

Combined Financial Statements and  
Report of Independent Certified Public Accountants

**Delaware State University Student Housing  
Foundation**

June 30, 2012 and 2011

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Delaware State University Student Housing Foundation:

We have audited the accompanying combined statements of financial position of the Delaware State University Student Housing Foundation (the Foundation), a component unit of Delaware State University, as of June 30, 2012 and 2011, and the related combined statements of activities and cash flows for the years then ended. These combined financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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 audits to obtain reasonable assurance about whether the combined 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 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 combined financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Delaware State University Student Housing Foundation as of June 30, 2012 and 2011, and changes in their net assets, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A, effective March 1, 2012 the Foundation transferred all of the assets, liabilities, net assets and related operations of the Phase III Project to Delaware State University.



New York, New York  
December 3, 2012

Delaware State University Student Housing Foundation

**COMBINED STATEMENTS OF FINANCIAL POSITION**

As of June 30, 2012 and 2011

<b>ASSETS</b>	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 100,004	\$ 3,117,854
Tenant accounts receivable, net	67,110	119,583
Prepaid expenses	15,767	26,468
Tenant security deposits	138,274	325,442
Due from affiliate	2,682,098	2,464,016
Assets held in trust	2,099,269	4,648,461
Total current assets	<u>5,102,522</u>	<u>10,701,824</u>
<b>NONCURRENT ASSETS</b>		
Assets held in trust	501,215	3,533,128
Capital assets, net	10,383,018	36,687,296
Bond issuance costs, net	411,869	676,493
Total noncurrent assets	<u>11,296,102</u>	<u>40,896,917</u>
 Total assets	 <u>\$ 16,398,624</u>	 <u>\$ 51,598,741</u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of bonds payable	\$ 405,000	\$ 34,023,326
Accounts payable and accrued expenses	102,364	288,083
Accrued employee compensation	30,942	120,509
Accrued interest	388,072	398,191
Tenant security deposits	167,859	361,949
Deferred income	236,409	587,535
Total current liabilities	<u>1,330,646</u>	<u>35,779,593</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable, net	<u>15,268,657</u>	<u>15,661,449</u>
Total liabilities	<u>16,599,303</u>	<u>51,441,042</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	<u>(200,679)</u>	<u>157,699</u>
 Total liabilities and net assets	 <u>\$ 16,398,624</u>	 <u>\$ 51,598,741</u>

The accompanying notes are an integral part of these statements.

Delaware State University Student Housing Foundation

**COMBINED STATEMENTS OF ACTIVITIES**

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>OPERATING ACTIVITIES</b>		
<b>REVENUES</b>		
Tenant revenue	\$ 6,632,871	\$ 7,832,405
Auxiliary enterprises and other	1,485,583	2,052,151
Total revenues	<u>8,118,454</u>	<u>9,884,556</u>
<b>EXPENSES</b>		
Housing	5,038,350	6,859,225
General and administrative	346,005	466,132
Depreciation	979,562	1,435,785
Total expenses	<u>6,363,917</u>	<u>8,761,142</u>
Excess of operating revenues over expenses	1,754,537	1,123,414
<b>NONOPERATING ACTIVITIES</b>		
Transfers of net assets to Delaware State University	(2,198,800)	-
Realized and unrealized gain (loss) on investments	38,851	(70,376)
Investment income	47,034	110,209
<b>CHANGE IN UNRESTRICTED NET ASSETS (DEFICIT)</b>	<u>(358,378)</u>	<u>1,163,247</u>
<b>NET ASSETS (DEFICIT) - UNRESTRICTED, beginning of year</b>	<u>157,699</u>	<u>(1,005,548)</u>
<b>NET ASSETS (DEFICIT) - UNRESTRICTED, end of year</b>	<u>\$ (200,679)</u>	<u>\$ 157,699</u>

The accompanying notes are an integral part of these statements.

Delaware State University Student Housing Foundation

**COMBINED STATEMENTS OF CASH FLOWS**

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in unrestricted net assets	\$ (358,378)	\$ 1,163,247
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	979,562	1,435,785
Amortization of bond issuance costs	25,511	28,843
Accretion of bond discount	18,640	21,856
Bad debt expense	101,407	229,258
Net realized and unrealized (gain) loss on investments	(38,851)	70,376
Transfer of Phase III to Delaware State University	3,863,990	-
Changes in assets and liabilities:		
Tenant accounts receivable	(48,939)	(71,733)
Prepaid expenses	10,701	(965)
Tenant security deposits	187,168	(13,899)
Due from affiliate	(218,082)	817,003
Accounts payable and accrued expenses	(185,719)	(18,671)
Accrued employee compensation	(89,567)	48,597
Accrued interest	(10,119)	(21,986)
Tenant security deposits	(194,090)	24,594
Deferred income	(351,126)	633
Net cash provided by operating activities	<u>3,692,108</u>	<u>3,712,938</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	-	(19,191)
Net cash used in investing activities	<u>-</u>	<u>(19,191)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of bonds payable	(1,090,000)	(1,040,000)
Change in assets held in trust	(5,619,958)	(49,952)
Net cash used in financing activities	<u>(6,709,958)</u>	<u>(1,089,952)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(3,017,850)	2,603,795
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>3,117,854</u>	<u>514,059</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 100,004</u>	<u>\$ 3,117,854</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 119,054</u>	<u>\$ 969,919</u>

The accompanying notes are an integral part of these statements.

**NOTES TO COMBINED FINANCIAL STATEMENTS**

June 30, 2012 and 2011

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

1. Reporting Entity

Delaware State University Student Housing Foundation (the Foundation) was organized as a non-profit corporation under the laws of the State of Delaware for the purpose of acquiring, developing, constructing, and operating student housing facilities primarily for students and faculty at the Delaware State University (the University). The property is located in Dover, Delaware and consists of three phases, collectively known as Phases I, II and III Projects, with a combined total of 1,044 beds. The Foundation is considered to be a discretely presented component unit of the University, which is reported in the University's financial statements.

The Foundation is a non-profit corporation formed under the laws of the State of Delaware and exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. Delaware State University Student Housing Foundation Phases I and II and Delaware State University Student Housing Foundation Phase III are exempt from federal income tax under separate 501(c)(3) determinations.

On March 1, 2012 the Foundation transferred all of the assets, liabilities, net assets and related operations of the Phase III Project which consisted of 628 beds, to the University as part of the plan to refinance the 2004B Bonds which was approved by the Foundation's and University's Boards of Directors/Trustees. The \$33,170,000 2004B Bonds were refinanced by University issued debt and as part of the refinancing the assets, liabilities, net assets and related operations of the Phase III Project were transferred to the University. Consequently, the University received \$38,146,890 in assets and \$35,948,090 in liabilities, which effectively amounted to a transfer of net assets of \$2,198,800. The accompanying combined financial statements reflect the revenues and expenses of the Phase III Project for the 8-month period ended February 29, 2012.

2. Basis of Presentation

The accompanying combined financial statements have been prepared under the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Foundation's combined financial statements present the assets, liabilities, net assets, changes in net assets and cash flows of the Foundation, which consists of Phases I, II and III of a three-phase apartment complex. Effective March 1, 2012, the Phase III operations and net assets were transferred to the University. All intercompany transactions have been eliminated.

3. Cash Equivalents

The Foundation defines cash and cash equivalents as those assets with a maturity date of three months or less at the time of purchase.

4. Tenant Accounts Receivable and Allowance for Doubtful Accounts

Tenant accounts receivable represent amounts due primarily from students for dormitory rent. The Foundation's allowance for doubtful accounts is provided based upon management's judgments, including such factors as previous collection history and characteristics of the receivables. The Foundation writes-off receivables when they become uncollectible, and payments subsequently received, if any, on such receivables are credited to the allowance for doubtful accounts. At June 30, 2012 and 2011, the allowance was \$374,600 and \$641,607, respectively.

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

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

5. Affiliate Transactions

In an arrangement with the University, 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 are recorded as incurred on the Foundation's combined statements of financial position.

6. Assets Held in Trust

Assets held in trust are under the control of outside bond trustees and represent reserves for the payment of principal and interest due on the bonds. These funds are invested, and investment income and gains and losses are recorded in the accompanying combined statements of activities.

7. Capital Assets

Buildings, furniture, fixtures and equipment are recorded at cost or, if received by gift at fair value on the date of donation and, are depreciated over the estimated useful life of the respective asset. Depreciation is computed using the straight-line method. Estimated useful lives used for depreciation purposes are forty years for buildings, ten to forty years for improvements, and seven years for equipment.

8. Bond Issuance Costs

Costs incurred with the issuance of the Foundation's bonds are amortized over the lives of the bonds. As such, accumulated amortization for such issuance costs at June 30, 2012 and 2011 was \$153,540 and \$269,980, respectively.

9. Deferred Income

Deferred income consists primarily of funds that are received prior to the beginning of the rental term. As such, it is the Foundation's policy to recognize these balances over the course of the period that the service is rendered.

10. Unrestricted Net Assets

None of the Foundation's net assets (deficit) is subject to donor-imposed restrictions. Accordingly, all resources are accounted for as unrestricted, in accordance with accounting principles generally accepted in the United States of America.

The Foundation had a net deficit of \$200,679 for the year ended June 30, 2012. The Foundation and the University are continuously monitoring the expenses of the apartments, resulting in a significant reduction in the deficit since the University assumed responsibility for the management of these facilities. The Foundation continues to complete regularly scheduled facility maintenance to avoid major repair costs.



**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

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

11. Tenant Revenue

Tenant revenue is principally derived from on-campus students who are generally contracted under annual dormitory lease arrangements. Tenant revenue is recognized ratably on a monthly basis, in accordance with the University's operating cycle. Certain tenant revenue is pledged as collateral for the 2004A Bonds (Note D).

12. Income Taxes

The Foundation follows the provisions of Accounting Standards Codification ("ASC") 740. ASC 740-10 clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Foundation is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (the "Code") and the applicable income tax regulations of Delaware. Nevertheless, the Foundation may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The tax years ended June 30, 2009, 2010, 2011 and 2012 are still open to audit for both federal and state purposes. Management has determined that there are no uncertain tax positions within the accompanying financial statements

13. Concentration of Credit Risk

The Foundation's financial instruments, which are exposed to concentrations of credit risk, consist primarily of cash and cash equivalents and assets held in trust. These funds are held in various high-quality financial institutions. Additionally, the Foundation maintains its cash and cash equivalents in financial institutions, which at times exceed federally insured limits, however, the Foundation believes that concentrations of credit risk are limited.

14. Operations

The accompanying combined statements of activities distinguish between operating and nonoperating activities. Operating activities primarily include all revenues and expenses that are an integral part of the Foundation's direct activities. Amounts not included in the measure of operations consist of investment returns and other non-core activities, if any, considered by management to be of a nonrecurring nature.

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

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

15. Use of Estimates

The preparation of combined financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful accounts, and useful lives of fixed assets. Actual results could differ from these estimates.

**NOTE B - ASSETS HELD IN TRUST**

Assets held in trust represent funds held by the Bond Trustee and consist of cash, money market accounts, and securities that are primarily issued by the U.S. Government. These investments are stated at fair value as determined by market quotations. Under the terms of the Trust Indenture, various funds such as Construction, Bond, Capitalized Interest and Debt Service are required to be established and maintained by the Foundation.

The respective 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 coverages.

At June 30, 2012 and 2011, funds held by the Bond Trustee on behalf of the Foundation consisted of:

	<u>PHASES I and II (2004A)</u>		<u>PHASE III (2004B &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	1,374,351	-	2,765,331	1,410,921	4,139,682
Capitalized interest	388,072	394,897	-	844	388,072	395,741
Operating reserve	298,195	298,192	-	-	298,195	298,192
Qualified exchange	-	-	-	509,887	-	509,887
Reimbursement account	-	-	-	1,631,749	-	1,631,749
Bond replacement	-	-	-	478,874	-	478,874
Issuing exchange account	24,494	24,494	-	16,655	24,494	41,149
Rebate account	-	-	-	258	-	258
Renewal/replacement	73,802	72,227	-	-	73,802	72,227
	<u>2,600,484</u>	<u>2,554,161</u>	-	<u>5,627,428</u>	<u>2,600,484</u>	<u>8,181,589</u>
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>\$ 1,080,244</u>	<u>\$ -</u>	<u>\$ 2,452,884</u>	<u>\$ 501,215</u>	<u>\$ 3,533,128</u>

Delaware State University Student Housing Foundation

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE B - ASSETS HELD IN TRUST - Continued**

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

	<u>2012</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Unrealized loss</u>
Cash and cash equivalents	\$ 2,099,269	\$ 2,099,269	\$ -
Government and agencies	<u>501,215</u>	<u>500,588</u>	<u>627</u>
Total	<u>\$ 2,600,484</u>	<u>\$ 2,599,857</u>	<u>\$ 627</u>
	<u>2011</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Unrealized loss</u>
Cash and cash equivalents	\$ 4,648,461	\$ 4,648,461	\$ -
Government and agencies	<u>3,533,128</u>	<u>3,575,838</u>	<u>(42,710)</u>
Total	<u>\$ 8,181,589</u>	<u>\$ 8,224,299</u>	<u>\$ (42,710)</u>

Maturities of long-term investments held in trust were as follows:

	<u>June 30, 2012</u>	
	<u>Fair value</u>	<u>Cost</u>
1 - 5 years	<u>\$ 501,215</u>	<u>500,588</u>

The Foundation defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. Fair value measurements are applied based on the unit of account from the reporting entity's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Foundation uses a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Delaware State University Student Housing Foundation

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE B - ASSETS HELD IN TRUST - Continued**

The assets held in trust, which were comprised of cash and cash equivalents and government and agency securities, were the only financial assets carried at fair value as of June 30, 2012 and 2011. These items were valued using a market approach with Level 1 inputs.

**NOTE C - CAPITAL ASSETS, NET**

Capital asset activity of the Foundation is as follows:

	<u>2012</u>	<u>2011</u>
Capital assets		
Buildings and improvements (Note D)	\$ 13,986,946	\$ 44,855,622
Equipment	1,112,800	3,058,707
Land improvements	<u>-</u>	<u>329,701</u>
Total capital assets	<u>15,099,746</u>	<u>48,244,030</u>
Less accumulated depreciation		
Buildings and improvements	3,627,523	8,300,977
Equipment	<u>1,089,205</u>	<u>3,255,757</u>
Total accumulated depreciation	<u>4,716,728</u>	<u>11,556,734</u>
Total capital assets, net	<u>\$ 10,383,018</u>	<u>\$ 36,687,296</u>

**NOTE D - BONDS PAYABLE, NET**

The Foundation's bonds payable consisted of the following:

	<u>2012</u>	<u>2011</u>
Tax-exempt Series 2004A term bonds dated January 21, 2004; due at various intervals through July 1, 2034, payable in semi-annual installments of interest and annual installments of principal; various fixed coupon rates, ranging from 2.00% to 5.125%, as defined in the trust indenture, are secured by deed and assignment of rents.	\$ 15,945,000	\$16,335,000
Tax-exempt Series 2004B term bonds dated January 21, 2004; in January 2012 variable rate bonds became bank bonds paying fixed rate of 4%; variable rates was 1% at June 30, 2011. 2004B Bonds are secured by deed and assignment of rents.	<u>-</u>	<u>33,870,000</u>
	15,945,000	50,205,000
Less current portion	(405,000)	(34,023,326)
Less bond discount (net of accumulated amortization of \$94,900 and \$154,568, respectively)	<u>(271,343)</u>	<u>(520,225)</u>
Total bonds payable, net	<u>\$ 15,268,657</u>	<u>\$ 15,661,449</u>

Delaware State University Student Housing Foundation

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE D - BONDS PAYABLE, NET - Continued**

Pursuant to the trust indenture dated January 1, 2004, proceeds from the sale of the 2004A Bonds were restricted to refunding the Series 2000A and 2002A Bonds, to fund a debt service reserve fund for the 2004A Bonds, to fund an operating reserve fund for the 2004A Bonds, and to pay a portion of the costs of issuance of the 2004A Bonds.

Pursuant to the trust indenture dated January 1, 2004, proceeds from the sale of the Series 2004 Bonds are restricted to financing the construction, furnishing, and equipping the Foundation, to defease in advance of their maturities, the Series 2000B and 2002B Bonds, to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

Through January 2012, the 2004B Bonds bore interest at a variable rate per annum as determined weekly by the remarketing agent. If the 2004B Bonds were submitted to the Project for tender, they were remarketed by the remarketing agent on a best-efforts basis. If the tendered 2004B Bonds were not remarketed, a liquidity facility was in place to secure the payment of the 2004B Bonds.

In January 2012, the liquidity facility expired and the 2004B Bonds became bank bonds in accordance with the Foundation's Reimbursement Agreement. As a result, the variable interest rate 2004B Bonds were converted to a fixed rate of interest (4% annum). On March 1, 2012 in accordance with the Foundation's and University's approved plan of refinance, the bank bonds were refinanced with debt issued by the University and the Foundation was no longer responsible for repayment of the 2004B bonds nor the converted bank bonds.

Under the terms of its various debt agreements, the Foundation was required to comply with various financial covenants and was required to maintain an interest rate swap agreement with respect to the 2004B Bonds through January 2011.

Maturities of long-term debt, follow:

<u>Year ending June 30,</u>	<u>Principal</u>
2013	\$ 405,000
2014	420,000
2015	435,000
2016	455,000
2017	475,000
Thereafter	<u>13,755,000</u>
Total	<u>\$ 15,945,000</u>

Delaware State University Student Housing Foundation

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE D - BONDS PAYABLE, NET - Continued**

Fair Value

The fair value of long-term debt is estimated based on currently published rates for debt obligations with similar characteristics. At June 30, 2012 and 2011, the carrying amounts and estimated fair values of bonds outstanding and subordinated debt were as follows:

	2012		2011	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Series 2004A	\$ 15,945,000	\$ 12,297,907	\$ 16,335,000	\$ 13,765,535
Series 2004B	-	-	33,870,000	33,870,000
Total	\$ 15,945,000	\$ 12,297,907	\$ 50,205,000	\$ 47,635,535

**NOTE E - RELATED PARTY TRANSACTIONS**

On February 1, 2002, the Foundation (lessee) and the University (lessor) entered into an amendment of the original ground lease dated September 1, 2000, for Phases I and II of the respective dormitory project (Courtyard). Pursuant to the amended ground lease, the term expiration date was changed from August 31, 2035 to October 1, 2038. The liability of the lessee, with respect to its obligations under the ground lease, was affirmed as non-recourse, and the satisfaction of any of the lessee's obligations is limited to the lessee's interest in the property. The Phases I and II ground lease agreement also requires the utilization of the dormitory by students and faculty of the University for a minimum of 38 years. At the end of the lease date, the property reverts to the ownership of the University. No rental payments are due for the next five years under this agreement.

In addition, on November, 23, 2003, the lessee and the lessor entered into a ground lease for the construction of Phase III of the respective student housing project (Village). Pursuant to the Phase III ground lease, the term commenced on November 25, 2003 and was set to expire on July 31, 2038. The liability of the lessee, with respect to its obligations under the ground lease, was affirmed as non-recourse, and the satisfaction of any of the lessee's obligations was limited to the lessee's interest in the property. The Phase III ground lease agreement also required the utilization of the student housing facility by students and faculty of the University for a minimum of 35 years. At the end of the lease date, the property was to revert to the ownership of the University. In connection with the transfer of all of the assets, liabilities, net assets and related operations of Phase III to the University, the ground lease was terminated in fiscal 2012 and the property reverted to the ownership of the University.

In an arrangement with the University, the University provides day-to-day management and accounting services, and additional services such as: security, operational support, utilities, telecommunications and shared dining facilities. Such service arrangements result in affiliate transactions with the University. At June 30, 2012 and 2011, amounts due from the University totaled \$2,682,098 and \$2,464,016, respectively.

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE F - COMMITMENTS AND CONTINGENCIES**

1. Operating Leases

The Foundation maintained operating leases for washers, dryers and copying equipment for the Phase III apartments. For each of the years ended June 30, 2012 and 2011, related rental expense amounted to \$22,500 and 53,280, respectively. The operating leases are set to expire in 2013 and the expected operating lease costs for the next year is \$53,280. The operating leases were assigned to the University in fiscal 2012 as part of the transfers of assets and liabilities to the University.

2. Contingencies

In the normal course of its activities, the Foundation is a party to 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, the Foundation is of the opinion that the outcome thereof will not have a material effect on the accompanying combined financial statements.

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

University Student Housing Foundation 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 17.2% of the employees' salary for 2011. Employees hired prior to January 1, 2012 contribute 3% of salary in excess of \$6,000 and employees hired after that date contributes 5% of salary in excess of \$6,000. Pension expense of \$67,873 for 2012 and \$71,988 for 2011 included in the accompanying combined financial statements. An employee vests pension rights after five consecutive years of service. Certain significant plan provisions are as follows:

- Early retirement:
  - 15 years of service - age 55 (benefits are reduced by 0.2% each month under age 60)
  - 25 years of service - any age (reduce by 0.02% 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 call 1-800-722-7300.

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2012 and 2011

**NOTE H - SUBSEQUENT EVENTS**

The Foundation evaluated its June 30, 2012 combined financial statements for subsequent events through December 3, 2012, the date the combined financial statements were available to be issued. Based upon the Foundation evaluation, management determined that no subsequent events met the criteria for recognition or disclosure in the accompanying combined financial statements.