

Comprehensive Annual Financial Statements

**Delaware State University**

(A Component Unit of the State of Delaware)

June 30, 2012 and 2011

**Dr. Harry Lee Williams**

**President**

Amir Mohammadi

Executive Vice President for Finance and University Treasurer

Denese M. Lindsey

Associate Vice President for Planning, Budget and Systems

Prepared by Division of Finance

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Trustees

**Delaware State University:**

We have audited the basic financial statements, as listed in the accompanying table of contents, of Delaware State University (the University), a component unit of the State of Delaware, and its discretely presented component unit, the Delaware State University Student Housing Foundation (the “Housing Foundation”) as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the University’s and the Housing Foundation’s management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Delaware State University Foundation, Inc. (the “Advancement Foundation”), a discretely presented component unit of the University, as of and for the years ended June 30, 2012 and 2011, were audited by other auditors, whose report thereon dated October 15, 2012 expressed an unqualified opinion on those financial statements.

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

In our opinion, based on our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component units as of June 30, 2012 and 2011, and the respective changes in their net assets and, where applicable, their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") included on pages 1 through 13 be presented to supplement the basic financial statements. Such information, although not required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the MD&A information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*GRANT THORNTON LLP*

New York, New York  
December 5, 2012

Delaware State University

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

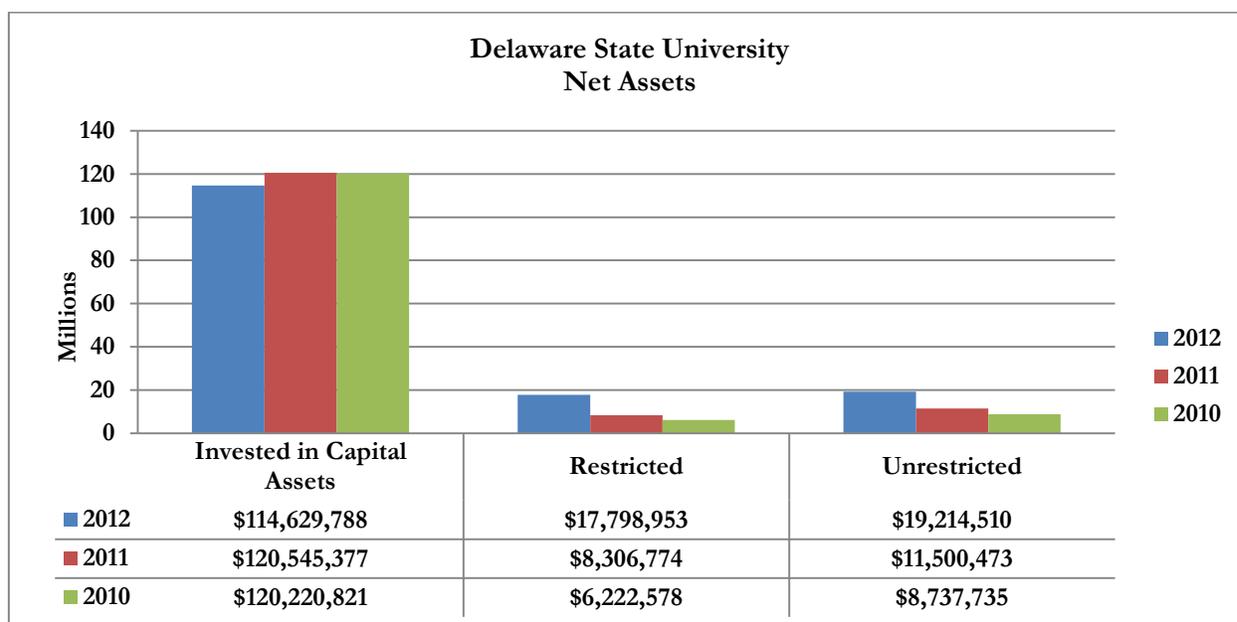
June 30, 2012 and 2011

Management’s discussion and analysis of Delaware State University’s (the “University”) financial statements provides an overview of the University’s financial activities for the years ended June 30, 2012 and 2011. Management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis. Responsibility for the completeness and fairness of this information rests with the preparer. This discussion and analysis contains financial activities of Delaware State University only (exclusive of component units).

**Financial highlights:**

- The University’s total net assets increased by \$11.3 million or 8.0% to \$151.6 million at June 30, 2012. The University’s total net assets increased by \$5.2 million or 3.8% and \$1.6 million or 1.2% to \$140.4 million and \$135.2 million at June 30, 2011 and 2010, respectively.
- During the year, the University’s operating expenses were \$34.8 million greater than the operating revenues. Operating expenses were \$36.1 million and \$38.5 million greater than the operating revenues for FY11 and FY10, respectively.
- In FY12, State appropriations were 30.0% of total operating expenses (35.4% FY 11 and 37.7% FY10).
- At June 30, 2012, debt as a percentage of capital assets, net was 48.1% (32.3% FY 11 and 32.5% FY10).
- Total net assets as a ratio of total operating expenditures are 1.4 times in FY12 (1.4 and 1.4 FY11 and FY10).
- Debt as a percentage of net assets was 64.4% (39.4% FY11 and 41.6% FY10).
- Unrestricted net assets as a percentage of total net assets was 12.7% (8.2% FY 11 and 6.5% FY10).

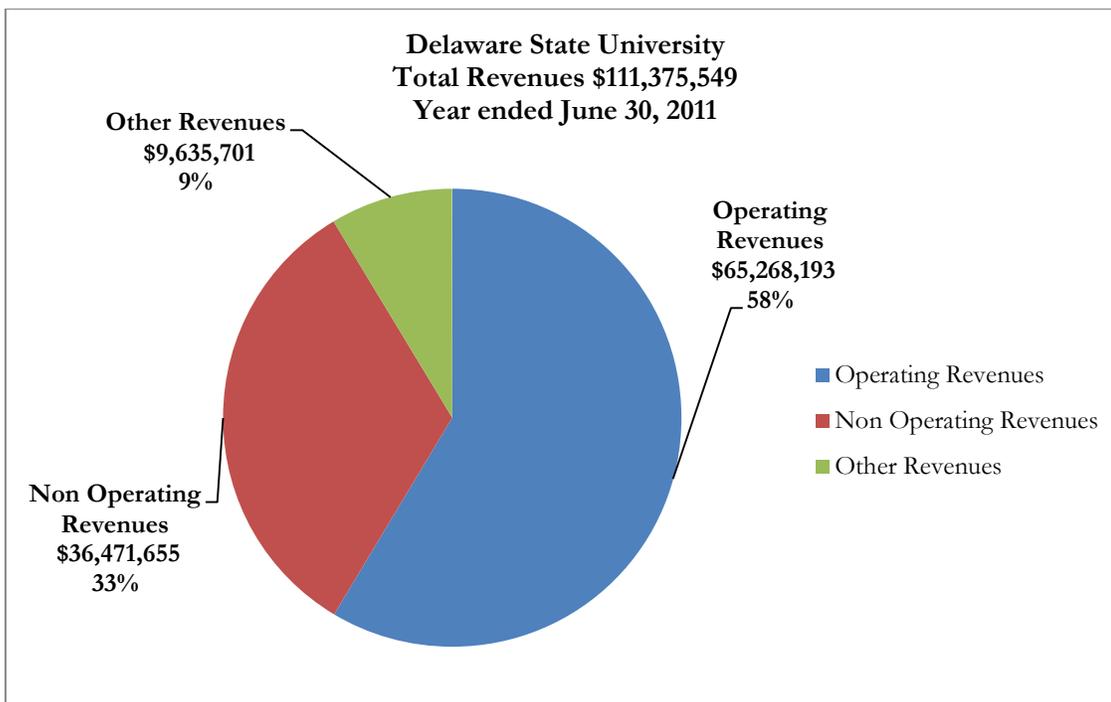
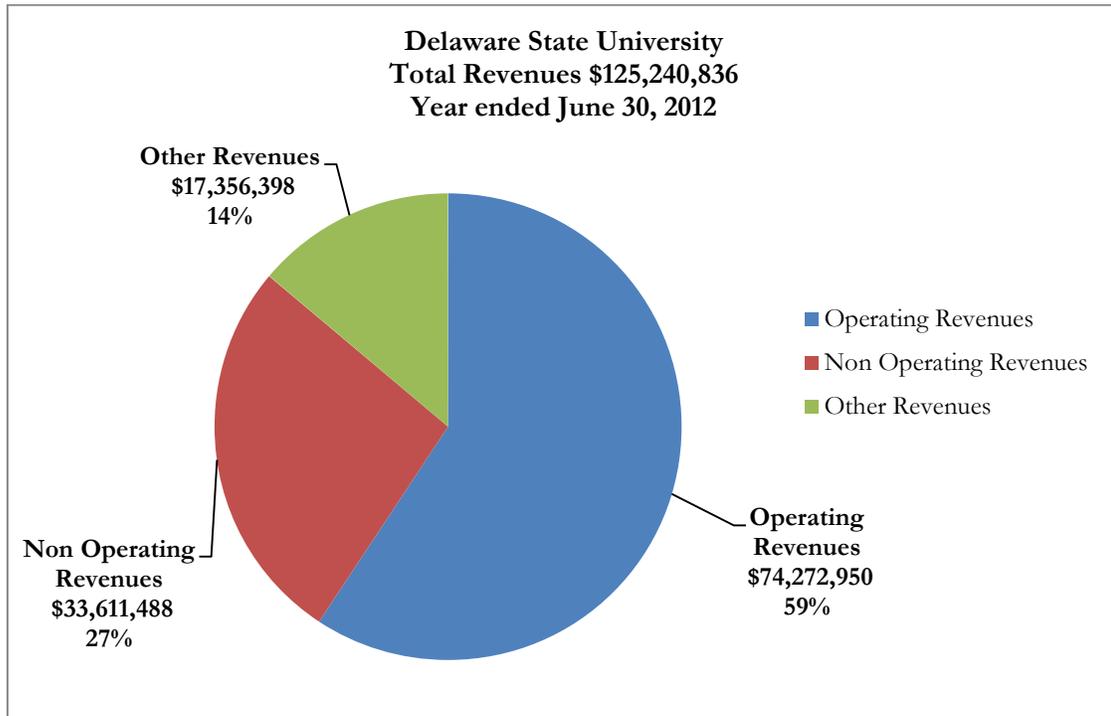
Graphically displayed, the comparative net asset balances by category and fiscal year, follow:



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

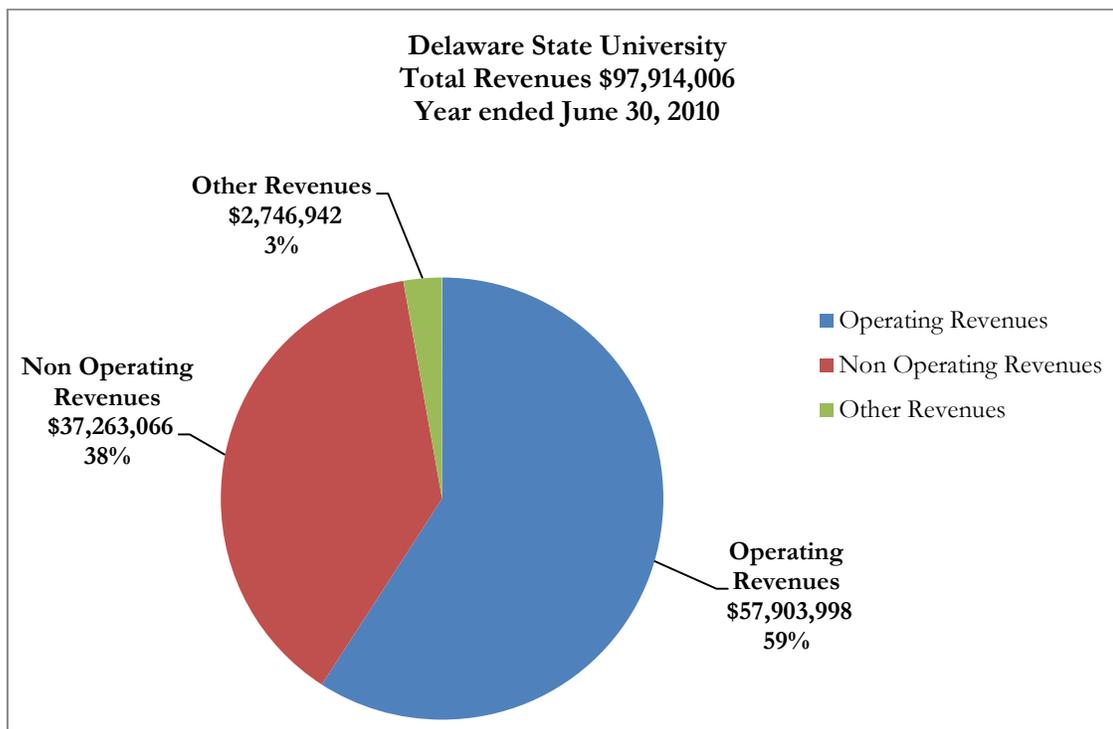
June 30, 2012 and 2011

The following chart provides a graphical breakdown of revenues by category for the fiscal years ended June 30:



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2012 and 2011



Delaware State University's financial position, as a whole, increased during the fiscal year ended June 30, 2012. Its total net assets increased \$11.3 million or 8.0% from the previous year, principally due to increased activity in government grants and state appropriations restricted to major capital improvements for Optical Science Center for Applied Research (OSCAR). Net assets as of June 30, 2011 increased \$5.2 million or 3.8% from the previous year.

**Using This Discussion and Analysis**

This discussion and analysis is intended to serve as an introduction to the University's basic financial statements. This report consists of three basic financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These three statements provide information on the University as a whole. Consistent with the types of programs and services generally associated with higher education institutions, the University has classified its operating expenses into the following categories: instructional, organized research, public service, academic support, student services, institutional support, operation and maintenance of plant and auxiliary enterprises.

**The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets**

One of the most important questions asked about the University's finances is, "is Delaware State University as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information on the University as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the opposite occurs, the result is a decrease in net assets. The relationship between operating revenues plus non-capital state appropriations and expenses may be thought of as Delaware State University's operating results taken as a whole.

Delaware State University

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2012 and 2011

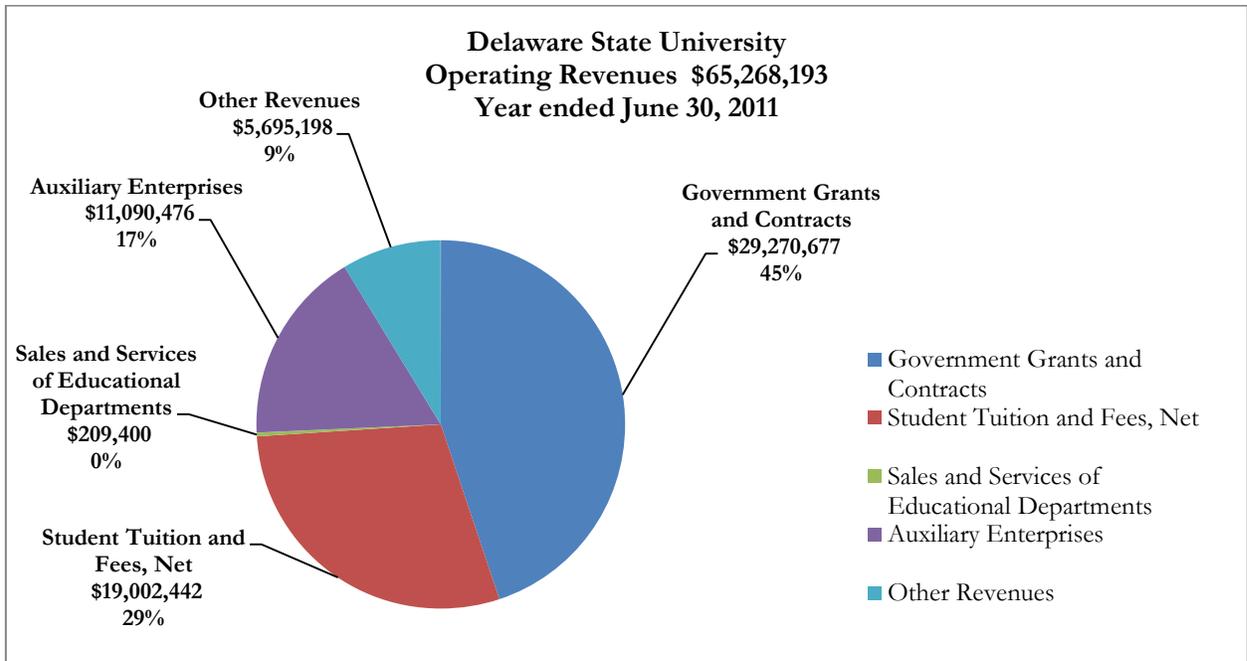
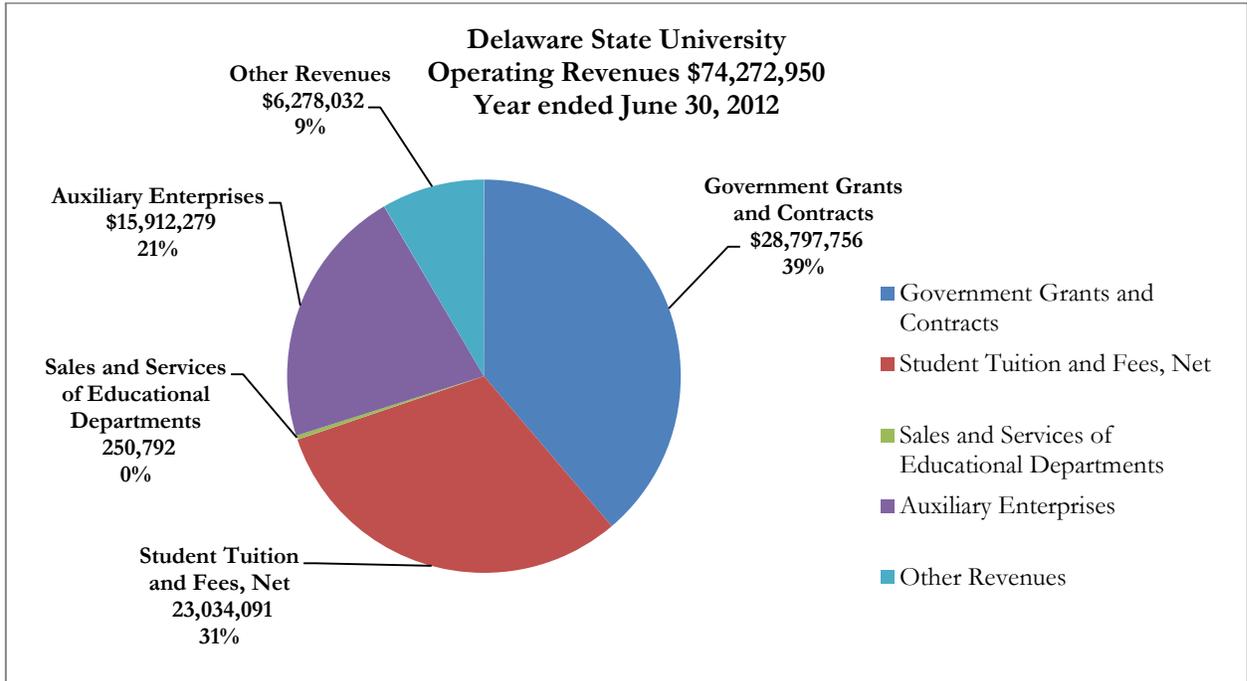
Delaware State University's net assets and related change in net assets is one way to measure the University's financial health, or financial position. Over time, increases or decreases in the University's net assets are one indicator of whether its financial health is improving. However, several non-financial factors are relevant as well, such as the trend and quality of student applicants, freshman class size, student retention, physical plant condition, and campus safety, to assess the overall health of the University.

The aforementioned statements include all assets and liabilities of the University using the accrual basis of accounting, which is the same accounting method used by private-sector institutions. Under this method of accounting, all of the current year's resources, obligations, revenues and expenses are taken into account regardless of when cash is received or paid.

	<u>Fiscal year ended June 30</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b><u>Net Assets</u></b>			
Current assets	\$ 54,741,389	\$ 31,654,393	\$ 28,740,984
Noncurrent assets	<u>218,781,448</u>	<u>185,293,890</u>	<u>185,450,993</u>
Total assets	<u>273,522,837</u>	<u>216,948,283</u>	<u>214,191,977</u>
Current liabilities	18,289,106	16,820,744	18,102,485
Noncurrent liabilities	<u>103,590,480</u>	<u>59,774,915</u>	<u>60,908,358</u>
Total liabilities	<u>121,879,586</u>	<u>76,595,659</u>	<u>79,010,843</u>
Net assets:			
Investment in capital assets, net of related debt	\$ 114,629,788	\$ 120,545,377	\$ 120,220,821
Restricted	17,798,953	8,306,774	6,222,578
Unrestricted	<u>19,214,510</u>	<u>11,500,473</u>	<u>8,737,735</u>
Total net assets	<u>151,643,251</u>	<u>140,352,624</u>	<u>135,181,134</u>
Increase or decrease in net assets	\$ <u>11,290,627</u>	\$ <u>5,171,490</u>	\$ <u>(1,649,442)</u>
<b><u>Operating Revenues</u></b>			
Student tuition and fees (net of scholarship allowance of \$21.5, \$21.2 and \$20.2 million)	\$ 23,034,091	\$ 19,002,442	\$ 16,705,880
Government grants and contracts	28,797,756	29,270,677	25,447,278
Sales and services of educational departments	250,792	209,400	187,898
Auxiliary enterprises	15,912,279	11,090,476	9,743,968
Other revenues	<u>6,278,032</u>	<u>5,695,198</u>	<u>5,818,974</u>
Total operating revenues	\$ <u>74,272,950</u>	\$ <u>65,268,193</u>	\$ <u>57,903,998</u>

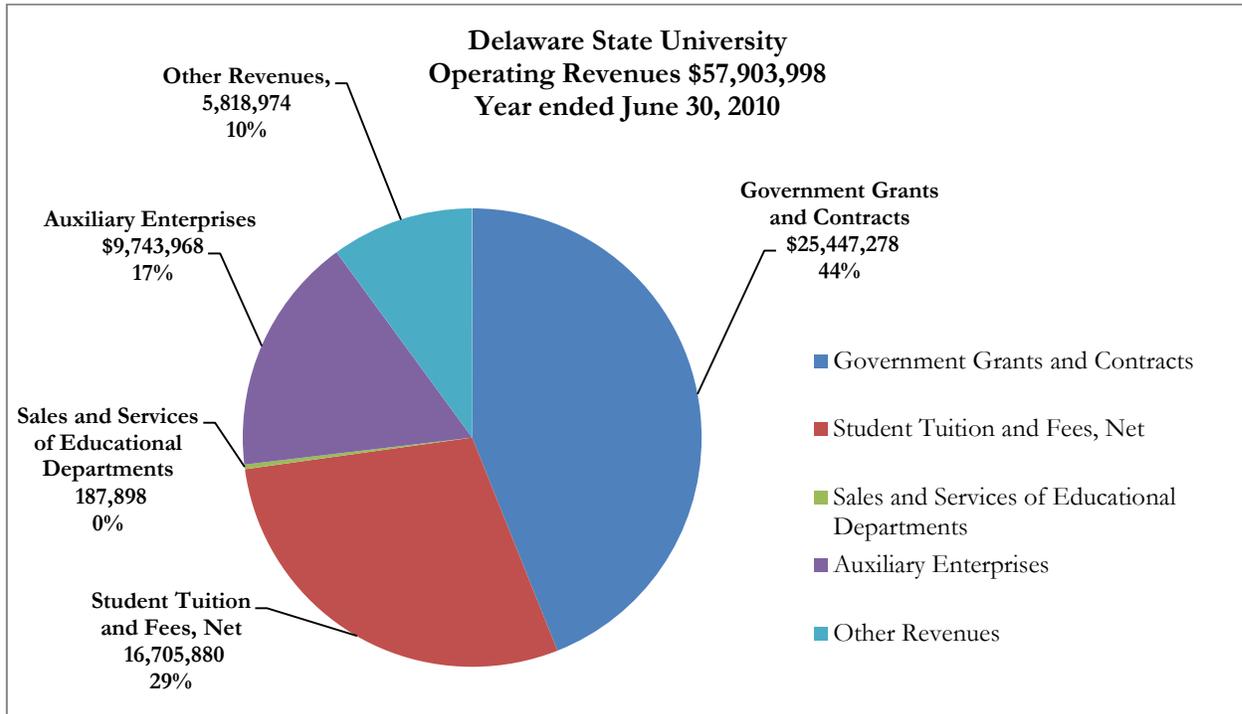
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2012 and 2011



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2012 and 2011



Significant changes in the 2012 financial position, compared to 2011, follow:

- Current assets increased by \$23.1 million, principally due to increases in cash, restricted state appropriations
- Current liabilities increased by \$1.5 million, primarily due to increases in accounts payable, due to affiliate and current portion of long term debt and interest: offset by a decrease in accrued employee compensation.
- Long term liabilities increased by \$43.8 million, due primarily to two new debt issuances in connection with the Guaranteed Energy Savings Agreement and re-financing of the Village debt along with principal repayments for the 1999 callable debt.

Significant changes in revenues, follow:

- Gross revenues from student tuition and other fees increased in FY12 to \$44.5 million versus \$40.2 million in FY11, an increase of \$ 4.3 million.
- Net student revenues include scholarship allowances of \$21.5 million in FY12 and \$21.2 million in FY11, an increase of approximately \$.4 million. The University decreased its scholarship program by \$0.4 million and federal Pell awards increased by \$.8 million in FY12.
- Government grants and contracts decreased in FY12 by \$.5 million, principally from a decrease in competitive grant awards.

Delaware State University

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2012 and 2011

- Auxiliary enterprise revenues increased in FY12 by \$4.8 million, due to an increase in occupancy in the traditional dorms and an increase in fees.
- Other revenues increased slightly in FY12 by \$.6 million, due to a combination of activities, including: an increase in indirect cost revenues, a decrease in athletic revenues, offset by an increase in miscellaneous and bookstore commissions.

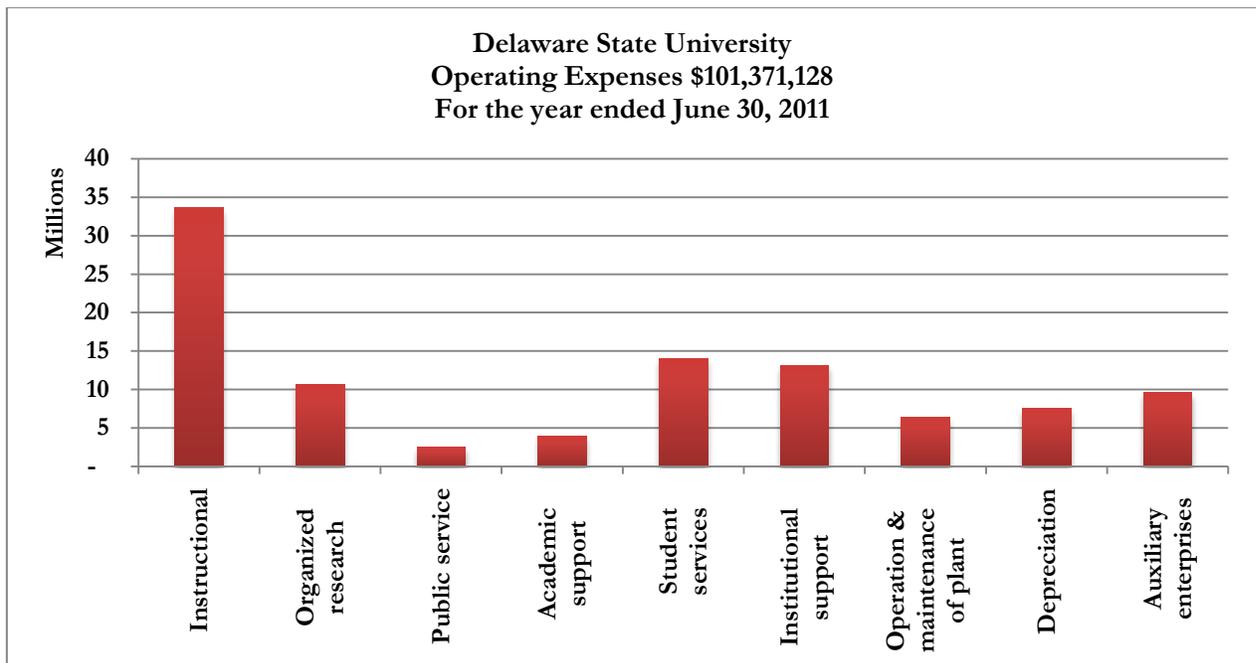
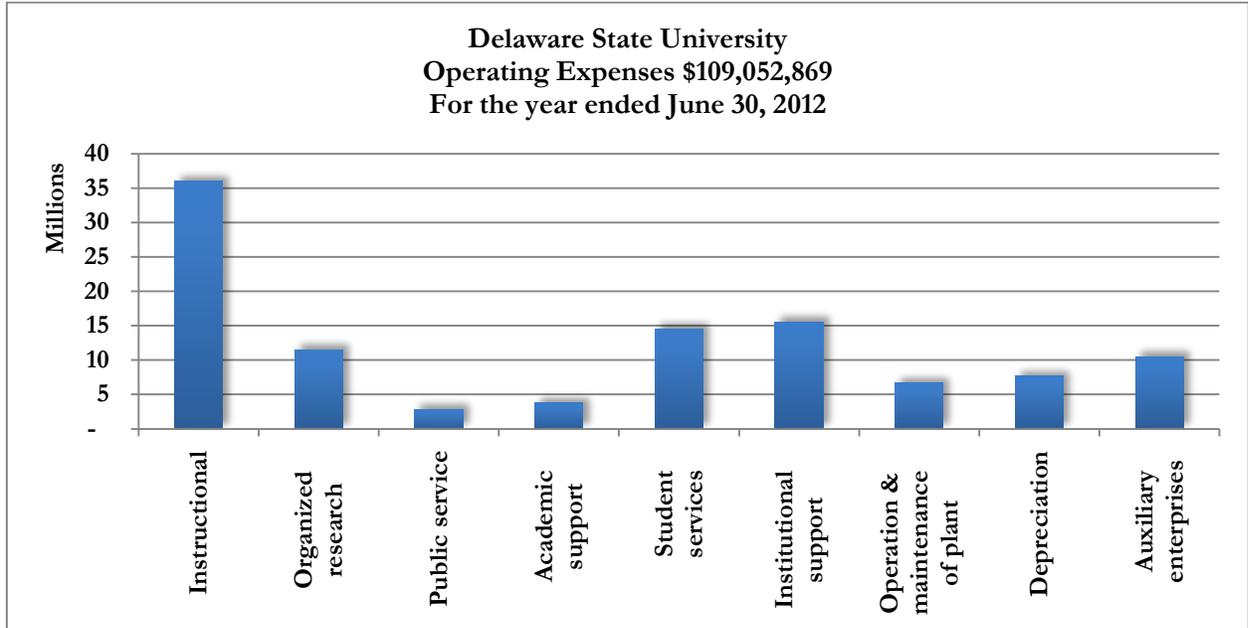
<u>Operating expenses</u>	<u>For the year ended June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Instructional	\$ 36,028,839	\$ 33,584,934	\$ 32,154,777
Organized research	11,472,862	10,603,890	9,791,525
Public service	2,849,235	2,503,960	2,329,069
Academic support	3,774,606	3,912,604	3,730,083
Student services	14,568,116	14,007,772	14,269,102
Institutional support	15,570,483	13,146,357	11,882,617
Operation and maintenance of plant	6,643,361	6,417,416	6,278,437
Depreciation	7,651,346	7,587,807	7,057,700
Auxiliary enterprises	<u>10,494,021</u>	<u>9,606,388</u>	<u>8,876,922</u>
Total operating expenses	<u>\$ 109,052,869</u>	<u>\$ 101,371,128</u>	<u>\$ 96,370,232</u>

Changes in operating expenses were the result of the following factors:

- The University increased salaries in FY12 with a mid-year 2% salary adjustment for all University personnel. In FY 2011, no across the board increases in salaries were provided to University personnel. However, the University made a one-time payment to employees of \$1,000 in FY11, increases in salaries was not provided in FY10 and FY09. The last increase in salaries of 2% was provided in FY08.
- Instructional expenses increased by \$2.4 million during FY12 as a result of increased demand on instruction due to the increase in enrollment and the filling of vacant faculty positions.
- Organized research increased by \$0.9 million, due to an increase in research grants expenditures during FY12.
- Institutional support expenditures increased during FY12 due in part to shifting deferred maintenance expenditures to the Guarantee Energy Savings Agreement (GESA) and utility savings due to a mild winter season. The University also continued its marketing campaign as part of a renewed enrollment drive for FY12.
- Auxiliary enterprise expenditures increased by \$0.9 million during FY12 to accommodate the increase in student residence life needs.

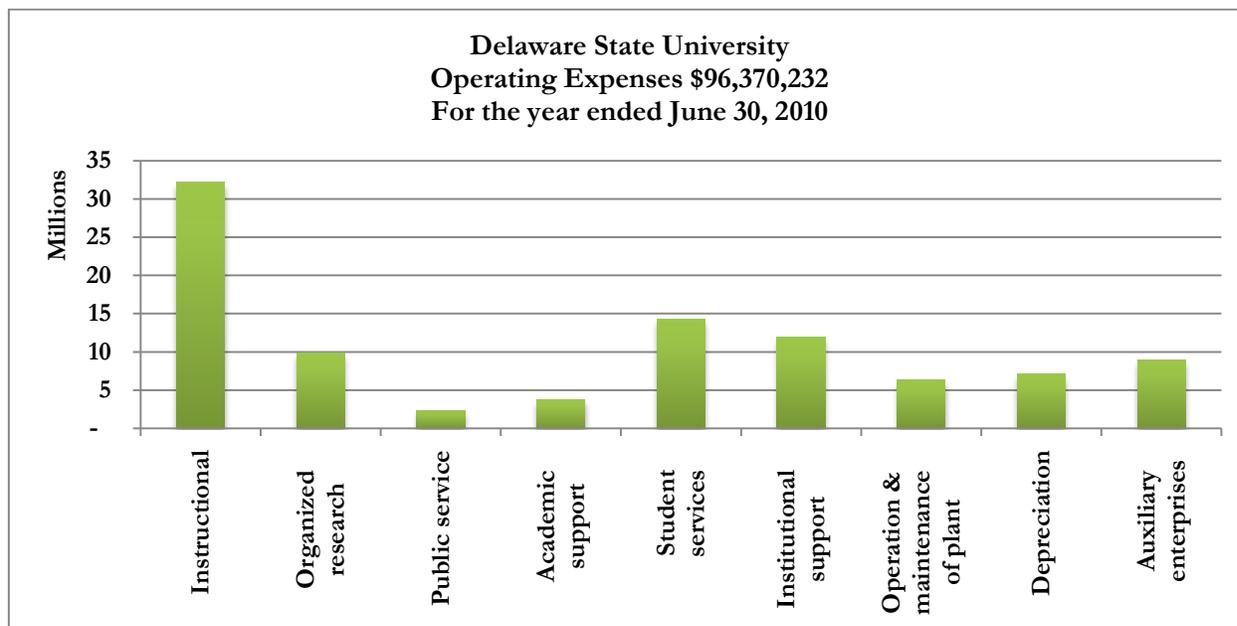
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2012 and 2011



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2012 and 2011



**The Statement of Cash Flows**

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps users assess:

- An entity's ability to generate net cash flows from operations
- Its ability to meet its obligations as they come due
- Its need for external financing

	<b>For the year ended June 30</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows</b>			
Cash provided by (used in):			
Operating activities	\$ (20,507,556)	\$ (27,748,239)	\$ (31,720,996)
Noncapital financing activities	31,855,734	33,771,414	36,125,507
Capital and related financing activities	9,844,281	(786,922)	(18,415,068)
Investing activities	<u>(4,868,801)</u>	<u>785,175</u>	<u>15,428,003</u>
Net increase in cash	16,323,658	6,021,428	1,417,446
Cash and cash equivalents, beginning of year	<u>22,256,658</u>	<u>16,235,230</u>	<u>14,817,784</u>
Cash and cash equivalents, end of year	<u>\$ 38,580,316</u>	<u>\$ 22,256,658</u>	<u>\$ 16,235,230</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2012 and 2011

The following discussion explains the largest changes in sources and uses of cash during the fiscal year

- Investing activities decreased principally due to the purchase of investments from the cash proceeds of the Energy Efficiency bond issuance related to the GESA.
- Cash capital appropriations for FY12 were \$13.5 million, due to funding of the Optical Science Center for Applied Research (OSCAR) and for capital improvement funds, which were \$10.0 and \$3.5 million respectively.
- The University entered into two new bond financing agreements: \$11.3 million for the Energy Efficiency Bonds and \$32.2 million to refinance the Delaware State University Student Housing Foundation Phase III (Village) 2004B bonds as part of the transfer of the Village's operations to the University and to refinance a callable portion of the 1999 Bonds.

**Capital Asset and Debt Administration**

At June 30, 2012, the University had \$203 million invested in capital assets, net of accumulated depreciation of \$110.2 million (\$171.5 million at June 30, 2011, net of accumulated depreciation of \$94.9 million). Depreciation charges totaled \$7.7 million for the current fiscal year compared to \$7.6 million in the prior year. Details of the capital assets, net for the three years are shown below:

	<b><u>Capital assets, net, for the year ended June 30,</u></b>		
	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Land and land improvements	\$ 18,919,475	\$ 16,968,407	\$ 16,968,407
Buildings and improvements	158,744,336	137,599,727	138,501,188
Construction in progress	8,328,417	7215	7,215
Equipment and assets under capital leases	16,754,257	16,627,234	17,307,053
Library materials	<u>239,890</u>	<u>278,431</u>	<u>113,198</u>
Total	<b><u>\$ 202,986,375</u></b>	<b><u>\$ 171,481,014</u></b>	<b><u>\$ 172,897,061</u></b>

Major capital additions completed during FY12 and the resources that funded their acquisitions (in millions) included:

• Building alteration/construction and equipment, University funds and private donations	\$ .7
• Land improvements, building alteration/construction, and equipment, MCI	2.2
• Building alteration/construction, state appropriations and federal grants	1.9
• Optical Science Center for Applied Research (OSCAR),	.3
• Others	<u>.7</u>
	<b><u>\$ 5.8</u></b>

The University's planned capital expenditures for the fiscal year ending June 30, 2013 are approximately \$18.5 million. Projects planned include beginning construction of an Optical Science Center for Applied Research (OSCAR) and a variety of maintenance projects which include dorm refurbishment and IT infrastructure modernizations. More detailed information about the University's capital assets is presented in Note D to the financial statements.

Delaware State University

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2012 and 2011

At June 30, 2012, the University had \$97.8 million in debt outstanding versus \$55.3 million in the previous year.

The University entered into a Guaranteed Energy Savings Agreement (GESA) with Johnson Controls, Inc. in the amount of \$11,265,000. The energy efficiency revenue bonds were issued through the State of Delaware Sustainable Energy Utility, Inc. on August 1, 2011. Upon completion of the energy upgrades to various buildings and systems throughout the University, Johnson Controls, Inc. guarantees that the savings achieved will be sufficient to cover the financing cost associated with the bond. In the event that the savings are not realized to such level, Johnson Controls, Inc. will be responsible for any deficiency.

On March 1, 2012, the University issued revenue refunding bonds in the amount of \$32,145,000 (par value) through the Delaware Economic Development Authority. The proceeds of the 2012 bonds were used to finance: (1) the refunding of certain maturities of The Delaware Economic Development Authority Revenue Refunding Bonds (Delaware State University Project) Series 1999; (2) the purchase of University Village, a four building, 628 bed student housing facility and dining hall located on the campus of the University, the construction of which was financed by the Kent County, Delaware Variable Rate Demand Student Housing Revenue Bonds (Delaware State University Student Housing Foundation Project) Series 2004B; (3) the funding of any required reserve funds relating to the 2012 Bonds; and (4) the costs of issuance and any credit enhancement of the 2012 Bonds.

The table below summarizes the amount by type of debt instrument.

	<b><u>Outstanding debt for the year ended June 30,</u></b>		
	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Lease obligations	\$ -	\$ 60,338	\$ 157,279
Notes payable	680,274	725,244	774,502
General obligation bonds	<u>97,046,487</u>	<u>54,521,902</u>	<u>55,328,828</u>
Totals	<u>\$ 97,726,761</u>	<u>\$ 55,307,484</u>	<u>\$ 56,260,609</u>

The University's revenue bond rating of A+ was re-affirmed with the 2012 Bond issuance. More detailed information about the University's long-term liabilities is presented in Note F to the financial statements.

The economic condition of Delaware State University is closely tied to that of the State appropriations for the current fiscal year (FY13), which is set at \$33.4 million, representing flat funding as compared to FY12. State appropriations for the fiscal year ended June 30, 2012 were approximately \$33.4 million. The State of Delaware provided full funding of the previous mid-year 2% salary increase as well as a 1% increase in salary for FY 13. The budget reduction for Higher Education was back filled, for a second year, utilizing Federal Stimulus funds designated for education. In FY 2011, the University received \$2.8 million from the Federal Stimulus funds. The net reduction in state appropriations is due to not restoring the stimulus funds with state appropriations. In response to current economic conditions, the Board of Trustees of the University elected to increase tuition and fees by 4.5% for all students enrolled in the Fall 2012 term (FY13).

In June 2012, board and meal increases averaging 4.5% were announced, to also take effect with the Fall 2012 term (FY13).

The University piloted the INSPIRE scholarship program in FY11 and the State of Delaware has fully funded the program through the Department of Higher Education. In FY12, approximately 400 Delaware residents were provided financial assistance in the amount of \$ .9 million. The University also continues to provide a limited housing scholarship to instate students in an effort to grow the student population residing in the dormitories.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2012 and 2011

The University's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing actions will enable it to maintain its present level of services.

**University Highlights**

***Reaffirmation of Accreditation***

The Middle States Commission on Higher Education (MSCHE) has reaffirmed the accreditation of Delaware State University (the "University") for demonstrating that it continues to consistently meet the standards of excellence expected of universities. The reaffirmation is assured through 2022 which is the next scheduled evaluation year. The MSCHE evaluation team concluded its April 1-4, 2012 visit with findings that the University met all fourteen (14) commission standards.

Commendations received from MSCHE as a result of the reaffirmation process include:

- The organization's institutional-wide focus on assessment to help in creating effectiveness in each area of its educational enterprise.
- The University's focus on encouraging undergraduate research opportunities between faculty and students.
- The University's increase in the e-book holdings in William C. Jason Library.
- Its thoughtful and robust program in assessing the outcomes of student learning.
- The quality of The University's Self-Study Report, which was found to be honest, concise and well-written.

In addition, several accomplishments since the previous reaffirmed accreditation in 2002 were noted to include:

- The revision of the University's mission statement, vision statement, and core values which build upon the University's history while positioning it to take a leadership role in higher education in the state, the nation, and internationally.
- The creation of the Delaware State University Foundation to support fundraising efforts.
- The University's reaffirmation of an A+ credit rating from Standard and Poor's, the top national credit rating agency.
- The restructuring of the University's finance area to improve financial reporting and fiscal management.
- The University's transparent, collaborative, collegial and shared governance structure and leadership, through which the University enjoys widespread support of alumni, the Dover community, state officials, and its Congressional delegation.
- The establishment of a Scholarship Leveraging Team that enables the University to strategically use merit-based scholarships to attract top-tier students as well as assist students with need-based aid, resulting in an increase in enrollment and retention.

***National Public Radio Station Established at Delaware State University***

Delaware State University and the University of Delaware joined Delaware First Media (DFM) in a historic collaboration to launch WDDE-FM 91.1 Dover, the first-ever Delaware-focused public radio station. The universities are the lead institutional sponsors of the station, which is based on the campus of Delaware State University, the host university.

WDDE started broadcasting in the summer of 2012 in all three Delaware counties serving an audience of more than 890,000 on-air and online listeners with nonpartisan local, national, and international news. The station generates original, substantive news coverage of Delaware events and people that is urgently needed in a state with few local news sources. Additionally, WDDE is expected to bring immediate jobs to the Dover area and provide the opportunity for Delaware businesses to distribute their messages across the state through underwriting on WDDE.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2012 and 2011

### ***Bond Refunding***

The University successfully closed its Series 2012 bonds which met the following objectives:

- Purchase of the University Village project from the Delaware State University Student Housing Foundation thereby eliminating the variable rate, LOC cost and annual renewal risks inherent in the original structure of 2004B bonds which were used to finance the Village.
- Savings of \$116,000 on the refunded 1999 bonds
- Locked in a fixed rate bond issuance of 3.7383%
- Position the University for future growth by amending the overly restrictive additional bonds test inherited from the legacy trust indentures.

### ***Energy Savings***

Performance contract goals as a result of entering into a Guaranteed Energy Savings Agreement (GESA) with Johnson Controls, Inc. include: 1) energy savings over 20 years which will result in net revenue to the University of approximately \$5.2 million; 2) positive impact on the students' educational and living environment; 3) 25% reduction in greenhouse gas reductions; and 4) local job creation.

### ***New Food Services Contract***

The University contracted with the **Aramark Corporation** to become the new food, dining and catering provider for the campus for the next five years. Aramark provides residential dining services and other retail operations for more than 600 institutions across North America, including the University of Delaware and Wesley College. The transition from Thompson Hospitality, the former provider for fourteen years, took place on July 23, 2012.

### ***Distance Learning at DSU***

Delaware State University offers distance learning courses through the use of web-based learning management system called Blackboard. There are three types of distance learning courses at the University: web-enhanced, blended learning, and online distance education courses.

- **Web-enhanced courses** - class sessions are conducted in a classroom on campus and the professor uses one or more aspects of Blackboard to distribute content or to conduct various learning activities.
- **Blended learning courses** - Professors substitute some of the scheduled class time for online activities (i.e., online discussions, lectures, exams and assignments) instead of always meeting in the classroom.
- **Online distance education courses** - Through Blackboard, the professor provides students with a syllabus, list of required textbooks, lectures and details of course assignments. Assignments are submitted and discussions with both the professor and classmates are online through Blackboard.

### **Summary of Operations**

In FY12, the University saw an unprecedented increase in enrollment as well as an increased retention rate for returning students which resulted in an increase in revenue as well as operational expenses. Overall, its financial position improved in spite of its dependency on declining state appropriations. The primary focus for fiscal year 2013 is academics, retention, and modernization of processes, ERP systems, and ensuring there is a positive learning environment for DSU students. The University will continue to monitor operational expenditures and maintain strong financial controls throughout the current economic turmoil.

Delaware State University  
**STATEMENTS OF NET ASSETS**  
As of June 30, 2012 and 2011

	<u>Delaware State University</u>		Component Units		Component Units	
			2012		2011	
			Delaware State University	Delaware State University	Delaware State University	Delaware State University
	2012	2011	Student Housing Foundation	Foundation, Inc.	Student Housing Foundation	Foundation, Inc.
<b>Current Assets</b>						
Cash	\$ 20,988,168	\$ 14,228,557	\$ 238,278	\$ 3,599,116	\$ 3,443,296	\$ 3,086,919
Expendable investments	661,009	570,882	-	-	-	-
Unexpended state appropriations - restricted						
cash equivalents	17,592,148	8,028,101	-	-	-	-
Students receivables, net	1,895,320	1,132,791	67,110	-	-	-
Government grants receivable	6,025,389	5,404,004	-	-	-	-
Other receivables	2,954,970	2,193,973	-	140,213	119,583	5,454
Due from affiliate	83,727	63,630	2,682,098	26,690	2,464,016	21,861
Assets held in trust	4,540,658	32,455	2,099,269	-	4,648,461	-
Other assets	-	-	15,767	-	26,468	-
<b>Total current assets</b>	<u>54,741,389</u>	<u>31,654,393</u>	<u>5,102,522</u>	<u>3,766,019</u>	<u>10,701,824</u>	<u>3,114,234</u>
<b>Noncurrent Assets</b>						
Investments	9,090,409	8,992,841	-	11,823,644	-	13,332,350
Assets held in trust	4,985,056	3,441,173	501,215	-	3,533,128	-
Other assets	288,078	362,630	-	-	-	-
Student notes, net	-	66,837	-	-	-	-
Deferred charges	1,431,530	949,395	411,869	-	676,493	-
Capital assets, net	202,986,375	171,481,014	10,383,018	8,929	36,687,296	12,500
<b>Total noncurrent assets</b>	<u>218,781,448</u>	<u>185,293,890</u>	<u>11,296,102</u>	<u>11,832,573</u>	<u>40,896,917</u>	<u>13,344,850</u>
<b>Total assets</b>	<u>273,522,837</u>	<u>216,948,283</u>	<u>16,398,624</u>	<u>15,598,592</u>	<u>51,598,741</u>	<u>16,459,084</u>
<b>Current Liabilities</b>						
Accounts payable	7,630,783	5,419,483	270,223	10,257	650,032	13,250
Due to affiliate	2,708,788	2,485,877	-	83,727	-	63,630
Accrued employee compensation	3,574,337	5,373,886	30,942	-	120,509	-
Accrued interest	1,161,195	630,925	388,072	-	398,191	-
Unearned revenue	1,987,666	1,970,266	236,409	445,686	587,535	531,053
Long-term debt -current portion	1,226,337	940,307	405,000	-	34,023,326	-
<b>Total current liabilities</b>	<u>18,289,106</u>	<u>16,820,744</u>	<u>1,330,646</u>	<u>539,670</u>	<u>35,779,593</u>	<u>607,933</u>
<b>Noncurrent Liabilities</b>						
Accrued liability	1,336,113	-	-	-	-	-
Compensated absences	5,753,943	5,407,738	-	-	-	-
Long-term debt	96,500,424	54,367,177	15,268,657	-	15,661,449	-
<b>Total noncurrent liabilities</b>	<u>103,590,480</u>	<u>59,774,915</u>	<u>15,268,657</u>	<u>-</u>	<u>15,661,449</u>	<u>-</u>
<b>Total liabilities</b>	<u>121,879,586</u>	<u>76,595,659</u>	<u>16,599,303</u>	<u>539,670</u>	<u>51,441,042</u>	<u>607,933</u>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	114,629,788	120,545,377	-	-	-	-
Restricted expendable:						
Capital projects	16,400,496	7,795,575	-	-	-	-
Loans	16,842	87,375	-	-	-	-
Bond service	1,040,954	-	-	-	-	-
Grants and contracts	340,661	423,824	-	-	-	-
Quasi endowment	-	-	-	7,011,150	-	7,818,128
Restricted nonexpendable:						
Endowment	-	-	-	6,479,657	-	6,430,093
Unrestricted	19,214,510	11,500,473	(200,679)	1,568,115	157,699	1,602,930
<b>Total net assets (deficit)</b>	<u>\$ 151,643,251</u>	<u>\$ 140,352,624</u>	<u>\$ (200,679)</u>	<u>\$ 15,058,922</u>	<u>\$ 157,699</u>	<u>\$ 15,851,151</u>

The accompanying notes are an integral part of these statements.

Delaware State University  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
Years ended June 30, 2012 and 2011

	Delaware State University		Component Units		Component Units	
			2012		2011	
			Delaware State University	Delaware State University	Delaware State University	Delaware State University
	2012	2011	Student Housing Foundation	Foundation, Inc.	Student Housing Foundation	Foundation, Inc.
<b>Revenues</b>						
Operating revenues :						
Unpledged revenues						
Government grants and contracts	\$ 28,797,756	\$ 29,270,677	\$ -	\$ -	\$ -	\$ -
Revenues of University pledged as security for bonds:						
Student tuition and fees (net of scholarship allowances of \$21,534,569 and \$21,162,917, respectively)	23,034,091	19,002,442	-	-	-	-
Sales and services of educational departments	250,792	209,400	-	-	-	-
Auxiliary enterprises	15,912,279	11,090,476	6,632,871	-	7,832,405	-
Other revenues	6,278,032	5,695,198	1,485,583	117,301	2,052,151	73,515
Total operating revenues	74,272,950	65,268,193	8,118,454	117,301	9,884,556	73,515
<b>Expenses</b>						
Operating expenses:						
Educational and general						
Instructional	36,028,839	33,584,934	-	-	-	-
Organized research	11,472,862	10,603,890	-	-	-	-
Public service	2,849,235	2,503,960	-	-	-	-
Academic support	3,774,606	3,912,604	-	-	-	-
Student services	14,568,116	14,007,772	-	-	-	-
Institutional support	15,570,483	13,146,357	-	938,132	-	660,755
Operation and maintenance of plant	6,643,361	6,417,416	-	-	-	-
Depreciation	7,651,346	7,587,807	979,561	-	1,435,785	-
Student aid	-	-	-	826,656	-	504,938
Auxiliary enterprises	10,494,021	9,606,388	5,384,357	-	7,325,357	-
Total operating expenses	109,052,869	101,371,128	6,363,918	1,764,788	8,761,142	1,165,693
Operating (loss) income	(34,779,919)	(36,102,935)	1,754,536	(1,647,487)	1,123,414	(1,092,178)
<b>Nonoperating revenues</b>						
State appropriations	32,677,597	35,872,430	-	-	-	-
Revenues of the University pledged as security for bonds:						
Private gifts	22,081	37,351	-	1,897,854	-	1,669,573
Investment income	893,537	554,480	47,034	174,676	110,209	127,251
Interest on loans receivable	18,273	7,394	-	-	-	-
Total nonoperating revenues	33,611,488	36,471,655	47,034	2,072,530	110,209	1,746,579
(Loss) income before other revenues (expenses), gains and (losses)	(1,168,431)	368,720	1,801,570	425,043	1,233,623	654,401
<b>Other revenues (expenses), and gains and (losses)</b>						
Capital appropriations - State	13,500,000	7,456,238	-	-	-	-
Pledged revenues as security for 2007 bonds	1,495,622	1,418,820	-	-	-	-
Other	161,976	112,392	-	-	-	-
Transfer of Village net assets	2,198,800	-	(2,198,800)	-	-	-
Loss on Village debt retirement	(463,440)	-	-	-	-	-
Renovations not capitalized	(935,387)	(2,243,298)	-	-	-	-
Administrative and collection costs	(88,806)	(14,855)	-	-	-	-
Interest expense	(3,009,281)	(2,574,778)	-	-	-	-
Net (loss) gain on investments	(400,426)	648,251	38,852	(1,217,272)	(70,376)	2,717,316
Total other revenue (expenses), and gains and (losses)	12,459,058	4,802,770	(2,159,948)	(1,217,272)	(70,376)	2,767,561
Change in net assets	11,290,627	5,171,490	(358,378)	(792,229)	1,163,247	3,421,962
<b>Net assets</b>						
Net assets (deficit), beginning of year	140,352,624	135,181,134	157,699	15,851,151	(1,005,548)	12,429,189
Net assets (deficit), end of year	\$ 151,643,251	\$ 140,352,624	\$ (200,679)	\$ 15,058,922	\$ 157,699	\$ 15,851,151

The accompanying notes are an integral part of these statements.

Delaware State University  
**STATEMENTS OF CASH FLOWS**  
Years ended June 30, 2012 and 2011

	<b>Delaware State University</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of tuition and fees	\$ 24,084,376	\$ 19,454,610
Receipts from grants and contracts	28,250,923	30,482,878
Payments to vendors	(18,647,322)	(26,031,645)
Payments for utilities	(3,908,172)	(3,754,295)
Payments to employees	(53,551,605)	(46,895,188)
Payments for benefits	(19,243,696)	(18,031,876)
Loan repayments received from students	66,837	32,202
Receipts from residence halls	15,912,279	11,090,476
Receipts from sales and service of educational departments	250,792	209,400
Other receipts	6,278,032	5,695,198
<b>Net cash used in operating activities</b>	<b>(20,507,556)</b>	<b>(27,748,239)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
State appropriations	32,677,597	35,872,430
Other receipts	161,976	112,392
Receipts from private gifts for non-capital purposes	22,081	37,351
Administrative and collections disbursements	(88,806)	(14,855)
Receipt of interest on student loans	18,273	7,394
Renovations not capitalized	(935,387)	(2,243,298)
<b>Net cash provided by non-capital financing activities</b>	<b>31,855,734</b>	<b>33,771,414</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
State capital appropriations	13,500,000	7,456,238
Receipts from student fees pledged for debt service	1,495,622	1,418,820
Proceeds from 2012 Bonds	34,010,368	-
Proceeds from Energy Efficiency Bonds	12,108,339	-
Payment for retirement of Village 2004B Bonds	(33,170,000)	-
Payment for retirement of 1999 Bonds	(2,725,000)	-
Payment for bond issuance costs	(538,432)	-
Cash received in Village transfer	3,114,113	-
Purchases of capital assets	(13,841,261)	(6,171,760)
Principal paid on capital debt and leases	(3,699,430)	(953,125)
Interest paid on capital debt and leases	(410,038)	(2,537,095)
<b>Net cash provided by (used in) capital financing activities</b>	<b>9,844,281</b>	<b>(786,922)</b>

(Continued)

Delaware State University  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
Years ended June 30, 2012 and 2011

	<b>Delaware State University</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from earnings on investments	893,537	554,480
Purchase of Investments	18,225,145	-
Sale of investments	<u>(23,987,483)</u>	<u>230,695</u>
Net cash (used in) provided by investing activities	<u>(4,868,801)</u>	<u>785,175</u>
Net increase in cash and cash equivalents	16,323,658	6,021,428
Cash and cash equivalents, beginning of the year	<u>22,256,658</u>	<u>16,235,230</u>
Cash and cash equivalents, end of the year	<u>\$ 38,580,316</u>	<u>\$ 22,256,658</u>
<b>RECONCILIATION OF OPERATING LOSS</b>		
<b>TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (34,779,919)	\$ (36,102,935)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	7,651,346	7,587,807
Bad debt expense on student receivables	(1,812,813)	(105,457)
Elimination of due to affiliate from Village transfer	6,310,256	-
Changes in operating assets and liabilities		
Student receivables before bad debts	1,050,284	470,168
Other receivable	(760,997)	97,295
Due from affiliate	(20,097)	514,489
Government grants	(621,385)	1,360,321
Student notes	66,837	32,202
Other assets noncurrent	74,552	(148,120)
Accounts payable	3,547,413	(977,453)
Due to affiliate	222,911	(898,291)
Deferred revenue	17,400	255,378
Accrued employee compensation and compensated absences	<u>(1,453,344)</u>	<u>166,357</u>
Net cash used in operating activities	<u>\$ (20,507,556)</u>	<u>\$ (27,748,239)</u>

The accompanying notes are an integral part of these statements.

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Organization

The accompanying financial statements present the financial position, results of operations, changes in net assets, and cash flows of Delaware State University (the "University"), a federal land grant institution. The financial statements of the University include the activity of its main campus in Dover, Delaware and its associated campuses in Wilmington and Georgetown, Delaware. The University is a tax-exempt institution under Section 501(c)(3) of the Internal Revenue Code and similar State of Delaware (the "State") provisions. Accordingly, there is no provision made for income taxes in the accompanying financial statements.

The University defines its reporting entity in accordance with Governmental Accounting Standards Board (GASB) criteria. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete.

Based on the application of the criteria for determining component units, certain affiliated organizations are included within the University's reporting entity as discretely presented component units. Each of these affiliated organizations are considered to: 1) receive or hold economic resources that are to be used for the benefit of the University, 2) receive or hold economic resources which the University is entitled to or otherwise have the ability to access, and 3) are significant to the financial statements of the University with which the organization is affiliated.

Accordingly, the Delaware State University Student Housing Foundation (the "Housing Foundation") and the Delaware State University Foundation, Inc. (the "Advancement Foundation") are considered reportable component units due to the significance of the financial statement amounts to the University's financial statements. The Housing Foundation and the Advancement Foundation are organized as non-profit corporations under the laws of Delaware and are exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and similar State provisions.

All of the University's component units are non-governmental entities that prepare financial statements using the principles and accounting standards promulgated by the Financial Accounting Standards Board (FASB). Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the Finance and Administration Office, Delaware State University, 1200 N. DuPont Highway, Dover, DE 19901.

The University is a discretely presented component unit of State of Delaware (the "State"). The financial balances and activities included in these financial statements are, therefore, also included in the State's comprehensive annual financial report.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

2. Basis of Presentation

The University's accounting policies conform to accounting principles generally accepted in the United States of America as promulgated by the Government Accounting Standards Board ("GASB"). For financial reporting purposes, the University is considered to be a special-purpose government engaged only in business-type activities. GASB defines business-type activities as activities financed, in whole or in part, by fees charged to external parties for goods or services. Accordingly, the accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recognized when earned and expenses are recognized when incurred.

For its fiscal year ended June 30, 2012, the University adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement incorporated into GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The adoption of this standard has no retroactive or current year impact on the University.

3. Cash and Cash Equivalents

The University defines cash and cash equivalents as those assets with an original maturity date of three months or less at time of purchase.

4. Tuition Revenue and Student Receivables

The University's tuition and fees revenue is reported net of any scholarship allowance. The scholarship allowance represents monies received as tuition from outside resources such as Title IV Federal Grant Program, restricted grants and scholarships, as well as tuition waivers.

Student receivables are obligations of students resulting from course registrations. In the normal course of business, the University extends credit to students. These students are predominately from the Middle Atlantic region. Realization of receivables is somewhat dependent upon the collection efforts of the University as well as the general economic climate. An allowance for doubtful accounts is provided based upon management's judgments including such factors as previous collection history and characteristics of the respective receivables. Tuition receivables are due before the end of the semester for which they were incurred. Amounts that remain uncollected three weeks after the end of the semester are considered delinquent and are referred to the collection manager. The allowance for doubtful accounts was \$6,582,085 and \$5,068,042, as of June 30, 2012 and 2011, respectively.

5. Federal Financial Assistance Programs

The University participates in certain federally funded student financial aid programs including: Federal Direct Loan Program, Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, Academic

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Achievement Grants, SMART Grants and the Perkins Loan program. The University is also the recipient of awards for research and development activities as well as other federal awards to support University activities. Major federal programs are audited in accordance with the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*.

6. Assets Held in Trust

Assets held in trust are under the control of outside bond trustees and represent reserves for payment of principal and interest due on the bonds, the maintenance of debt service reserve funds and construction funds.

Under the terms of the Housing Foundation Trust Indenture, various funds such as Construction, Bond, Capitalized Interest, and Debt Service must be established and maintained for the Housing Foundation. The bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum bond coverage.

7. Investments

Investments in debt and equity securities are recorded at fair value based upon quoted market prices. All gains and losses arising from sales or other disposition of investments are recorded on a specific identification basis calculated as of the trade date.

8. Capital Assets

Capital assets are defined by the University as a purchase with a value of greater than \$5,000 and a useful life of more than one year. Capital assets are stated at cost or, if received by gift, at fair market value on the date of contribution. Capital assets, with the exception of land, are depreciated on a straight-line basis over the estimated useful lives of forty years for buildings and building improvements, seven years for equipment, and five years for library books. The cost of ordinary maintenance and repairs that do not materially extend the asset's lives are expensed as incurred.

9. Long-lived Assets

Long-lived assets, such as buildings, land improvements, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that there is a significant unexpected decline in the service utility of a capital asset. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service. Impairment is measured using one of three approaches that best reflects the decline in service utility. Assets to be disposed of and assets held for sale, if any, are reported at the lower of the carrying amount or fair value less costs to sell.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

10. Unearned Revenue

The University reports unearned revenues on its statements of net assets. Unearned revenues primarily consist of funds that are received prior to the respective service being provided by the University. As such, it is the University's policy to recognize these balances over the course of the period that the service is rendered.

11. Compensated Absences

It is the University's policy to allow employees to carry over unused annual leave up to a maximum of 32 days. Therefore, noncurrent liabilities in the amounts of \$2,856,247 and \$2,732,826 at June 30, 2012 and 2011, respectively, have been recorded to reflect earned, but unused annual leave at those dates, as such amounts are not expected to be paid out within the following 12 month period.

It is the University's policy, upon retirement, to pay out sick leave balances that have been accrued up to a maximum of 60 days and for the collective bargaining unit members (1007, 1267 & 2888) to pay out yearly balances that exceed 60 days at the rate of one half day for every day accrued. Therefore, the University has recorded a long term liability in the amounts of \$2,897,696 and \$2,674,912 to reflect earned, unused sick leave at June 30, 2012 and 2011, respectively.

12. Noncurrent Assets and Liabilities

Noncurrent assets and liabilities include resources and obligations expected to be realized or consumed beyond the normal operating cycle (more than 12 months).

13. Net Assets

Net assets are classified as restricted, unrestricted or invested in capital assets, net of related debt. Restricted net assets are those assets for which there are externally imposed constraints, which have not yet been met. When both restricted and unrestricted resources are available for use, it is the University's policy to use restricted resources first and the unrestricted resources as they are needed. Net assets invested in capital assets, net of related debt, represent the net book value of capital assets less the outstanding portion of the related debt financing.

14. Operating and Nonoperating Components

Operating revenues of the University consist of tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities and State appropriations are reported as components of nonoperating activities. Restricted and unrestricted resources are spent and tracked by the departments of the University within the guidelines of donor restrictions.

15. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect reported amounts of assets

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

and liabilities and disclosures about contingent assets and liabilities at the date of the statements of net assets and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**NOTE B - CASH AND INVESTMENTS**

Delaware State University has established a policy "Statement of Investment Objectives and Guidelines for Investment Managers" as amended on September 12, 2011. The primary objective of the guidelines is the safety of principal by minimizing credit risk and interest rate risk. According to University policy, risk tolerance can be characterized as medium to medium low. The University presents its deposits and investments in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including repurchase agreements) and Reverse Repurchase Agreements*. This standard requires that state and local governments including colleges and universities disclose essential risk information about deposits and investments.

The Policy specifies the types of investments the managers can make; the maximum percentage of assets that may be invested in particular instruments; the minimum credit quality of these investments; and the maximum length of time the assets can be invested.

**Custodial Credit Risk** - Custodial Credit Risk is the risk that, in the event of a failure of the counterparty, the University would not be able to recover the value of its deposits, investments or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the University and are held by either the counterparty or the counterparty's trust department or agent but not in the University's name. As of June 30, 2012 and 2011, all cash and investment accounts were held on behalf of the University by the Trustees, in the Trustee's name.

**Concentration of Credit Risk** - Concentration of credit risk is assumed to arise when the amount of investments that the University has with one issuer exceeds 5% or more of the total value of the University's investments. The University does have a formal policy for concentration of credit risk. According to this policy "holdings in any one company may generally not exceed 5% of the market value of each equity portfolio." In addition, the policy also spells out that "Portfolios should be well diversified in order to mitigate risk of loss". As of June 30, 2012 and 2011, respectively, there is no portion of the University portfolio, excluding U. S. Government guaranteed obligations, which exceed 5% of the portfolio.

**Credit Risk** - Credit risk is the risk that the University will lose money because of the default of the security issuer or investment counterparty. The policy has not clearly defined ratings for each type of investments. However, the University policy does state that "Investments should focus on high quality companies with an established and profitable operating record, be in sound financial condition, and have competent management". As of June 30, 2012 and 2011, respectively, there is no portion of the University portfolio that was invested in below investment grade securities.

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The University policy does not specifically address interest rate risk. However, it is the University's intent to hold securities to maturity in order to mitigate interest rate risk.

Delaware State University

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE B - CASH AND INVESTMENTS - Continued**

The University has not experienced any losses as a result of the nonperformance by the custodians and investment managers of its cash equivalents or investments. Further, the University believes that it is not exposed to any significant credit risk that will result in a loss in the future.

At June 30, 2012 and 2011, cash on hand for petty cash and change fund was \$28,705 and \$28,705, respectively, and bank balances of the University's deposits were \$22,271,058 and \$14,761,149, respectively. The carrying value of these deposits was \$20,988,168 and \$14,228,557 at June 30, 2012 and 2011, respectively. The University established a contractual agreement with PNC Bank for funds to be transferred daily from its operating account, included in cash on the statement of net assets, in a repurchase/sweep agreement to cover checks as presented. Positive pay is used to safeguard the University's liquid assets. The University transmits daily check issue files to its depository banks which enables the banks to match the University's issue file to checks being presented for payment. If the check data does not match the information on the check issue file, the check will not be honored. At times, the University's cash may be in excess of the Federal Deposit Insurance Corporation limit of \$250,000.

An additional \$17,592,148 and \$8,028,101 at June 30, 2012 and 2011, respectively, of cash and cash equivalents related to unexpended State appropriations are included on the Statements of Net Assets. Personnel of the State Treasurer's Office in Dover, Delaware control these funds and any investment decisions are made by the State Treasurer's Office. The deposits held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the University, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the investment decisions made by the State Treasurer's Office.

The University's investments totaled \$19,277,132 and \$13,037,351 at June 30, 2012 and 2011, respectively. These investments were stated at quoted market value and are owned by the University.

**DELAWARE STATE UNIVERSITY:**

**INVESTMENT POOL RECONCILIATION**

	<u>2012</u>	<u>2011</u>
Short-term investments	\$ 661,009	\$ 570,882
Long-term investments:		
Venture Partners II	-	12,633
Haverford Investment Co - Mutual Fund	-	409,480
Other investments	3,982,626	-
Bank of New York - Other Assets	306,320	25,381
Bank of New York - Bond Construction Fund	5,543,088	3,473,628
DuPont Stock	809	865
Bank of New York - Equities	5,861,736	3,338,888
Bank of New York - Fixed Income Securities	2,866,172	5,141,376
Principal Financial Group	<u>55,372</u>	<u>64,218</u>
Balance in University investment pool	<u>\$ 19,277,132</u>	<u>\$ 13,037,351</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE B - CASH AND INVESTMENTS – Continued

RECONCILIATION OF CASH AND INVESTMENTS  
AS SHOWN ON THE STATEMENT OF NET ASSETS

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 28,705	\$ 28,705
Carrying amount of deposits	38,551,611	22,227,953
Carrying amount of investments	<u>19,277,132</u>	<u>13,037,351</u>
Total carrying amount of cash and investments	<u>\$ 57,857,448</u>	<u>\$ 35,294,009</u>
Cash and cash equivalents	\$ 20,988,168	\$ 14,228,557
Expendable endowment investment - current	661,009	570,882
Noncurrent investments and all assets held in trust	18,616,123	12,466,469
Unexpended State appropriation - cash equivalents	<u>17,592,148</u>	<u>8,028,101</u>
Total cash and investments per statement of net assets	<u>\$ 57,857,448</u>	<u>\$ 35,294,009</u>

The University's cash and investments were as follows for the years ended June 30, 2012 and 2011:

<u>June 30, 2012</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>5 to 10</u>	<u>&gt;10</u>
Federal agencies	\$ 1,002,430	-	1,002,430	-	-
Corporate bonds	<u>2,866,172</u>	-	<u>480,305</u>	<u>2,176,180</u>	<u>209,687</u>
Total fixed income	<u>3,868,602</u>	<u>-</u>	<u>1,482,735</u>	<u>2,176,180</u>	<u>209,687</u>
Other investments	3,982,626				
Money market	5,201,667				
Mutual funds	306,320				
Equities	<u>5,917,917</u>				
<b>Total investments</b>	<b><u>19,277,132</u></b>				
Cash on hand	28,705				
Cash deposits	<u>38,551,611</u>				
<b>Total cash</b>	<b><u>38,580,316</u></b>				
<b>Total cash and investments</b>	<b><u>\$ 57,857,448</u></b>				

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE B - CASH AND INVESTMENTS – Continued

June 30, 2011	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	5 to 10	>10
Federal Agencies	\$ 3,473,628	502	3,473,126	-	-
Corporate Bonds	5,141,376	2,639,030	1,154,193	467,715	880,438
<b>Total Fixed Income</b>	<u>8,615,004</u>	<u>2,639,532</u>	<u>4,627,319</u>	<u>467,715</u>	<u>880,438</u>
Money Market	570,882				
Mutual Funds	25,381				
Equities	3,826,084				
<b>Total investments</b>	<u>13,037,351</u>				
Cash on hand	28,705				
Cash deposits	22,227,953				
<b>Total cash</b>	<u>22,256,658</u>				
<b>Total cash and investments</b>	<u>\$ 35,294,009</u>				

1. Assets held in trust

Bond proceeds are restricted for the construction of a wellness center, swimming pool and student center. Funds held consisted of cash, money market, and securities that are primarily issued by the U.S. Government.

At June 30, 2012 and 2011, assets held in trust consisted of:

	<u>2012</u>	<u>2011</u>
Expense fund	\$ 497	\$ 497
Interest account	3	3
Debt service reserve fund	5,540,022	3,473,128
GESA – Sustainable Energy Utility account	3,982,626	-
Expense account	2,561	-
Settlement account	5	-
Total assets held in trust	<u>\$ 9,525,714</u>	<u>\$ 3,473,628</u>

The cost and fair value of the assets held in trust at June 30, 2012, follow:

	<u>Fair value</u>	<u>Cost</u>
Expense fund	\$ 497	\$ 497
Interest account	3	3
Debt service reserve fund	5,540,022	5,537,954
GESA - Sustainable Energy Utility account	3,982,626	3,982,626
Expense account	2,561	2,561
Settlement account	5	5
Total assets held in trust	<u>\$ 9,525,714</u>	<u>\$ 9,523,646</u>

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE B - CASH AND INVESTMENTS – Continued**

Maturities of long-term investments at June 30, 2012, follow:

	<u>Fair value</u>	<u>Cost</u>
Less than 1 year	\$ 8,523,284	\$ 8,521,914
1-5 years	<u>1,002,430</u>	<u>1,001,732</u>
	<u>\$ 9,525,714</u>	<u>\$ 9,523,646</u>

The cost and fair value of the assets held in trust at June 30, 2011, follow:

	<u>Fair value</u>	<u>Cost</u>
Expense fund	\$ 497	\$ 497
Interest account	3	3
Debt service reserve fund	<u>3,473,128</u>	<u>3,501,956</u>
Balance in restricted bond cash (assets held in trust)	<u>\$ 3,473,628</u>	<u>\$ 3,502,456</u>

Maturities of long-term investments at June 30, 2011, follow:

	<u>Fair value</u>	<u>Cost</u>
Less than 1 year	\$ 500	\$ 500
1-5 years	<u>3,473,128</u>	<u>3,501,956</u>
	<u>\$ 3,473,628</u>	<u>\$ 3,502,456</u>

2. Investment Return

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. University management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the University from having to sell investments below original cost for that purpose. Investments at June 30, 2012, met the University's investment policy as of that date.

Investment return included the following for the year ended June 30:

	<u>2012</u>	<u>2011</u>
Net interest and dividends	\$ 893,537	\$ 554,480
Net (decrease) increase in the fair value of investments	<u>(400,426)</u>	<u>648,251</u>
Total investment return	<u>\$ 493,111</u>	<u>\$ 1,202,731</u>

3. Fixed Income Credit Quality

The University's custodial arrangements are kept with institutions with strong credit ratings and cash deposits are held in the University's name. The Bank of New York (BONY) manages the majority of the University's investment portfolio.

Delaware State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

**NOTE B - CASH AND INVESTMENTS – Continued**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the University. The University's \$3,868,602 in fixed income investments was not rated as of June 30, 2012 using the Standard and Poor's rating scale.

**DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION**

At June 30, 2012 and 2011, bank balances of the Housing Foundations' deposits were \$2,838,682 and \$11,624,443, respectively. The carrying value of these deposits was \$2,838,762 and \$11,624,885 at June 30, 2012 and 2011, respectively.

The Housing Foundation's fair values consisted of the following at June 30, 2012 and 2011:

**Investments and Reserves**

<b>June 30, 2012</b>	<b>Fair Value</b>	<b>Investment Maturities (in years)</b>	
		<b>Less than 1</b>	<b>1 to 5</b>
<b>Housing Foundation:</b>			
Federal Agencies	\$ 501,215	-	501,215
Cash & Equivalents	<u>2,099,269</u>	<u>2,099,269</u>	<u>-</u>
<b>Total Housing Foundation Investments</b>	<b><u>2,600,484</u></b>	<b><u>2,099,269</u></b>	<b><u>501,215</u></b>
<b>Total cash deposits</b>	<b><u>238,278</u></b>		
<b>Total Housing Foundation cash and investments</b>	<b><u>\$ 2,838,762</u></b>		
<b>June 30, 2011</b>			
<b>Housing Foundation:</b>			
Federal Agencies	\$ 3,533,128	-	3,533,128
Cash & Equivalents	<u>4,648,461</u>	<u>4,648,461</u>	<u>-</u>
<b>Total Housing Foundation Investments</b>	<b><u>8,181,589</u></b>	<b><u>4,648,461</u></b>	<b><u>3,533,128</u></b>
<b>Total cash deposits</b>	<b><u>3,443,296</u></b>		
<b>Total Housing Foundation cash and investments</b>	<b><u>\$ 11,624,885</u></b>		

Delaware State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE B - CASH AND INVESTMENTS - Continued

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION- Continued:

At June 30, 2012 and June 30, 2011, funds held by the trustee for the Housing Foundation consisted of:

	<u>PHASE I and II (2004 A)</u>		<u>PHASE III (2004 B&amp;C)</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Construction	\$ -	-	-	\$ 223,138	\$ -	\$ 223,138
Principal account	405,000	390,000	-	-	405,000	390,000
Bond fund interest	-	-	-	572	-	572
Capitalized fees	-	-	-	120	-	120
Debt service reserve	1,410,921	1,374,348	-	2,765,324	1,410,921	4,139,672
Capitalized interest	388,072	394,897	-	844	388,072	395,741
Operating reserve	298,195	298,196	-	-	298,195	298,196
Revenue	-	-	-	-	-	-
Pledged revenue	-	-	-	-	-	-
Qualified exchange	-	-	-	509,887	-	509,887
Reimbursement account	-	-	-	1,631,750	-	1,631,750
Issuing exchange account	24,494	24,494	-	16,655	24,494	41,149
Rebate account	-	-	-	258	-	258
Renewal/replacement	<u>73,802</u>	<u>72,227</u>	-	<u>478,879</u>	<u>73,802</u>	<u>551,106</u>
	2,600,484	2,554,162	-	5,627,427	2,600,484	8,181,589
Less current portion	<u>(2,099,269)</u>	<u>(1,473,917)</u>	-	<u>(3,174,544)</u>	<u>(2,099,269)</u>	<u>(4,648,461)</u>
Total noncurrent	<u>\$ 501,215</u>	<u>\$ 1,080,245</u>	<u>\$ -</u>	<u>\$ 2,452,883</u>	<u>\$ 501,215</u>	<u>\$ 3,533,128</u>

DELAWARE STATE UNIVERSITY FOUNDATION, INC.

At June 30, 2012 and 2011, bank and carrying balances of the Advancement Foundations' deposits were \$3,599,116 and \$3,086,919, respectively.

Fair values and cost of investments consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Unrealized gain (loss)</u>
Fixed income funds	\$ 3,183,916	\$ 3,114,786	\$ 69,130
Mid-cap stock fund	453,015	415,588	37,427
International mutual funds	820,227	805,968	14,259
Emerging markets mutual funds	995,024	920,849	74,175
Small-cap mutual funds	587,337	519,499	67,837
Large-cap funds	3,580,519	3,241,595	338,924
Other mutual funds	918,649	938,403	(19,754)
Equity investment in Schwartz Theater	<u>1,284,957</u>	<u>1,500,000</u>	<u>(215,043)</u>
Total Advancement Foundation investments	<u>\$ 11,823,644</u>	<u>\$ 11,456,688</u>	<u>\$ 366,955</u>

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

## NOTE B - CASH AND INVESTMENTS – Continued

## DELAWARE STATE UNIVERSITY FOUNDATION, INC. - Continued:

	<u>2011</u>		<u>Unrealized gain (loss)</u>
	<u>Fair value</u>	<u>Cost</u>	
U.S. Common Stock	\$ 4,198,082	\$ 3,382,518	\$ 815,564
Mid-Cap Stock Fund	831,824	667,889	163,935
International Mutual Funds	1,850,061	1,755,182	94,879
Emerging Markets Mutual Funds	1,761,407	1,621,874	139,533
Small Cap Funds	712,548	579,927	132,621
Large Cap Funds	993,307	942,000	51,307
Other Mutual Funds	1,649,595	1,500,201	149,394
Investment in Schwartz Theater	<u>1,335,526</u>	<u>1,500,000</u>	<u>(164,474)</u>
Total Advancement Foundation investments	<u>\$ 13,332,350</u>	<u>\$ 11,949,591</u>	<u>\$ 1,382,759</u>

At June 30, 2012 and 2011, the Bank of New York (BONY) managed the majority of the Advancement Foundation's investment portfolio.

NOTE C - OTHER CURRENT RECEIVABLES, DUE FROM AFFILIATE AND OTHER  
NONCURRENT ASSETS

The University's other current receivables, due from affiliates and other noncurrent assets as of June 30, consisted of the following:

	<u>2012</u>	<u>2011</u>
Vendor credits	\$ 187,078	\$ 218,568
State of Delaware payroll	969,602	1,975,405
Other	<u>2,086,368</u>	<u>362,630</u>
	3,243,048	2,556,603
Accounts receivable from Affiliates	<u>83,727</u>	<u>63,630</u>
Total	<u>\$ 3,326,775</u>	<u>\$ 2,620,233</u>

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

## NOTE D - PROPERTY, PLANT AND EQUIPMENT

## DELAWARE STATE UNIVERSITY:

Plant assets are stated at cost or, if received by gift, at fair market value on the date of contribution. Fixed assets, with the exception of land, are depreciated on a straight-line basis over the estimated useful lives of forty years for buildings and building improvements, seven years for equipment, and five years for library books. Assets as a result of the University Village acquisition are included as June 30, 2012 additions. Capital asset activity of the University for the years ended June 30, 2012 and 2011, follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u> <u>and transfers</u>	<u>Retirements</u> <u>and transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
Assets not being depreciated:				
Land and land improvements	\$ 16,968,407	\$ 1,951,068	\$ -	\$ 18,919,475
Construction in progress	<u>7,215</u>	<u>8,321,202</u>	<u>-</u>	<u>8,328,417</u>
Total assets not being depreciated	<u>16,975,622</u>	<u>10,272,270</u>	<u>-</u>	<u>27,247,892</u>
Assets being depreciated:				
Buildings and improvements	186,587,192	30,882,796	-	217,469,988
Equipment	52,805,525	9,198,940	118,152	61,886,313
Library books	6,583,912	34,014	-	6,617,926
Assets under capital lease	<u>3,402,475</u>	<u>-</u>	<u>3,402,475</u>	<u>-</u>
Total assets being depreciated	<u>249,379,104</u>	<u>40,115,750</u>	<u>3,520,627</u>	<u>285,974,227</u>
Total	<u>266,354,726</u>	<u>50,388,020</u>	<u>3,520,627</u>	<u>313,222,119</u>
Less accumulated depreciation:				
Buildings and improvements	48,987,465	9,738,187	-	58,725,652
Equipment	36,178,291	9,062,645	108,880	45,132,056
Library books	6,305,481	72,555	-	6,378,036
Assets under capital lease	<u>3,402,475</u>	<u>-</u>	<u>3,402,475</u>	<u>-</u>
Total accumulated depreciation	<u>94,873,712</u>	<u>18,873,387</u>	<u>3,511,355</u>	<u>110,235,744</u>
Total capital assets, net	<u>\$ 171,481,014</u>	<u>\$ 31,514,633</u>	<u>\$ 9,272</u>	<u>\$ 202,986,375</u>
	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u> <u>and transfers</u>	<u>Retirements</u> <u>and transfers</u>	<u>Balance</u> <u>June 30, 2011</u>
Assets not being depreciated:				
Land and land improvements	\$ 16,968,407	\$ -	\$ -	\$ 16,968,407
Construction in progress	<u>7,215</u>	<u>-</u>	<u>-</u>	<u>7,215</u>
Total assets not being depreciated	<u>16,975,622</u>	<u>-</u>	<u>-</u>	<u>16,975,622</u>

Delaware State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE D - PROPERTY, PLANT AND EQUIPMENT - Continued

DELAWARE STATE UNIVERSITY - Continued

	<u>Balance June 30, 2010</u>	<u>Additions and transfers</u>	<u>Retirements and transfers</u>	<u>Balance June 30, 2011</u>
Assets being depreciated:				
Buildings and improvements	183,671,342	2,915,850	-	186,587,192
Equipment	49,754,858	3,050,667	-	52,805,525
Library books	6,378,669	205,243	-	6,583,912
Assets under capital lease	<u>3,402,475</u>	<u>-</u>	<u>-</u>	<u>3,402,475</u>
Total assets being depreciated	<u>243,207,344</u>	<u>6,171,760</u>	<u>-</u>	<u>249,379,104</u>
Total	<u>260,182,966</u>	<u>6,171,760</u>	<u>-</u>	<u>266,354,726</u>
Less accumulated depreciation:				
Buildings and improvements	45,170,154	3,817,311	-	48,987,465
Equipment	32,447,805	3,730,486	-	36,178,291
Library Books	6,265,471	40,010	-	6,305,481
Assets under capital lease	<u>3,402,475</u>	<u>-</u>	<u>-</u>	<u>3,402,475</u>
Total accumulated depreciation	<u>87,285,905</u>	<u>7,587,807</u>	<u>-</u>	<u>94,873,712</u>
Total capital assets, net	<u>\$ 172,897,061</u>	<u>\$ (1,416,047)</u>	<u>\$ -</u>	<u>\$ 171,481,014</u>

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Capital asset activity of the Housing Foundation for the years ended June 30, 2012 and 2011, follows:

	<u>Balance June 30, 2011</u>	<u>Additions and transfers</u>	<u>Retirements and transfers</u>	<u>Balance June 30, 2012</u>
Assets being depreciated:				
Buildings and improvements	\$ 44,855,622	\$ -	\$ 30,868,677	\$ 13,986,945
Equipment	<u>3,388,408</u>	<u>-</u>	<u>2,275,608</u>	<u>1,112,800</u>
Total	<u>48,244,030</u>	<u>-</u>	<u>33,144,285</u>	<u>15,099,745</u>
Less accumulated depreciation:				
Buildings and improvements	8,300,978	916,512	5,589,967	3,627,523
Equipment	<u>3,255,756</u>	<u>63,049</u>	<u>2,229,601</u>	<u>1,089,204</u>
Total accumulated depreciation	<u>11,556,734</u>	<u>979,561</u>	<u>7,819,568</u>	<u>4,716,727</u>
Total capital assets, net	<u>\$ 36,687,296</u>	<u>\$ (979,561)</u>	<u>\$ 25,324,716</u>	<u>\$ 10,383,018</u>

Delaware State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE D - PROPERTY, PLANT AND EQUIPMENT - Continued

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION - Continued

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u> <u>and transfers</u>	<u>Retirements</u> <u>and transfers</u>	<u>Balance</u> <u>June 30, 2011</u>
Assets being depreciated:				
Buildings and improvements	\$ 44,847,631	\$ 7,991	\$ -	\$ 44,855,622
Equipment	<u>3,377,208</u>	<u>11,200</u>	<u>-</u>	<u>3,388,408</u>
Total	<u>48,224,839</u>	<u>19,191</u>	<u>-</u>	<u>48,244,030</u>
Less accumulated depreciation:				
Buildings and improvements	7,101,628	1,199,350	-	8,300,978
Equipment	<u>3,019,321</u>	<u>236,435</u>	<u>-</u>	<u>3,255,756</u>
Total accumulated depreciation	<u>10,120,949</u>	<u>1,435,785</u>	<u>-</u>	<u>11,556,734</u>
Total capital assets, net	<u>\$ 38,103,890</u>	<u>\$ (1,416,594)</u>	<u>\$ -</u>	<u>\$ 36,687,296</u>

NOTE E - ACCRUED EMPLOYEE COMPENSATION

Details of accrued employee compensation as of June 30, follow:

	<u>2012</u>	<u>2011</u>
Accrued salaries	\$ 1,414,058	\$ 1,350,929
Accrued lag payroll:		
University	1,190,677	2,047,552
State	845,858	1,734,185
State share of pension expense	<u>123,744</u>	<u>241,220</u>
Total	<u>\$ 3,574,337</u>	<u>\$ 5,373,886</u>

NOTE F - LONG-TERM DEBT

DELAWARE STATE UNIVERSITY:

Long-term debt activity of the University for the years ended June 30, 2012 and 2011, follows:

	<u>June 30, 2012</u>				
	<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2012</u>	<u>Current</u> <u>portion</u>
Capital Lease obligations	\$ 60,338	\$ -	\$ 60,338	\$ -	\$ -
Notes payable	725,244	-	44,970	680,274	46,337
Revenue bonds	<u>54,521,902</u>	<u>46,118,707</u>	<u>3,594,122</u>	<u>97,046,487</u>	<u>1,180,000</u>
Total	<u>\$ 55,307,484</u>	<u>\$46,118,707</u>	<u>\$ 3,699,430</u>	<u>\$97,726,761</u>	<u>\$ 1,226,337</u>

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

## NOTE F - LONG-TERM DEBT - Continued

## DELAWARE STATE UNIVERSITY- Continued

	June 30, 2011				Current portion
	June 30, 2010	Additions	Reductions	June 30, 2011	
Capital Lease obligations	\$ 157,279	\$ -	\$ (96,941)	\$ 60,338	\$ 60,338
Notes payable	774,502	-	(49,258)	725,244	44,969
Revenue bonds	<u>55,328,828</u>	-	<u>(806,926)</u>	<u>54,521,902</u>	<u>835,000</u>
Total	<u>\$ 56,260,609</u>	<u>\$ -</u>	<u>\$ (953,125)</u>	<u>\$ 55,307,484</u>	<u>\$ 940,307</u>

1. Equipment Under Capital Lease and Lease Commitments

The University has entered into capital leases for certain telephone and electronic equipment with Siemens Financial Services. The economic substance of the leases is that the University is financing the acquisition of the assets through the leases and accordingly, they are recorded in the University's statement of net assets.

In 2007, the University entered into certain capital leases with Bank of America Leasing & Capital LLC, in the amount of \$249,513, for the purchase of new fleet vehicles. The economic substance of the leases is that University is financing the acquisition of the assets through the leases and accordingly, they are recorded in the University's assets and liabilities.

The University also entered into a capital lease agreement with Commerce Commercial Leasing LLC, in the amount of \$250,000, for two aircrafts. The economic substance of the lease is that the University is financing the acquisition of the assets through the leases and accordingly, they are recorded in the University's assets and liabilities.

The leases obligations were fully extinguished in fiscal year 2012.

2. Notes Payable

On December 15, 2005, the University entered into an agreement with the Delaware River and Bay Authority (DRBA) to demolish the existing terminal building located at the Cheswold Airport and construct a new building containing approximately 14,375 rentable square feet of space and to submit the building and land together with any improvements to the Delaware Air Park Condominium. The University agreed to pay the DRBA the Special Assessment in consideration for the creation of the DSU Unit and the conveyance of the DSU Unit to the University in accordance with the terms of the Project Development Agreement. In connection with this agreement, Delaware State University entered into a twenty-year mortgage in the amount of \$1,011,545. Principal is payable in 240 monthly installments of \$5,509 beginning January 1, 2007. The interest rate for the first 60 payments is 1.5%, 3% for payments 61-120 and 5.32% for all remaining payments. Following is a summary of remaining payment schedule.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE F - LONG-TERM DEBT - Continued**

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 46,337	19,775	66,112
2014	47,746	18,365	66,111
2015	49,198	16,913	66,111
2016	44,815	21,296	66,111
2017	40,916	25,196	66,112
2018 - 2022	240,562	89,987	330,549
2023 - 2027	<u>210,700</u>	<u>20,689</u>	<u>231,389</u>
Totals	<u>\$ 680,274</u>	<u>\$ 212,221</u>	<u>\$ 892,495</u>

3. Revenue Bonds

**Series 1999 Bonds:**

On May 6, 1999, the University issued revenue refunding bonds in the amount of \$15,865,000 (par value) through the Delaware Economic Development Authority (the "Authority"). The bonds are due on October 1, 2017 and are secured by un-appropriated gross revenues of the University.

The Bond Trust Indenture requires the University to maintain a debt service reserve fund equal to the maximum annual debt service on all bonds outstanding under the Indenture. The University meets this requirement by providing for the deposit through a surety bond in the Debt Reserve Fund. This bond was obtained from MBIA Insurance Corporation in the amount of \$1,580,000. The University has pledged all operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding. The 1999 bonds were backed by MBIA, and have no letter of credit expiration date.

On March 1, 2012 the University issued revenue refunding bonds in the amount of \$32,145,000 (par value) through the Authority which were in part used to refund certain maturities of Series 1999 bonds. The issuance of Series 2012 bonds and refunding resulted in a \$2,725,000 reduction in Series 1999 bond obligations. As of June 30, 2012, \$3,107,416 including \$22,584 of unamortized bond discount remained outstanding on the 1999 Revenue Bonds. The refunding of the callable portion of the Series 1999 Bonds resulted in a net present value savings of \$116,053.

**Series 2007 Bonds:**

On December 20, 2007 the University issued revenue refunding bonds in the amount of \$47,580,000 (par value) through the Authority. The bonds are interest only through October 1, 2018; due on October 1, 2036; and are secured by un-appropriated gross revenues of the University. The 2007 bonds were being issued as "Additional Bonds" under the Indenture, secured equally and ratable with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. The 2007 Bonds are insured by MBIA Insurance Corporation. The bonds were secured for the construction of a new student union, a swimming pool and a student wellness/recreation center.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE F - LONG-TERM DEBT - Continued**

The student union will include a student club area, bookstore, copy center, mail services, game room, study area, commuter lounge, meeting rooms and administrative offices. The primary function of the pool is to provide a recreational environment. The student wellness/recreation center will serve student athletes in restricted areas and the general student population will have recreational courts, fitness equipment, intramural sports and an academic component for wellness and health programs. The 2007 bonds were backed by MBIA Insurance Corporation, with no letter of credit expiration date. As of June 30, 2012, \$47,852,797 including \$272,797 of unamortized bond premium remained outstanding on the 2007 revenue bonds.

**Series 2011 Energy Efficiency Bonds:**

The University entered into a Guaranteed Energy Savings Agreement with Johnson Controls, Inc. in the amount of \$11,265,000. In connection with this agreement and to fund energy efficiency projects, energy efficiency revenue bonds were issued through the State of Delaware Sustainable Energy Utility, Inc. on August 1, 2011. The bonds are due September 15, 2032 and are limited obligations of the University, payable only from amounts appropriated by the State that are eligible for payment of the Installment Payments pursuant to the Energy Performance Contracting Act. The 2011 bonds are equally and ratably secured by the trust estate, and failure of the State to appropriate each year sufficient available funds will cause insufficient funds to be deposited into the bond fund to pay all principal and interest on the bonds when due. Johnson Controls, Inc. guaranteed that the savings achieved will be sufficient to cover the financing cost associated with the bond, upon completion of the energy upgrades to various buildings and systems throughout the University. In the event that the savings are not realized, Johnson Controls, Inc. will be responsible for the amount of that deficiency. As of June 30, 2012, \$12,098,731 including \$833,731 of unamortized bond premium remained outstanding on the 2011 energy efficiency bonds.

**Series 2012 Bonds:**

On March 1, 2012 the University issued revenue refunding bonds in the amount of \$32,145,000 (par value) through the Delaware Economic Development Authority. The bonds are due October 1, 2036 and are secured by a pledge of certain un-appropriated revenues of the University. The 2012 bonds were issued as "Additional Bonds" under the Indenture, secured equally and ratably with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. The proceeds of the 2012 bonds were used to finance: (1) the refunding of certain maturities of The Delaware Economic Development Authority Revenue Refunding Bonds (Delaware State University Project) Series 1999; (2) the purchase of the University Village, a four building, 628 bed student housing facility and dining hall located on the campus of the University, the construction of which was financed by the Kent County, Delaware Variable Rate Demand Student Housing Revenue Bonds (Delaware State University Student Housing Foundation Project) Series 2004B; (3) the funding of any required reserve funds relating to the 2012 Bonds; and (4) the costs of issuance and any credit enhancement of the 2012 Bonds. As of June 30, 2012 \$33,987,543 including \$1,842,543 of unamortized bond premium remained outstanding on the 2012 revenue bonds.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

## NOTE F - LONG-TERM DEBT - Continued

Remaining Maturities

Remaining maturities and interest due relating to the University's revenue bonds at June 30, 2012, follows:

<u>Fiscal year</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
2013	\$ 1,180,000	\$ 4,129,414	\$ 5,309,414
2014	1,640,000	4,101,172	5,741,172
2015	2,030,000	4,054,210	6,084,210
2016	2,100,000	3,980,967	6,080,967
2017	2,230,000	3,885,993	6,115,993
2018 – 2022	13,695,000	17,751,201	31,446,201
2023 – 2027	17,215,000	14,410,193	31,625,193
2028 – 2032	21,470,000	10,153,964	31,623,964
2033 – 2037	22,805,000	4,754,572	27,559,572
2038 – 2041	<u>9,755,000</u>	<u>545,287</u>	<u>10,300,287</u>
Total	94,120,000	<u>67,766,973</u>	<u>161,886,973</u>
Plus unamortized bond premiums and discount	<u>2,926,487</u>		
Total	<u>\$ 97,046,487</u>		

**4. Delaware State University Student Housing Foundation:**

The Housing Foundation refinanced its Series 2000A and 2002A Bonds (the Prior Bonds) with a loan payable in an aggregate amount of \$18,420,000 funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (Delaware State University Student Housing Foundation Project). Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding the Prior Bonds, to fund a debt service reserve fund for the Series 2004A Bonds, to fund an operating reserve fund for the Series 2004A Bonds, and to pay a portion of the costs of issuance of the Series 2004A Bonds. Effective February 21, 2004 the Housing Foundation defeased the tax-exempt series 2000A and the tax exempt series 2002A term bonds at face value. Further, the letter of credit for the 2004A bonds were backed by ACA Financial Guaranty Corporation with no letter of credit expiration, whereas the 2004B bonds was backed by Wachovia (now Wells Fargo), who provided a letter of credit extension through January 2012. The letter of credit supporting the 2004B Bonds expired on January 20, 2012. As a result, the principal amount of \$33,633,326 was classified as a current liability in the June 30, 2011 Housing Foundation's Statement of Net Assets. This did not constitute a violation of the financial covenants contained in the Reimbursement Agreement between the Housing Foundation and Wells Fargo, the letter of credit bank. Effective March 1, 2012, the Housing Foundation's Series 2004B bonds were repaid by the University with proceeds of the University's Series 2012 Bonds.

The liability of the Housing Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. The first monthly interest payment on the Series 2004A Bonds began on July 1, 2004. Total accrued interest as of June 30, 2012 and 2011, was \$388,072 and \$398,191, respectively.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

**NOTE F - LONG-TERM DEBT - Continued**

Interest rates and remaining principal and interest of the Housing Foundation's 2004A revenue bonds follows:

<u>Fiscal year</u>	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
2013	3.70	\$ 405,000	\$ 768,651	\$ 1,173,651
2014	4.00	420,000	752,759	1,172,759
2015	4.00	435,000	735,659	1,170,659
2016	4.20	455,000	717,404	1,172,404
2017	4.30	475,000	697,636	1,172,636
2018 – 2022	4.40-5.00	2,710,000	3,133,246	5,843,246
2023 – 2027	5.00	4,240,000	2,373,469	6,613,469
2028 – 2032	5.00-5.125	4,610,000	1,397,991	6,007,991
2033 – 2037	5.125	<u>2,195,000</u>	<u>252,406</u>	<u>2,447,406</u>
		15,945,000	<u>\$10,829,221</u>	<u>\$26,774,221</u>
Less unamortized bond discount		<u>(271,343)</u>		
Total 2004A revenue bonds		<u>\$ 15,673,657</u>		

**NOTE G - PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS**

University employees are covered under the State Employees' Pension Plan. The State Employees' Pension Plan is a cost sharing multiple employer defined benefit plan. The State contribution was 18.76% and 17.2% of employees' salary for fiscal years 2012 and 2011, respectively. Employees hired prior to January 1, 2012 contribute 3% of salary in excess of \$6,000 and employees hired after that date, contribute 5% of salary in excess of \$6,000. Pension costs of \$8,106,524 and \$7,042,554 for 2012 and 2011, respectively, were included in the accompanying financial statements. An employee's pension rights are vested after five consecutive years of service. Certain significant plan provisions follow:

## Early retirement:

- 15 years with service - age of 55 (benefits are reduced by 0.2% each month under age 60)
- 25 years of service - any age (reduce by 0.2%, each month short of 30 years)

## Service retirement:

- 15 years of service - age 60
- 30 years of service - any age
- 5 years of service - age 62

## Disability retirement:

- 5 years of service and proof of disability

The State Employees' Pension Plan is part of the Delaware Public Employees' Retirement System, which is a blended component unit of the State of Delaware. More information can be obtained from the Delaware Public Employees' Retirement System Comprehensive Annual Report. To obtain this report, contact the Office of Pensions at McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402 or by calling 1-800-722-7300.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

**NOTE H - ENDOWMENT SPENDING POLICY**

The Advancement Foundation's Board chooses to spend only a portion of the investment returns each year. Under the policy established by the Board, five percent of the three-year average fair value of endowment investments at March 31 was authorized for expenditure. The remaining amount, if any, is retained for use in future years when the amount computed using the spending rate policy exceeds the investment return. The authorized level of expenditures for the years ended June 30, 2012 and 2011 were \$508,347 and \$447,540, respectively.

**NOTE I - LEASES**

The University has entered into non-cancelable operating leases for the Wilmington campus and certain copying equipment. During the years ended June 30, 2012 and 2011, related rental and copy equipment expense amounted to \$426,460 and \$455,421, respectively. As of June 30, 2012, future minimum rents due under these operating leases were \$180,319, which terminate in fiscal 2013..

**NOTE J - RELATED PARTY TRANSACTIONS**1. Affiliate Transactions

In an arrangement with the University's component units, the Housing Foundation and Advancement Foundation, the University provides day-to-day management and accounting services, which also include additional services such as: security, operational support, utilities, telecommunications and shared dining facilities. The exchange of such services results in affiliate transactions which consisted of the following as of the end of the respective fiscal years:

	<u>2012</u>	<u>2011</u>
Due from Affiliate:		
Delaware State University	\$ 83,727	\$ 63,630
Housing Foundation	2,682,098	2,464,016
Advancement Foundation	<u>26,690</u>	<u>21,861</u>
Total	<u>\$ 2,792,515</u>	<u>\$ 2,549,507</u>
Due to Affiliate:		
Delaware State University	\$ 2,708,788	\$ 2,485,877
Housing Foundation	-	
Advancement Foundation	<u>83,727</u>	<u>63,630</u>
Total	<u>\$ 2,792,515</u>	<u>\$ 2,549,507</u>

2. Ground Lease

On February 1, 2002, Phase I and II of the Housing Foundation (Phase I and II lessee) and the University (lessor) entered into an amendment of the original ground lease dated September 1, 2000. Pursuant to the amended ground lease the term expiration date was changed from August 31, 2035 to October 1, 2038. Furthermore, Phase III (Phase III lessee) and the University (lessor) entered into a ground lease agreement dated November 25, 2003. Pursuant to the Phase III ground lease, the respective term commences on November 25, 2003 and was set to expire on July 31, 2036. The liability of the lessees with respect to its obligations under the ground lease shall be

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE J - RELATED PARTY TRANSACTION - Continued**

non-recourse and the satisfaction of any of the lessee's obligations shall be limited to the lessee interest in the property.

The Phase I and II ground lease agreement also requires the utilization of the Project by students and faculty of Delaware State University for a minimum of 38 years. The Phase III ground lease agreement also required the utilization of the Project by students and faculty of Delaware State University for a minimum of 35 years. At the end of the respective lease dates the property reverts to the University. In connection with the transfer of all of the assets, liabilities, net assets and related operations of the Phase III (Village) to the University, the Phase III ground lease was terminated and the property reverted to the ownership of the University.

3. Unrestricted net deficit of Housing Foundation

The Housing Foundation had an unrestricted net (deficit)/surplus of \$(200,678) and \$157,699 for the years ended June 30, 2012 and 2011, respectively. On March 1, 2012 the Village property of the Housing Foundation was transferred to the University, which was the main contributor to prior year deficits. As of June 30, 2012, the remaining property, Courtyard, has reduced its deficit by \$517,678 to (\$200,678). The Housing Foundation expects to have a positive fund balance in fiscal 2013.

The University's continuous monitoring of the expenses of the Courtyard apartments has resulted in a significant reduction in the deficit since the University assumed responsibility for the management of the facilities. The University will continue with regularly scheduled facility maintenance to avoid major repair costs

**NOTE K - CONTINGENCIES AND COMMITMENTS**

In the normal course of its activities, the University is a party in various legal and administrative actions. After taking into consideration legal counsel's evaluation of pending actions and information relative to potential future claims based on past events, other than the item below, the University's management is of the opinion that the outcome thereof will not have a material effect on the accompanying financial statements.

During fiscal year 2009, the University remitted \$713,661 to the U.S. Department of Education (DOE) in connection with a program review. On December 17, 2009, the University was informed by the DOE that certain additional matters relating to its program review could result in a probable future settlement of approximately \$750,000, which the University accrued. A final program review determination letter from the DOE dated December 6, 2011 was received by the University's finance office on December 22, 2011. This letter detailed DOE's consideration of the matters relating to the program review and the University's responses thereto and, asserted a liability of \$3,816,476. The University disputed those findings and related assessment and, exercised its rights under the DOE's appeal process. On September 20, 2012, the University entered into an agreement effectively settling the disputed liability that was fully covered by amounts previously accrued. The liability is payable over the period of five years beginning October 1, 2012. The initial payment was negotiated and sent to the DOE on or before the October 1, 2012 deadline.

Student financial aid grants and loans, federal awards for research and development and other activities, and cost-reimbursable contracts specify the types of expenses for which the grant or contract funds may be used. Expenses made by the University under these sponsored activities are subject to audit. To date, other than the above, the University has not been notified by any of its granting agencies of any significant unallowable costs or other noncompliance relating to its federal awards.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE K - CONTINGENCIES AND COMMITMENTS - Continued**

Significant sources of funding for the University are the appropriations that are provided from the State of Delaware. For the years ended June 30, 2012 and 2011, noncapital appropriations to the University were \$32,677,597 and \$35,872,430, and capital appropriations were \$13,500,000 and \$7,456,238, respectively. Given the subsidized tuition of in-state students and the low collectability that the University has from its student population, the University is dependent upon these State appropriations, and other support and services from the State of Delaware.

**NOTE L - SUBSEQUENT EVENTS**

The University and its component units evaluated their June 30, 2012 financial statements for subsequent events through December 5, 2012, the date the financial statements were available to be issued. Based on the University's evaluation, other than the settlement with DOE (Note K), management determined that there were no subsequent events that met the criteria for disclosure.