 30, 2019 and 2018, respectively.

(4) Restricted Deposits

Restricted deposits as of June 30, 2019 and 2018 consisted of the following (in thousands):

		2019	2018
Unexpended bond proceeds (primarily 2019 and 2018 bonds)	$	190,831	175,914
Debt service reserve funds		14,279	20,536
Other deposits		4,406	3,361
	$	209,516	199,811

The unexpended bond proceeds represent the amount of unspent bond proceeds that remain on deposit. Approximately $83,000,000 and $171,000,000 are related to the 2018 general obligation bonds for the years ended June 30, 2019 and 2018, respectively. These bonds are held by the University, to be used in 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 disclosed in note 10. These funds are generally invested in cash equivalents and short-term U.S. government securities.

(5) Investments

Investments are recorded at fair value, or estimated fair value as a practical expedient, as described in note 6. The fair value by investment class as of June 30, 2019 and 2018 was as follows (in thousands):

		2019	2018
Money market and other liquid funds	$	43,364	44,093
U.S. government obligations		126,000	146,628
Corporate obligations		211,858	281,114
Stock and convertible securities		448,016	412,438
International equity investments		65,004	96,500
Limited partnerships and limited liability corporations (LLCs)		933,183	937,659
Other		6,025	6,320
Total	$	1,833,450	1,924,752

		2019	2018
Operating investments	$	177,487	316,988
Investments		1,655,963	1,607,764
	$	1,833,450	1,924,752

Included in the investments table above is $6,352,000 and $6,576,000 of annuity and life-income funds at June 30, 2019 and 2018, 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):

		2019	2018	Estimated remaining lives (years)		As of June 30, 2019 unfunded commitments	Redemption frequency	Redemption notice frequency
Limited partnerships and LLCs:								
U.S. corporate debt funds	$	—	82,053	—	$	—	Monthly	45 Days
International equity funds		280,669	266,718	—		—	Monthly	10 Days
Multistrategy hedge funds		50,059	41,964	—		—	Annually	100 Days
Long-short hedge funds		188,493	174,667	—		—	Annually	90 Days
Private equity		165,184	123,428	1–13		215,877	Not eligible	N/A
Venture capital		83,672	73,816	1–14		78,278	Not eligible	N/A
Hybrid fund of funds		18,775	22,902	1–7		5,393	Not eligible	N/A
Distressed securities		46,306	43,660	1–6		7,697	Not eligible	N/A
Real estate		31,093	30,668	1–9		30,330	Not eligible	N/A
Natural resources		45,539	33,677	1–13		2,601	Not eligible	N/A
Oil and gas		23,393	44,106	8–9		24,579	Not eligible	N/A
	$	933,183	937,659		$	364,755		

(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.

(g) Investment Return

Investment return for fiscal years ended June 30, 2019 and 2018 was as follows (in thousands):

		2019	2018
Dividend and interest income	$	35,700	28,206
Net realized and unrealized gains		96,408	96,469
External investment management fees and expenses		(6,367)	(8,249)
Investment return, net	$	125,741	116,426

Investment return is presented for fiscal years ended June 30, 2019 and 2018 was as follows (in thousands):

	2019	2018
Without donor restrictions:		
Other investment income	$ 26,782	20,386
Endowment distributions	51,877	51,422
Investment return in excess of endowment distributions	19,726	12,655
	98,385	84,463
With donor restrictions:		
Other investment income	75	75
Endowment distributions	61	7
Investment return in excess of endowment distributions	27,220	31,881
	27,356	31,963
Investment return, net	$ 125,741	116,426

(6) Fair Value Measurements

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

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

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

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

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

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

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

(a) Investments and Restricted Deposits

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

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

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

(b) Annuity and Life-Income Funds

The annuity and life-income funds assets represent the fair value of assets held in 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.

(Continued)

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, 2019 and 2018 consolidated balance sheets (in thousands):

	June 30, 2019			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Investments:				
Money market and other liquid funds	$ 43,364	43,220	144	—
U.S. government obligations:				
Mortgage-backed securities	39,641	—	39,641	—
Treasury obligations	82,088	82,088	—	—
Other	4,271	478	3,793	—
	126,000	82,566	43,434	—
Corporate obligations	211,858	335	211,523	—
Stock and convertible securities	448,016	445,677	2,339	—
International investments	65,004	63,052	1,952	—
Other	6,025	2,431	—	3,594
Investments measured at net asset value (1)	933,183	—	—	—
Total investments	1,833,450	637,281	259,392	3,594
Restricted deposits	209,516	153,657	55,859	—
Funds held in trust by others	78,655	—	—	78,655
Total	$ 2,121,621	790,938	315,251	82,249
Financial liabilities, included in the other liabilities:				
Annuity and life income funds payable	$ 4,493	—	—	4,493
Interest rate swaps	28,353	—	28,353	—
Total	$ 32,846	—	28,353	4,493

		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 sheets.

The following table presents a reconciliation of the consolidated balance sheets amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2019 and 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
Net gains on investments		3,032	—	459
Purchases		37,573	591	100
Sales		(39,017)	(416)	(533)
Total at June 30, 2019	$	78,655	3,594	4,493

During the year ended June 30, 2019, there were no transfers of assets between levels.

(7) Annuity and Life-Income Funds

The University held $6,352,000 and $6,576,000 in investments related to annuity and life income funds as of June 30, 2019 and 2018, respectively. A related liability of $4,493,000 and $4,467,000 as of June 30, 2019 and 2018, 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 $2,225,000 and $2,285,000 as of June 30, 2019 and 2018, respectively.

(8) Property, Plant, and Equipment

Property, plant, and equipment as of June 30, 2019 and 2018 consisted of the following (in thousands):

	2019	2018	Range of useful lives (years)
Land	$ 58,375	55,534	n/a
Land improvements	79,376	78,252	15
Buildings	1,830,197	1,837,009	40
Equipment and furnishings	315,764	294,498	2–20
Library	275,049	262,765	10
Capital leasehold	102,407	46,017	29–40
Collections and works of art	8,829	8,674	n/a
Construction in progress	202,422	118,947	n/a
	2,872,419	2,701,696	
Less accumulated depreciation	(1,165,610)	(1,120,731)	
	$ 1,706,809	1,580,965	

At June 30, 2019, the University had outstanding contractual commitments of $110,753,000 for building and renovation projects. Interest costs associated with various construction projects of $3,809,000 and $2,059,000 were capitalized at June 30, 2019 and 2018, respectively.

(9) Asset Retirement Obligations

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

The University had asset retirement obligations of $22,315,000 and $21,395,000 as of June 30, 2019 and 2018, respectively, which is included in other liabilities on the accompanying consolidated balance sheets. The following table reconciles the obligation as of June 30, 2019 and 2018 (in thousands):

	2019	2018
Balance at beginning of year	$ 21,395	21,291
Additional obligations incurred	46	3
Obligations settled in current period	(374)	(1,013)
Changes in estimates, including timing	637	505
Accretion expense	611	609
Balance at end of year	$ 22,315	21,395

(10) Long-Term Debt and Capital Leases

Indebtedness at June 30, 2019 and 2018 consisted of the following (in thousands):

	Fiscal year of maturity	Interest rate(s)%	Outstanding principal 2019	Outstanding principal 2018
Variable-rate debt:				
Series 2004B	2035	3.73 %	$ 30,770	32,185
Series 2005	2036	4.32	30,850	32,925
Series 2013C	2038	4.15	55,440	57,475
Variable-rate debt			117,060	122,585
Fixed-rate bonds:				
Series 2009B	—	3.00–5.00	—	24,040
Series 2010A taxable Build America Bonds (BABs)	2041	3.95	119,580	119,580
Series 2010B taxable	2020	2.97–3.80	2,365	4,640
Series 2013A	—	3.00–5.00	—	67,270
Series 2013A	—	5.00	—	27,825
Series 2013B taxable	2027	1.12–3.00	6,065	6,750
Series 2013B taxable	2034	3.83	6,770	6,770
Series 2013B taxable	2044	3.98	13,555	13,555
Series 2015	2036	4.00–5.00	23,380	24,235
Series 2015	2041	5.00	11,385	11,385
Series 2015	2046	5.00	14,625	14,625
Series 2018 taxable	2051	4.07	76,770	76,770
Series 2018 taxable	2059	4.22	123,230	123,230
Series 2019	2043	5.00	113,295	—
Fixed-rate debt			511,020	520,675
Capital leases	2021–2049	3.68–4.25	62,431	64,027
			690,511	707,287
Premium on long-term debt, net of debt issue costs			28,113	25,619
Long-term debt and capital leases			$ 718,624	732,906

With the exception of the Series 2019 and 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 2019 and 2018 bonds are unsecured general obligations of the University. All variable-rate debt referenced are subject to fixed-rate interest rate swap agreements and the corresponding interest rates for each issue include the swap rate, credit costs, and remarketing fee.

The 2004B and 2005 bonds initially bear interest at a daily rate and can be converted to bear interest at a weekly, flexible, term, or fixed rate to maturity. The daily rate of interest on June 30, 2019 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 32.7% of the corresponding interest payable on the bonds (the Subsidy Payments). For the year ended June 30, 2019, the University received Subsidy Payments of $2,296,000 for fiscal year, 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, 2019 was 1.91%.

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

On May 29, 2019, the University legally defeased its Series 2009B and 2013A Bonds with a total par value of $132,295,000.

On June 20, 2019, the University issued its Tax-Exempt Bonds, Series 2019. The bonds are unsecured general obligations of the University. The bonds consist of serial bonds maturity from November 1, 2019 through November 1, 2043. The bonds maturity from November 1, 2029 through November 1, 2043 are subject to optional redemption.

The University’s debt agreements require that the University meet certain financial and other covenants. The University was in compliance with these covenants as of June 30, 2019.

The University has obligations under capital leases with annual lease payments ranging from $900,000 to $2,169,000. As of June 30, 2019, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases amounted to $102,407,000 and $11,846,000, respectively.

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

2020	$	12,515
2021		14,351
2022		13,968
2023		14,608
2024		15,344
Thereafter		619,725
	$	690,511

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, 2022, respectively.

(11) Interest Rate Swap Agreements

The University has interest rate swap agreements for notional amounts of approximately $153,785,000 and $131,935,000 as of June 30, 2019 and 2018 (in thousands):

	Consolidated balance sheets location	Location of (loss)/gain		Fair value 2019	Fair value 2018	(Loss)/gain and other changes 2019	(Loss)/gain and other changes 2018
Interest rate swap agreements	Other liabilities	Other, net	$	28,353	17,824	(10,529)	7,591

The change in 2019 includes $4,488,000 of interest rate swaps assumed by the University as part of the Courtyard Apartments acquisition. A portion of the total interest rate swap liabilities reported on the consolidated balance sheets contains provisions that require the University's debt and the counterparty to maintain an investment grade credit rating from one or both of the major credit rating agencies. A downgrade of the University or the counterparty's rating may require that party to provide collateralization above a predetermined threshold on all rate swaps in net liability positions. To date, the University has not posted collateral.

(12) Employee Benefit Plans

(a) University Pension Plans – Defined Contribution

The University's 403(b) Retirement Savings Plan is available to substantially all faculty and professional employees. The University's contribution for this program is fixed at 11% of annual base salary for eligible employees who contribute a minimum of 5% of their annual salary. The policy of the University is to pay its share of the cost accrued in connection with the University's Retirement Savings

Plan. As a result, there are no unfunded benefits. Pension plan expense for the University's 403(b) Retirement Savings Plan was $34,015,000 in 2019 and $32,445,000 in 2018.

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.

Net periodic postemployment benefit cost for 2019 and 2018 includes the following components (in thousands):

		2019	2018
Operating expenses:			
Service cost	$	3,495	3,270
Nonoperating costs:			
Interest cost		3,017	2,333
Amortization of unrecognized loss		4,030	3,313
		7,047	5,646
Net periodic postemployment benefit cost	$	10,542	8,916

The University's estimated unfunded obligation related to this plan is $79,237,000 and $64,658,000, respectively, and is included in postemployment benefit obligations on the consolidated balance sheets as of June 30, 2019 and 2018.

The benefit obligation was determined using a discount rate of 3.37% as of June 30, 2019 and 4.20% as of June 30, 2018, and a rate of compensation increase of 3.0%. As of June 30, 2019, the University's expected future benefit payments for fiscal years 2020 through 2024 are $9,454,000, $8,868,000, $6,577,000, $6,088,000, and $9,568,000, 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, 2019, the University has not funded these benefits.

Net periodic postemployment benefit cost for 2019 and 2018 includes the following components (in thousands):

		2019	2018
Operating expenses:			
Service cost	$	10,330	16,387
Nonoperating costs:			
Interest cost		16,371	19,358
Amortization of unrecognized (gain) loss		(1,160)	5,393
		15,211	24,751
Net periodic postemployment benefit cost	$	25,541	41,138

The accumulated postemployment benefit obligation recognized in the consolidated balance sheets at June 30, 2019 and 2018 is as follows (in thousands):

		2019	2018
Accrued postemployment liability	$	375,665	359,065
Unrecognized net loss		51,085	74,080
Accumulated postemployment benefit obligation	$	426,750	433,145

Changes in the accumulated postemployment plan benefit obligation and funding status for 2019 and 2018 are as follows (in thousands):

		2019	2018
Benefit obligation at beginning of year	$	433,145	481,298
Service cost		10,330	16,387
Interest cost		16,371	19,358
Amortization of unrecognized (gain) loss		(1,160)	5,393
Actuarial gain		(22,995)	(80,503)
Disbursements		(8,941)	(8,788)
Benefit obligation at end of year		426,750	433,145
Fair value of plan assets at beginning of year		—	—
Employer contributions		8,941	8,788
Benefits paid		(8,941)	(8,788)
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	$	426,750	433,145

The accumulated postemployment benefit obligation was determined using a discount rate of 3.91% and 4.45% in 2019 and 2018, respectively. The healthcare cost trend rates used reflect the differences between pre-65 and post-65 claims were 7.50% and 7.00%, respectively, in 2019 and 7.5% and 8.25%, respectively, in 2018. This rate gradually decreases to 4.50% by the year 2028 for pre-65 and 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	$	6,803	(5,064)
Effect on benefit obligation as of June 30, 2019		89,708	(69,166)

At June 30, 2019, the University's expected future benefit payments for future service are as follows (in thousands):

Year ending June 30:		
2020	$	11,098
2021		12,196
2022		13,213
2023		14,066
2024		14,863
2025 through 2029		88,068

(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 23.15% in 2019 and 21.77% in 2018. Expense recognized for the State Plan was $14,114,000 and $13,151,000 in 2019 and 2018, respectively.

The State Plan's financial statements and actuarial reports for June 30, 2018 (most recent available) indicate the following:

The University has 1,321 active participants in the State Plan. The State Plan, in total, has 70,085 participants, 37,068 of which are active participants.

The University's contribution to the State Plan in fiscal year June 30, 2018 of $6,663,000 was approximately 3.22% of the $206,883,000 total annual required plan employer contributions to the State Plan.

At June 30, 2018, the State Plan had an 86.0% 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 Postretirement Health Reporting for the year ended June 30, 2018 (most recent available), the State Plan for OPEB as of June 30, 2018 indicated the State had a net liability of $8.21 billion. The University's contribution to the State Plan for OPEB in fiscal year June 30, 2018 of $5,656,000 was approximately 2.6% of the $214,466,000 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 2019 and 2018 was $64,833,000 and $63,450,000, respectively.

(13) Net Assets

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

		2019	2018
Without donor restrictions:			
Undesignated	$	402,015	541,316
Board designated endowment		362,976	353,656
Commitments for postemployment obligations		(505,986)	(497,803)
Commitments for interest rate swap agreements		(28,353)	(17,824)
Net investment in plant		1,135,322	993,316
Total net assets without donor restrictions	$	1,365,974	1,372,661
With donor restrictions:			
Pledges receivable:			
Pledges receivable for operations, primarily instruction	$	5,571	9,422
Pledges receivable for buildings		28,001	15,294
Pledges receivable for endowment		15,945	10,528
Total pledges receivable		49,517	35,244
Amounts received subject to expenditures for specified purposes:			
Student aid and instruction		19,671	19,584
Research and other		11,189	13,000
Capital additions		21,379	9,262
Total expendable subject to purpose restrictions		52,239	41,846

(Continued)

		2019	2018
Endowment earning subject to future appropriations:			
General institutional support	$	459,508	446,535
Student aid and instruction		191,431	178,652
Research and other		14,633	13,795
		665,572	638,982
Perpetual endowment funds – original gift corpus:			
General institutional support		71,375	71,314
Student aid and instruction		267,915	252,887
Research and other		19,577	19,291
		358,867	343,492
Other funds		1,501	2,488
Funds held in trust by others, primarily for general institutional support		78,655	77,067
Total net assets with donor restrictions	$	1,206,351	1,139,119

Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended June 30 (in thousands), as follows:

		2019	2018
Purpose restrictions accomplished – Operating:			
Instruction and operations	$	9,744	4,198
Scholarships		2,591	2,188
Student services		214	347
Academic support		3,030	2,386
Other		2,794	2,835
Total purpose restrictions accomplished – Operating	$	18,373	11,954
Purpose restrictions accomplished – Non-Operating:			
Capital asset additions	$	3,366	3,620

(14) Endowment

The University endowment consists of approximately 1,224 individual funds established for a variety of purposes. The endowment funds are subdivided into appropriate net asset classifications. The donor restricted endowment funds represent gifts with a stipulation by the donor that the principal not be expended. Board-designated with restrictions and without donor 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 all donor-restricted endowment funds as donor restricted net assets. At the time of appropriation by the University, and provided there are no additional purpose restrictions in place, with donor restricted net assets will be reclassified to without donor restricted net assets. The University considers donor restricted net assets at historical cost value of the original donor-restricted endowment to be permanent.

(b) Return Objectives and Risk Parameters

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

(c) Investment Strategy

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

(d) Spending Policy

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

The University endowment spending policy guidelines target an annual distribution in the range of 4.0% to 5.0% of the endowment pooled portfolio average market value over the 12 trailing quarters through December 31 of the year prior to the new fiscal year. The actual rate is set annually by the Board of Trustees and was 4.11% and 4.14% at June 30, 2019 and 2018, respectively.

(Continued)

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 net assets with donor restrictions. There were no deficiencies of this nature as of June 30, 2019 and 2018.

(f) *Net Asset Classification of Endowment Funds*

Endowment net assets by type of fund consist of the following as of June 30, 2019 and 2018 (in thousands):

		2019		
		Without donor restrictions	With donor restrictions	Total
Donor restricted	$	—	1,021,738	1,021,738
Board designated		362,976	2,701	365,677
	$	362,976	1,024,439	1,387,415

		2018		
		Without donor restrictions	With donor restrictions	Total
Donor restricted	$	—	981,300	981,300
Board designated		353,656	1,174	354,830
	$	353,656	982,474	1,336,130

Board-designated with donor restrictions net assets represent the income on restricted gifts to the University that the Board of Trustees has designated as endowment, but which cannot reasonably be expended within a year. As of June 30, 2019, the amount of with donor restrictions net assets, which may be used for purposes of the University as determined by the Board of Trustees, was $444,213,000. Additionally, $218,658,000 as of June 30, 2019, is determined to be with purpose restrictions as set forth by the donors.

Changes in endowment net assets for the years ended June 30, 2019 and 2018 (in thousands) are as follows:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2017	$	347,589	942,336	1,289,925
Investment return:				
Investment income, net		4,311	11,974	16,285
Net appreciation – realized and unrealized		19,389	52,394	71,783
Total investment return		23,700	64,368	88,068
Contributions		104	13,112	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	982,474	1,336,130
Investment return:				
Investment income, net		4,789	13,535	18,324
Net appreciation – realized and unrealized		17,885	50,106	67,991
Total investment return		22,674	63,641	86,315
Contributions		230	12,967	13,197
Endowment spending distribution		(13,804)	(38,428)	(52,232)
Other changes, including life income fund and other transfers		220	3,785	4,005
Endowment net assets, June 30, 2019	$	362,976	1,024,439	1,387,415

(15) 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.

The table below identifies this financial assistance by source and by student classification for the years ended June 30, 2019 and 2018 (in thousands):

		2019			2018		
		Undergraduate	Graduate	Total	Undergraduate	Graduate	Total
Tuition:							
Unrestricted	$	92,962	67,857	160,819	82,317	62,566	144,883
Federal grants		870	1,791	2,661	820	1,373	2,193
State grants		11,847	1,294	13,141	10,887	95	10,982
Private gifts		2,691	1,323	4,014	2,167	1,202	3,369
Endowment		4,225	218	4,443	3,978	191	4,169
Total		112,595	72,483	185,078	100,169	65,427	165,596
Student aid expenses		3,660	4,045	7,705	3,618	4,037	7,655
Total	$	116,255	76,528	192,783	103,787	69,464	173,251

(16) 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.

(17) Contingencies

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

(18) 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, 2019 through November 14, 2019, which was the date the consolidated financial statements were issued.

On September 17, 2019, the University issued Series 2019A tax-exempt bonds amounting to $49,390,000. The bond proceeds will be used for various capital projects of the University. On October 3, 2019, the University legally defeased its Series 2015 Bonds.