

Comprehensive Annual Financial Statements

Delaware State University

(A Component Unit of the State of Delaware)

June 30, 2011 and 2010

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Table of Contents

	Page
Management's Discussion and Analysis (Unaudited)	3
Report of Independent Certified Public Accountants	14
Financial statements	
Statements of Net Assets	15
Statements of Revenue, Expenses and Changes in Net Assets	16
Statements of Cash Flows	17
Notes to Financial Statements	19

Delaware State University

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

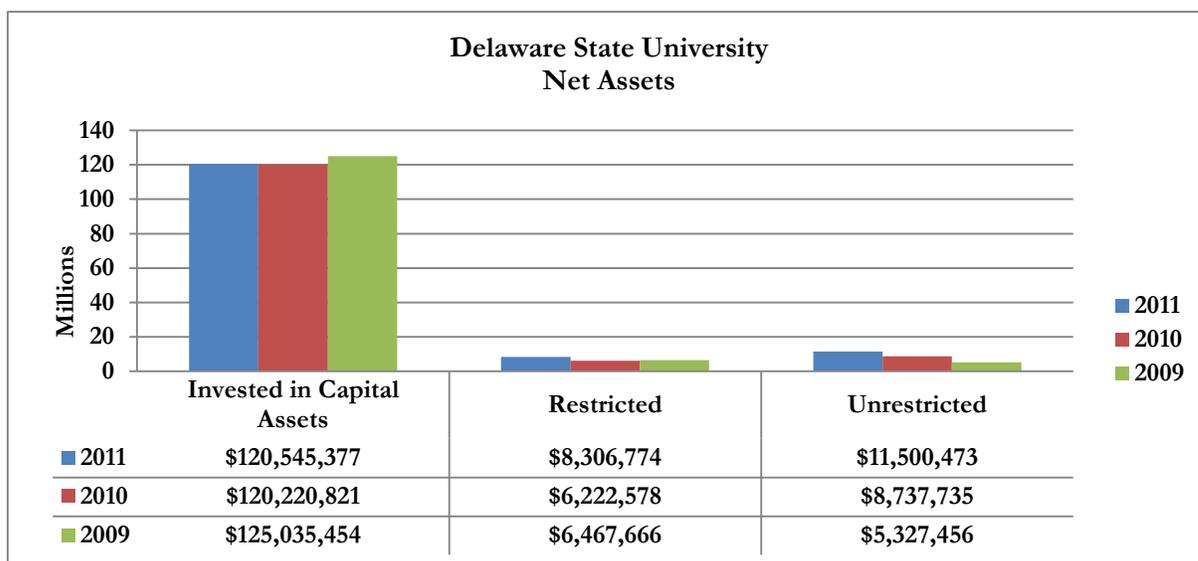
June 30, 2011 and 2010

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 year ended June 30, 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 \$5.2 million or 3.8% to \$140.4 million at June 30, 2011. The University's total net assets declined by \$1.6 million or 1.2% and \$9 million or 6.2% to \$135.2 million and \$136.8 million at June 30, 2010 and 2009, respectively.
- During the year, the University's operating expenses were \$36.1 million greater than the operating revenues. Operating expenses were \$38.5 and \$39.1 million greater than the operating revenues for fiscal year ("FY") 10 and FY09, respectively.
- In FY11 State appropriations were 35.4% of total operating expenses (37.7% FY10 and 38.2% FY09).
- At June 30, 2011, debt as a percentage of capital assets was 32.3% (32.5% FY10 and 35.1% FY09).
- Total net assets as a ratio of total operating expenditures are 1.4 times in FY11 (1.4 and 1.4 FY10 and FY09).
- Debt as a percentage of net assets was 39.4% (41.6% FY10 and 41.9% FY09).
- Unrestricted net assets as a percentage of total net assets was 8.2% (6.5% FY10 and 3.9% FY09).

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

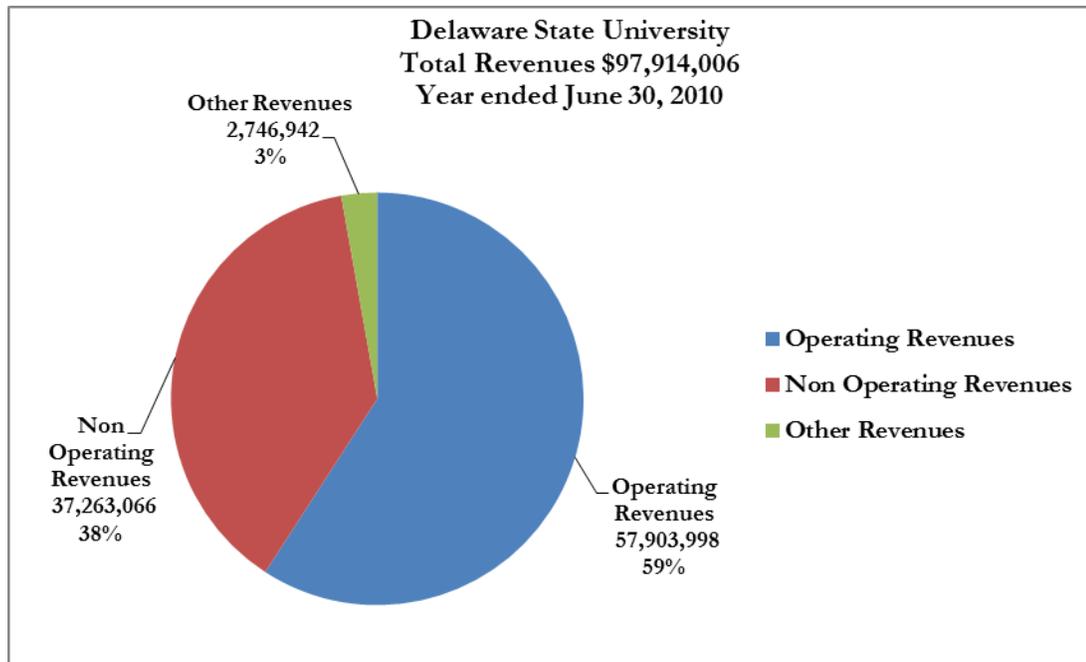
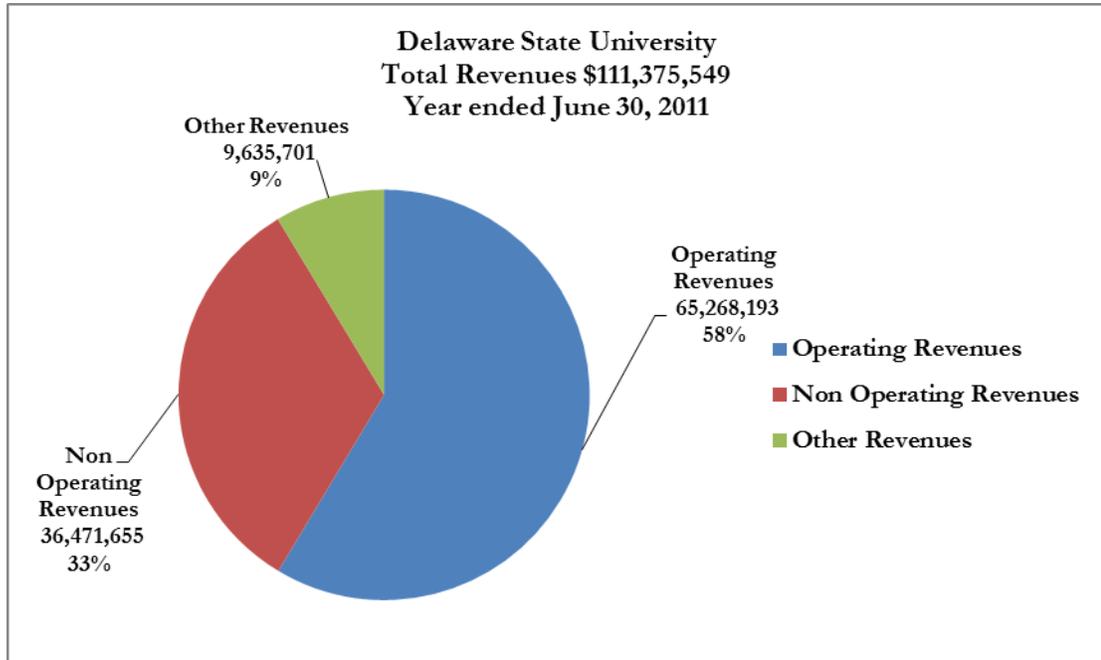


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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2011 and 2010

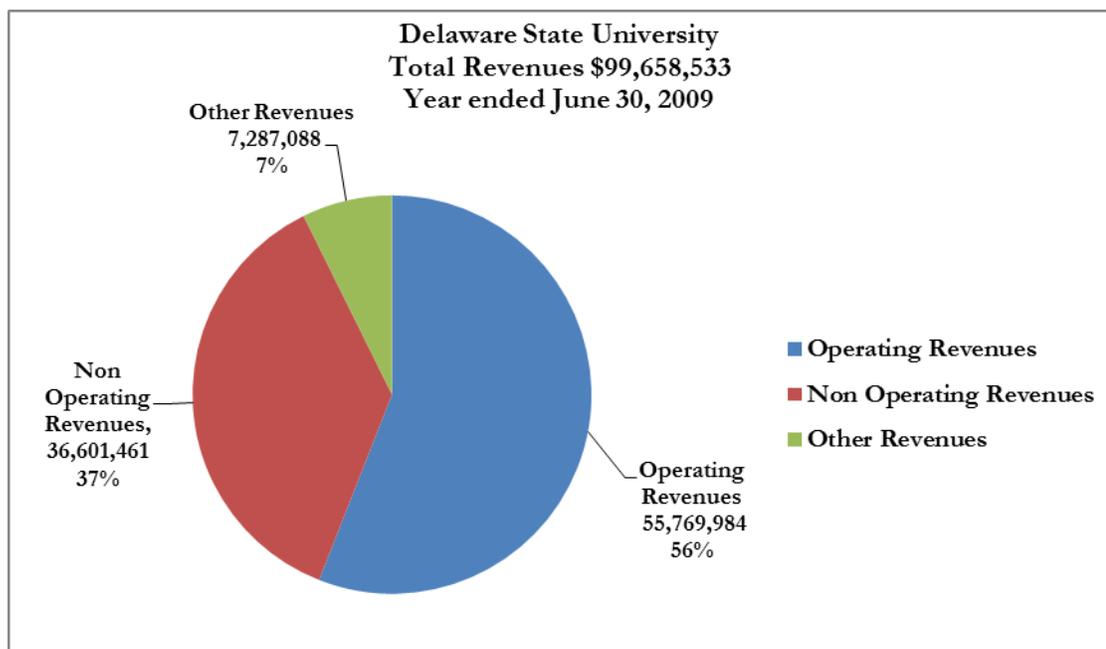
The following chart provides a graphical breakdown of revenues by category for the fiscal years ended June 30:



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MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2011 and 2010



Delaware State University’s financial position, as a whole, increased during the fiscal year ended June 30, 2011. Its total net assets increased \$5.2 million or 3.8% from the previous year, principally due to increased activity in government grants and state appropriations restricted to minor capital improvements for infrastructure improvements. Net assets as of June 30, 2010 decreased \$1.6 million or 1.2% 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.

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Delaware State University

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2011 and 2010

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 applicants, freshman class size, student retention, physical plant condition, and campus safety, to assess the overall health of the University.

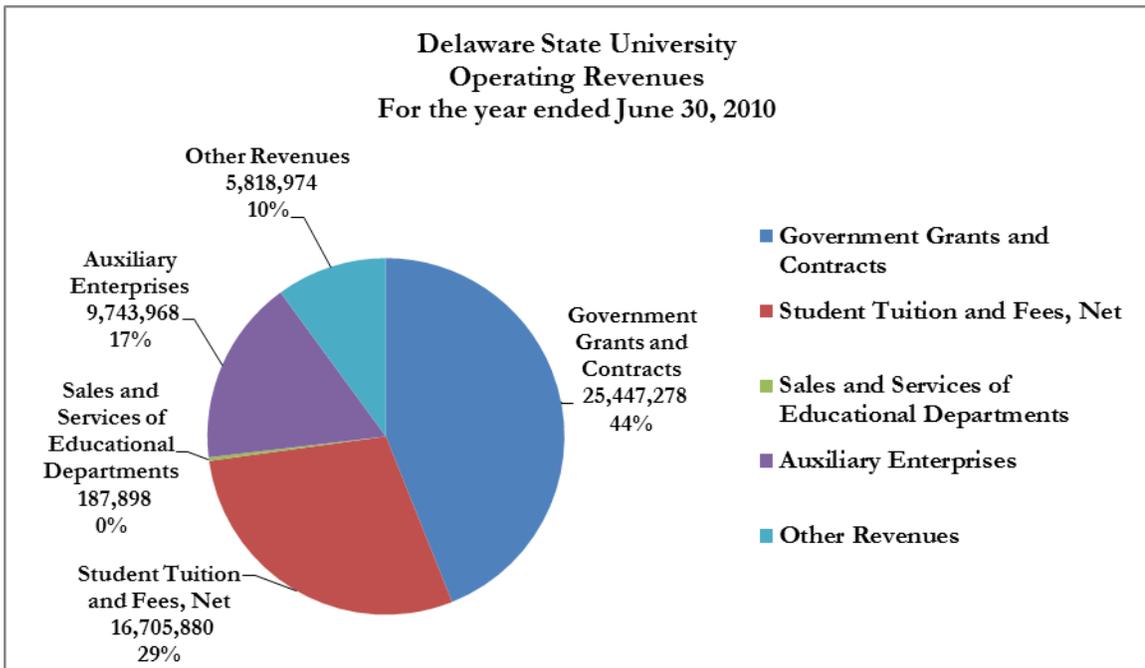
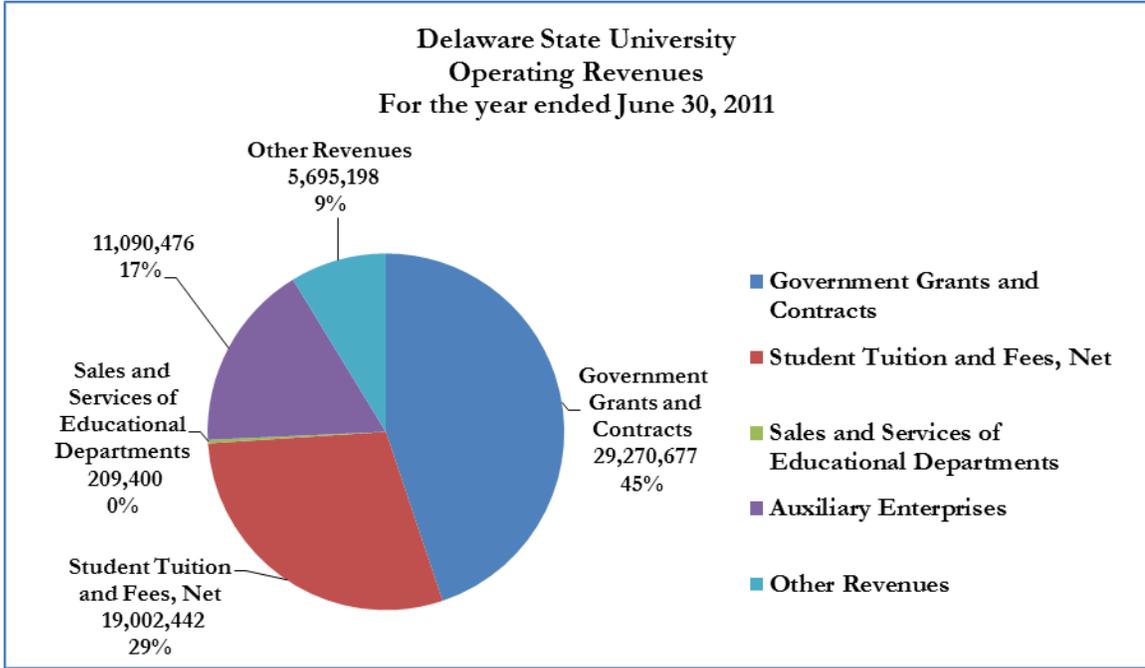
The aforementioned statements include all assets and liabilities of the University using the accrual basis of accounting, which is the same accounting method used by private-sector institutions. Under this method of accounting, all of the current year's resources, obligations, revenues and expenses are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

	<u>Fiscal year ended June 30</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Net Assets</u>			
Current assets	\$ 31,654,393	\$ 28,740,984	\$ 39,248,235
Noncurrent assets	<u>185,293,890</u>	<u>185,450,993</u>	<u>174,737,786</u>
Total assets	<u>216,948,283</u>	<u>214,191,977</u>	<u>213,986,021</u>
Current liabilities	16,820,744	18,102,485	14,385,993
Noncurrent liabilities	<u>59,774,915</u>	<u>60,908,358</u>	<u>62,769,452</u>
Total liabilities	<u>76,595,659</u>	<u>79,010,843</u>	<u>77,155,445</u>
Net assets			
Investment in capital assets, net of related debt	120,545,377	120,220,821	125,035,454
Restricted	8,306,774	6,222,578	6,467,666
Unrestricted	<u>11,500,473</u>	<u>8,737,735</u>	<u>5,327,456</u>
Total net assets	<u>140,352,624</u>	<u>135,181,134</u>	<u>136,830,576</u>
Increase or decrease in net assets	\$ <u>5,171,490</u>	\$ <u>(1,649,442)</u>	\$ <u>(9,009,914)</u>
<u>Operating Revenues</u>			
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Student tuition and fees (net of scholarship allowance of \$21.2, \$20.2 and \$16.5)	\$ 19,002,442	\$ 16,705,880	\$ 19,930,340
Government grants and contracts	29,270,677	25,447,278	21,354,587
Sales and services of educational departments	209,400	187,898	231,644
Auxiliary enterprises	11,090,476	9,743,968	9,139,376
Other revenues	<u>5,695,198</u>	<u>5,818,974</u>	<u>5,114,037</u>
Total operating revenues	\$ <u>65,268,193</u>	\$ <u>57,903,998</u>	\$ <u>55,769,984</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

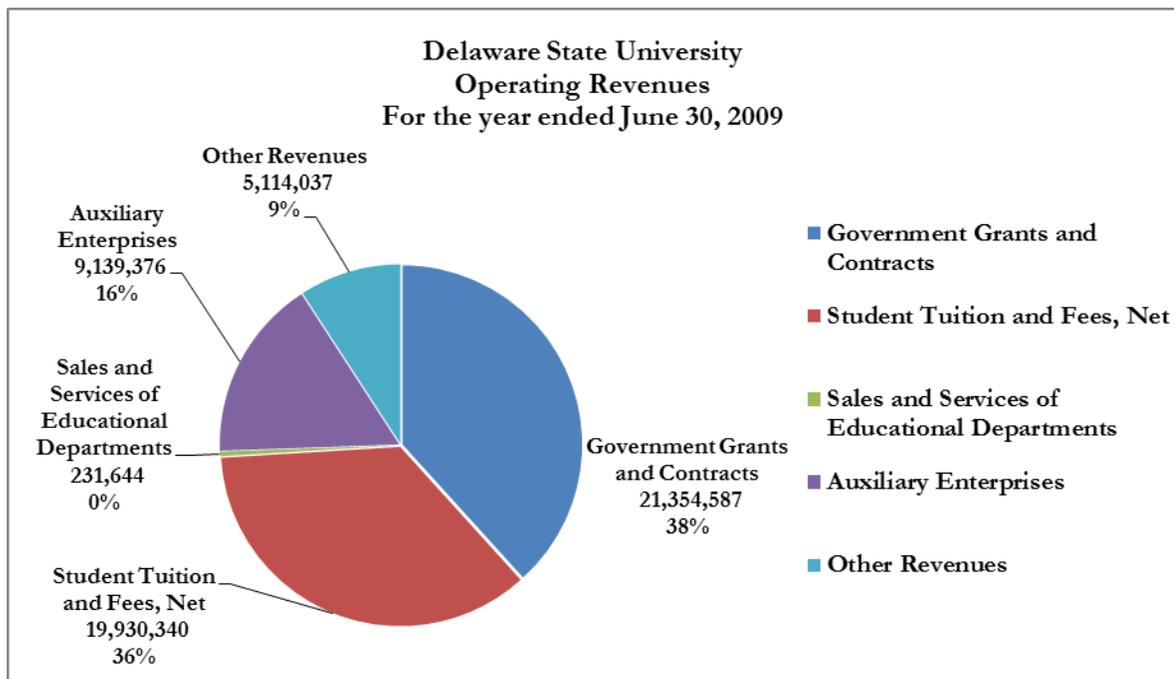
June 30, 2011 and 2010



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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2011 and 2010



Significant changes in the financial position, compared to 2010:

- Current assets increased by \$2.9 million, principally due to increases in cash and restricted state appropriations; offset by a decrease in government grants receivable.
- Current liabilities decreased by \$1.3 million, primarily due to decreases in accounts payable and due to affiliate.
- Long term liabilities decreased by \$1.1 million, due primarily to principal repayments.

Significant changes in revenues, follow:

- Gross revenues from student tuition and other fees increased in FY11 to \$40.2 million versus \$36.9 million in FY10, an increase of \$3.3 million.
- Net student revenues include scholarship allowances of \$21.2 million in FY11 and \$20.2 million in FY10, an increase of approximately \$1 million. The University increased its scholarship program by \$0.1 million and federal Pell awards increased by \$0.9 million in FY11.
- Government grants and contracts increased in FY11 by \$3.8 million, principally from competitive grant awards.
- Auxiliary enterprise revenues increased in FY11 by \$1.3 million, due to an increase in occupancy in the traditional dorms.
- Other revenues decreased slightly in FY11 by \$0.1 million, due to a combination of activities: a decrease in indirect cost revenues, a decrease in athletic revenues, offset by an increase in miscellaneous and bookstore commissions.

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Delaware State University

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2011 and 2010

<u>Operating expenses</u>	<u>For the year ended June 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Instructional	\$ 33,584,934	\$ 32,154,777	\$ 31,485,193
Organized research	10,603,890	9,791,525	8,595,119
Public service	2,503,960	2,329,069	2,311,114
Academic support	3,912,604	3,730,083	4,554,803
Student services	14,007,772	14,269,102	13,331,708
Institutional support	13,146,357	11,882,617	12,475,358
Operation and maintenance of plant	6,417,416	6,278,437	5,905,971
Depreciation	7,587,807	7,057,700	6,101,977
Auxiliary enterprises	<u>9,606,388</u>	<u>8,876,922</u>	<u>10,186,694</u>
Total operating expenses	\$ <u>101,371,128</u>	\$ <u>96,370,232</u>	\$ <u>94,947,937</u>

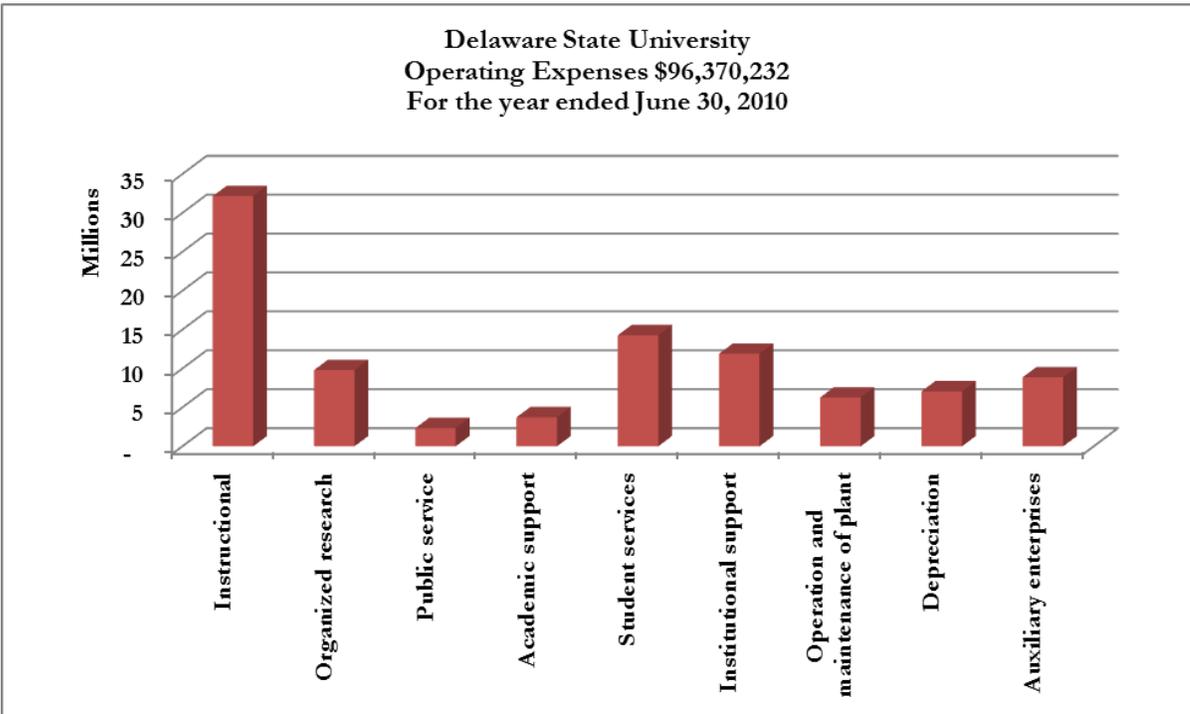
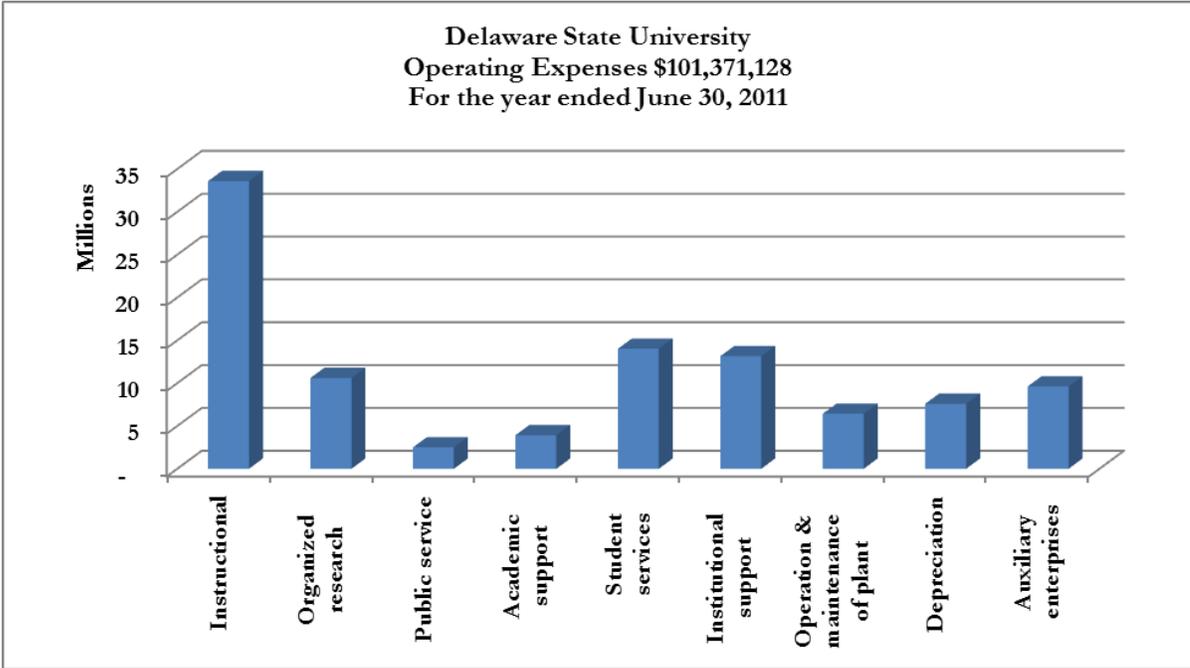
Changes in operating expenses were the result of the following factors:

- 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, increase in salaries were not provided in FY10 and FY09. The last increase in salaries of 2% was provided in FY08. The University expects to increase salaries in FY12 with a mid-year 2% salary adjustment for all University personnel.
- Instructional expenses increased by \$1.4 million during FY11 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 \$0.8 million, due to an increase in research grants expenditures during FY11.
- Institutional support expenditures increased during FY11 due in part to contracting the IT services to SunGard. The University also continued its marketing campaign as part of a renewed enrollment drive for FY11.
- Auxiliary enterprise expenditures increased by \$0.7 million during FY11 to accommodate the increase in student residence life needs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

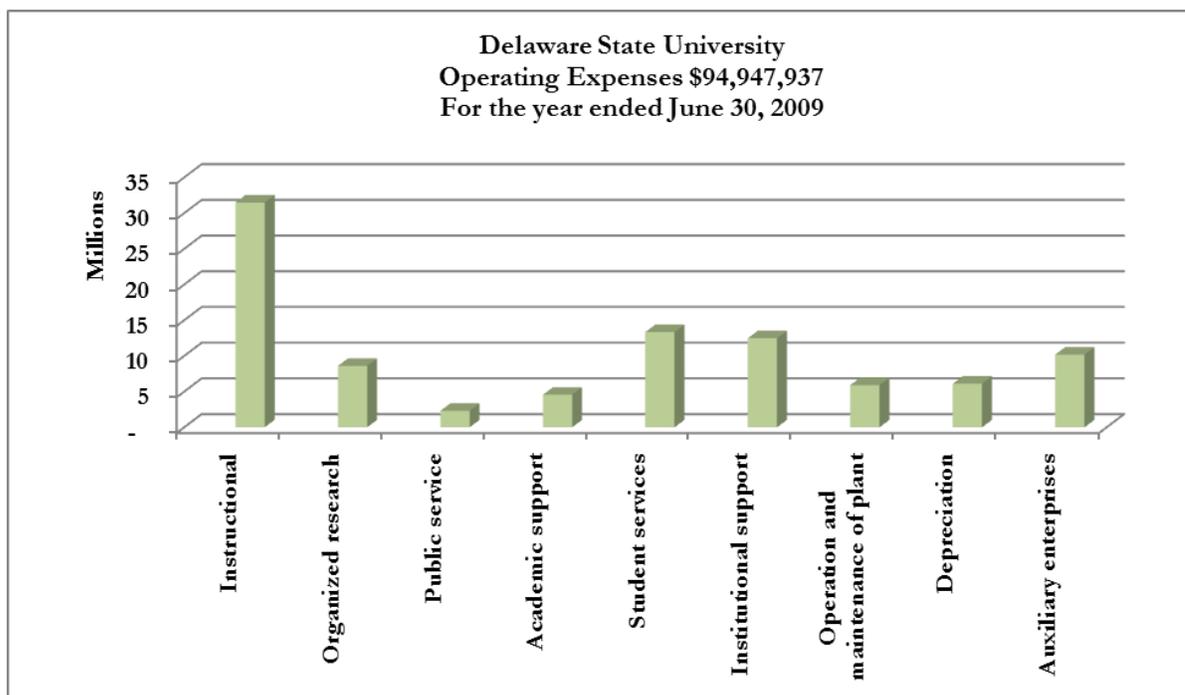
June 30, 2011 and 2010



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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2011 and 2010



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

Cash flows

	<u>For the year ended June 30</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash provided by (used in)			
Operating activities	\$ (27,710,557)	\$ (31,720,996)	\$ (31,543,203)
Noncapital financing activities	35,902,320	36,125,507	36,457,140
Capital and related financing activities	(2,955,510)	(18,415,068)	(42,571,129)
Investing activities	<u>785,175</u>	<u>15,428,003</u>	<u>37,987,569</u>
Net increase in cash	6,021,428	1,417,446	330,377
Cash and cash equivalents, beginning of year	<u>16,235,230</u>	<u>14,817,784</u>	<u>14,487,407</u>
Cash and cash equivalents, end of year	<u>\$ 22,256,658</u>	<u>\$ 16,235,230</u>	<u>\$ 14,817,784</u>

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2011 and 2010

The following discussion amplifies the overview of cash flows presented above.

- Investing activities increased principally due to a change in market position and related returns.
- Capital appropriations increased in FY11 by \$6.5 million, due to the release of funds previously held by the State of Delaware Budget Office and an increase in minor capital improvement funds.

Capital Asset and Debt Administration

At June 30, 2011, the University had \$171.5 million invested in capital assets, net of accumulated depreciation of \$94.9 million (\$172.9 million at June 30, 2010, net of accumulated depreciation of \$87.3 million). Depreciation charges totaled \$7.6 million for the current fiscal year compared to \$7.1 million in the prior year. Details of the assets for the three years are shown below:

	<u>Capital assets, net, for the year ended June 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land and infrastructure	\$ 16,968,407	\$ 16,968,407	\$ 16,968,407
Buildings and improvements	137,599,727	138,501,188	94,382,232
Construction in progress	7215	7,215	38,068,410
Equipment and assets under capital leases	16,627,234	17,307,053	13,461,352
Library materials	<u>278,431</u>	<u>113,198</u>	<u>203,636</u>
Total	<u>\$ 171,481,014</u>	<u>\$ 172,897,061</u>	<u>\$ 163,084,037</u>

Major capital additions completed during FY11 and the resources that funded their acquisitions (in millions) included:

• Building alteration/construction, state appropriations and federal grants	\$ 2.6
• Wellness Center, New Student Center MCI	.4
• Renovations and equipment, University funds and private donations	.3
• Others	<u>2.9</u>
	<u>\$ 6.2</u>

The University's planned capital expenditures for the fiscal year ending June 30, 2012 are approximately \$28.9 million. Projects planned include equipment and other infrastructure renovations and a guaranteed energy efficiency project to retrofit several university buildings and the initial stages of building an Applied Optics center. The new wellness center, pool and student center opened in FY10 as planned. More detailed information about the University's capital assets is presented in Note D to the financial statements.

At June 30, 2011, the University had \$55.3 million in debt outstanding versus \$56.3 million in the previous year. The University entered into a new Bond financing agreement in December 2007, in the amount of \$47.6 million, with Wachovia to fund the completion of the Wellness Center and construct a new recreational swimming pool and a student center. The University brought online the Athletic Strength and Conditioning portion of the New Wellness Center in 2009. The table below summarizes the amount by type of debt instrument.

(Continued)

Delaware State University

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2011 and 2010

	<u>Outstanding debt for the year ended June 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Lease obligations	\$ 60,338	\$ 157,279	\$ 361,457
Notes payable	725,244	774,502	828,622
General obligation bonds	<u>54,521,902</u>	<u>55,328,828</u>	<u>56,106,563</u>
Totals	<u>\$ 55,307,484</u>	<u>\$ 56,260,609</u>	<u>\$ 57,296,642</u>

The University's revenue bond rating of A+ has not changed from the prior year. 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 (FY12), which is set at \$33.4 million, a decrease of \$2.4 million from FY11. State appropriations for the fiscal year ended June 30, 2011 were approximately \$36.0 million. The State of Delaware instituted an overall budget reduction of 2% in budget for all state agencies and a mid-year salary increase of 2% to state employees. 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 5.5% for all students enrolled in the Fall 2011 term (FY12).

In July 2011, board and meal increases averaging 5.5% were announced, to also take effect with the Fall 2011 term (FY12).

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. 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.

In FY 2011, the University maintained approximately \$12,600 in Venture Partners II, an investment in the Common Fund investment group.

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.

Summary of Operations

State appropriations are necessary for the University to maintain financial stability. The University's overall financial position in FY11 indicated an increase, however, the overall health of the University has remained fairly constant. The University will continue to maintain strong financial controls throughout the current economic turmoil.

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, 2011 and 2010. 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, 2011 and 2010, were audited by other auditors, whose report thereon dated October 27, 2011 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, 2011 and 2010, 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.

Management’s discussion and analysis (“MD&A”) is not a required part of the basic financial statements, but is supplementary information required by generally accepted accounting principles for entities reporting under *Governmental Accounting Standards*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the MD&A information and, accordingly, express no opinion on it.



New York, New York
January 6, 2012

Delaware State University

STATEMENTS OF NET ASSETS

Years ended June 30, 2011 and 2010

	Delaware State University		Component Units		Component Units	
			2011		2010	
	2011	2010	DSU Student Housing Foundation	Delaware State University Foundation, Inc.	DSU Student Housing Foundation	Delaware State University Foundation, Inc.
Current Assets						
Cash	\$ 14,228,557	\$ 12,715,772	\$ 3,117,854	\$ 3,086,919	\$ 514,059	\$ 2,115,644
Expendable endowment investments	570,882	587,062	-	-	-	332,843
Unexpended state appropriations - restricted						
Cash equivalents	8,028,101	3,519,458	-	-	-	-
Students receivables, net	1,132,791	1,497,503	-	-	277,108	-
Assets held in trust	32,455	787,477	119,583	-	4,282,774	-
Other receivables	2,193,973	2,291,268	4,648,461	-	-	-
Due from affiliate	63,630	578,119	2,464,016	21,861	3,281,019	-
Other assets	-	-	351,910	-	337,046	-
Government grants receivable	5,404,004	6,764,325	-	-	-	-
Total current assets	<u>31,654,393</u>	<u>28,740,984</u>	<u>10,701,824</u>	<u>3,108,780</u>	<u>8,692,006</u>	<u>2,448,487</u>
Noncurrent Assets						
Endowment investments	8,992,841	7,660,888	-	13,332,350	-	10,800,257
Capital assets, net	171,481,014	172,897,061	36,687,296	12,500	38,103,890	16,071
Deferred charges	949,395	995,127	676,493	-	705,336	-
Assets held in trust	3,441,173	3,584,368	3,533,128	-	3,919,237	-
Student notes, net	66,837	99,039	-	-	-	-
Other assets	362,630	214,510	-	5,454	-	5,266
Total noncurrent assets	<u>185,293,890</u>	<u>185,450,993</u>	<u>40,896,917</u>	<u>13,350,304</u>	<u>42,728,463</u>	<u>10,821,594</u>
Total assets	<u>\$ 216,948,283</u>	<u>\$ 214,191,977</u>	<u>\$ 51,598,741</u>	<u>\$ 16,459,084</u>	<u>\$ 51,420,469</u>	<u>\$ 13,270,081</u>
Current Liabilities						
Accounts payable	\$ 5,419,483	\$ 6,396,936	\$ 650,032	\$ 13,250	\$ 644,109	\$ 23,816
Due to affiliate	2,485,877	3,384,168	-	63,630	-	474,970
Deferred revenue	1,970,266	1,514,888	587,535	531,053	586,902	342,106
Accrued employee compensation	5,373,886	5,216,261	120,509	-	71,912	-
Accrued interest	630,925	638,975	398,191	-	408,971	-
Interest rate swap	-	-	-	-	11,204	-
Long-term debt -current portion	940,307	951,257	34,023,326	-	1,040,000	-
Total current liabilities	<u>16,820,744</u>	<u>18,102,485</u>	<u>35,779,593</u>	<u>607,933</u>	<u>2,763,098</u>	<u>840,892</u>
Noncurrent Liabilities						
Deferred revenue	-	200,000	-	-	-	-
Compensated absences	5,407,738	5,399,006	-	-	-	-
Long-term debt	54,367,177	55,309,352	15,661,449	-	49,662,919	-
Total noncurrent liabilities	<u>59,774,915</u>	<u>60,908,358</u>	<u>15,661,449</u>	<u>-</u>	<u>49,662,919</u>	<u>-</u>
Total liabilities	<u>76,595,659</u>	<u>79,010,843</u>	<u>51,441,042</u>	<u>607,933</u>	<u>52,426,017</u>	<u>840,892</u>
Net Assets						
Invested in capital assets, net of related debt	120,545,377	120,220,821	-	-	-	-
Restricted expendable	-	-	-	-	-	-
Capital projects	7,795,575	4,915,317	-	-	-	-
Loans	87,375	94,834	-	-	-	-
Project fund	-	787,477	-	-	-	-
Grants and contracts	423,824	424,950	-	-	-	-
Quasi endowment	-	-	-	7,818,128	-	4,391,062
Restricted nonexpendable	-	-	-	-	-	-
Endowment	-	-	-	6,430,093	-	6,398,150
Unrestricted	11,500,473	8,737,735	157,699	1,602,930	(1,005,548)	1,639,977
Total net assets (deficit)	<u>\$ 140,352,624</u>	<u>\$ 135,181,134</u>	<u>\$ 157,699</u>	<u>\$ 15,851,151</u>	<u>\$ (1,005,548)</u>	<u>\$ 12,429,189</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, 2011 and 2010

	Delaware State University		Component Units		Component Units	
			2011		2010	
			DSU Student Housing Foundation	Delaware State University Foundation, Inc.	DSU Student Housing Foundation	Delaware State University Foundation, Inc.
Revenues						
Operating revenues						
Unpledged revenues						
Government grants and contracts	\$ 29,270,677	\$ 25,447,278	\$ -	\$ -	\$ -	\$ -
Revenues pledged as security for bonds						
Student tuition and fees (net of scholarship allowances of \$21,162,917 and \$20,227,744, respectively)	19,002,442	16,705,880	-	-	-	-
Sales and services of educational departments	209,400	187,898	-	-	-	-
Auxiliary enterprises	11,090,476	9,743,968	7,832,405	-	7,654,862	-
Other revenues	5,695,198	5,818,974	2,052,151	73,515	2,054,932	23,990
Total operating revenues	65,268,193	57,903,998	9,884,556	73,515	9,709,794	23,990
Expenses						
Operating expenses						
Educational and general						
Instructional	33,584,934	32,154,777	-	-	-	-
Organized research	10,603,890	9,791,525	-	-	-	-
Public service	2,503,960	2,329,069	-	-	-	-
Academic support	3,912,604	3,730,083	-	-	-	-
Student services	14,007,772	14,269,102	-	-	-	-
Institutional support	13,146,357	11,882,617	-	660,755	-	814,887
Operation and maintenance of plant	6,417,416	6,278,437	-	-	-	-
Depreciation	7,587,807	7,057,700	1,435,785	-	1,510,481	-
Student aid	-	-	-	504,938	-	420,627
Auxiliary enterprises	9,606,388	8,876,922	7,325,357	-	6,922,818	-
Total operating expenses	101,371,128	96,370,232	8,761,142	1,165,693	8,433,299	1,235,514
Operating (loss) income	(36,102,935)	(38,466,234)	1,123,414	(1,092,178)	1,276,495	(1,211,524)
Nonoperating revenues						
State appropriations	35,872,430	36,330,189	-	-	-	-
Revenues pledged as security for bonds						
Private gifts	37,351	100,110	-	-	-	641,864
Investment income	554,480	745,484	110,209	1,669,573	88,086	63,123
Interest on loans receivable	7,394	87,283	-	77,006	-	-
Total nonoperating revenues	36,471,655	37,263,066	110,209	1,746,579	88,086	704,987
Income (loss) before other revenues (expenses) and gains and (losses)	368,720	(1,203,168)	1,233,623	654,401	1,364,581	(506,537)
Other revenues (expenses) and gains and (losses)						
Capital appropriations - State	7,456,238	1,000,000	-	-	-	-
Pledged revenues as security for 2007 bonds from student fees	1,418,820	1,292,830	-	-	-	-
Other	112,392	-	-	-	-	-
Transfer of endowment from university	-	(637,903)	-	-	-	637,903
Renovations not capitalized	(2,243,298)	(236,967)	-	-	-	-
Administrative and collection costs	(14,855)	(418,852)	-	-	-	-
Interest expense	(2,574,778)	(1,899,494)	-	-	-	-
Net gain (loss) on investments	648,251	454,112	(70,376)	2,767,561	199,755	1,055,971
Total other revenue (expenses), and gains and (losses)	4,802,770	(446,274)	(70,376)	2,767,561	199,755	1,693,874
Increase (decrease) in net assets	5,171,490	(1,649,442)	1,163,247	3,421,962	1,564,336	1,187,337
Net assets						
Net assets (deficit), beginning of year	135,181,134	136,830,576	(1,005,548)	12,429,189	(2,569,884)	11,241,852
Net assets (deficit), end of year	\$ 140,352,624	\$ 135,181,134	\$ 157,699	\$ 15,851,151	\$ (1,005,548)	\$ 12,429,189

The accompanying notes are an integral part of these statements.

Delaware State University

STATEMENTS OF CASH FLOWS

Years ended June 30, 2011 and 2010

	Delaware State University	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of tuition and fees	\$ 19,454,610	\$ 16,149,894
Receipts from grants and contracts	30,482,878	21,266,307
Payments to vendors	(25,993,963)	(19,152,572)
Payments for utilities	(3,754,295)	(3,592,015)
Payments to employees	(46,895,187)	(45,795,022)
Payments for benefits	(18,031,876)	(16,520,178)
Loans issued to students and employees	-	(49,003)
Loan repayments received from students	32,202	220,753
Residence halls	11,090,476	9,743,968
Sales and service of educational departments	209,400	187,898
Other receipts	<u>5,695,198</u>	<u>5,818,974</u>
Net cash used in operating activities	<u>(27,710,557)</u>	<u>(31,720,996)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State Appropriations	35,872,430	36,330,189
Private gifts for non-capital purposes	37,351	100,110
Administrative and collections disbursements	(14,855)	(418,852)
Receipt of interest on student loans	<u>7,394</u>	<u>114,060</u>
Net cash provided by non-capital financing activities	<u>35,902,320</u>	<u>36,125,507</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	7,456,238	1,000,000
Student fees restricted for debt service	1,418,820	1,292,830
Transfer (to)/from DSU University Foundation and other	112,392	(664,680)
Purchases of capital assets	(6,171,760)	(16,870,724)
Principal paid on capital debt and leases	(953,125)	(1,036,033)
Interest paid on capital debt and leases	(2,574,777)	(1,899,494)
Renovations not capitalized	<u>(2,243,298)</u>	<u>(236,967)</u>
Net cash used in capital and related financing activities	<u>(2,955,510)</u>	<u>(18,415,068)</u>

(Continued)

Delaware State University

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30, 2011 and 2010

	Delaware State University	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	\$ 554,480	\$ 745,484
Sale of investments	<u>230,695</u>	<u>14,682,519</u>
Net cash provided by investing activities	<u>785,175</u>	<u>15,428,003</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,021,428	1,417,446
Cash and cash equivalents, beginning of the year	<u>16,235,230</u>	<u>14,817,784</u>
Cash and cash equivalents, end of the year	<u>\$ 22,256,658</u>	<u>\$ 16,235,230</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (36,102,935)	\$ (38,466,234)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	7,587,807	7,057,700
Bad debt expense on student receivables	(105,457)	554,037
Changes in operating assets and liabilities		
Student receivables before bad debts	470,168	(555,987)
Other receivable	97,295	(196,194)
Due from affiliate	514,489	961,144
Government grants	1,360,321	(4,169,500)
Deferred charges	45,732	42,328
Student notes	32,202	171,750
Other assets noncurrent	(148,120)	(11,471)
Accounts payable	(977,453)	(245,301)
Due to affiliate	(898,291)	3,339,098
Deferred revenue	255,378	(568,209)
Accrued employee compensation and compensated absences	166,357	373,594
Accrued interest	<u>(8,050)</u>	<u>(7,751)</u>
Net cash used in operating activities	<u>\$ (27,710,557)</u>	<u>\$ (31,720,996)</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Delaware State University (the “University”) is an institution of higher education and is a component unit of the State of Delaware. Accordingly, the University is included in the State’s financial statements. Transactions with the State of Delaware relate primarily to appropriations for operations and capital and grants from various state agencies.

1. Reporting Entity

The University defines the 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 these criteria, the Delaware State University is a component unit of the State of Delaware, and its financial balances and activities are reported in the State’s Comprehensive Annual Financial Report via discrete presentation.

The University follows the accounting and reporting standards as outlined in the GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*.

GASB Statement No. 34 identified three types of special-purpose governments (SPG): (1) those engaged only in governmental activities, (2) those engaged only in business-type activities, and (3) those engaged in both governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. Given the importance of tuition, fees and other exchange-type transactions in financing higher education, the University adopted the financial reporting model required of SPGs engaged only in business-type activities (BTA). Universities reporting as BTAs follow GASB standards applicable to proprietary (enterprise) funds.

The BTA financial reporting model requires the following:

- Management’s Discussion and Analysis
- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The University's financial statements have been prepared on the accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal contractual obligation to pay. The accompanying financial statements are intended to report the University as an economic unit that includes all measurable assets, liabilities, and capital of the institution. The University is a tax-exempt institution under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. Accordingly, there is been no provision for income taxes in the accompanying financial statements.

The Statement of Revenues, Expenses, and Changes in Net Assets for special-purpose governments engaged in BTA are required to use an operating/nonoperating format. The University has elected to report its operating expenses by functional classification. The Statement of Cash Flows is presented under direct method, which depicts actual cash received and cash paid with a reconciliation of operating cash flows to income (loss) from operations.

Universities engaged in BTA follow GASB standards applicable to proprietary (enterprise) funds. GASB Statement No. 20, *Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund*, as amended by GASB Statement No. 29, *The Use of Not-For-Profit and Financial Reporting Principles by Governmental Entities* permits such entities to apply all those Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989 that are developed for business enterprises except for those that conflict with or contradict GASB pronouncements. The University has elected not to implement FASB pronouncements issued after that date for any proprietary fund-type activity.

One of the primary purposes of financial reporting is to account for resources received and used. In certain situations, both restricted and unrestricted net assets may be available to cover an expense incurred. In those instances, as long as the expense meets all of the requirements of the restricted purposes, restricted resources would be used first.

2. Component Units

The financial statements of the University include other legally separate entities for which the University is financially accountable or which otherwise meet the criterion established in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accordingly, the Delaware State University Housing Foundation (the "Housing Foundation") and Delaware State University Foundation (the "Advancement Foundation") are considered reportable component units due to the significance of the financial statement amounts to the University's financial statements. The 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.

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 \$5,068,042 and \$5,172,160, as of June 30, 2011 and 2010, respectively.

5. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, academic Achievement Grant, SMART Grant and Perkins Loan programs. Major federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, Audit of States, Local Governments and Non-Profit Organizations, and the Compliance Supplement.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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, purchases 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. GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, requires the University to report the effects of capital asset impairment and insurance recoveries in its financial statements. At June 30, 2011 and 2010, requirements of GASB 42 had no effect on the University's financial statements.

9. Deferred Revenue

The University reports deferred revenues on its statements of net assets. Deferred revenues primarily consist of funds that are received prior to the respective service being incurred 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. 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 \$2,732,826 and \$2,742,944 at June 30, 2011 and 2010, 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, balance 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 \$2,674,912 and \$2,656,062 to reflect earned, unused sick leave at June 30, 2011 and 2010, respectively.

11. 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).

12. 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 net of the outstanding portion of the related debt financing.

13. 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 department within the guidelines of donor restrictions.

14. Use of Estimates in Preparing Financial Statements

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 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - CASH AND INVESTMENTS

At June 30, 2011 and 2010, 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 \$14,761,149 and \$15,250,022, respectively. The carrying value of these deposits was \$14,228,557 and \$12,715,772 at June 30, 2011 and 2010, 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.

The University manages the credit risk associated with cash equivalents and investments by investing its portfolio with high quality banking institutions and investment managers.

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.

An additional \$8,028,101 and \$3,519,458 at June 30, 2011 and 2010, 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 \$13,037,351 and \$12,619,795 at June 30, 2011 and 2010, respectively. On July 1, 2008, per the request of the Board of Trustees, the University transferred the majority of investments from the University investment manager, Haverford Investment Management, to the University Foundation investment manager, Bank of New York Mellon. These investments are stated at quoted market value and, are owned by the University.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - CASH AND INVESTMENTS - Continued

DELAWARE STATE UNIVERSITY:

INVESTMENT POOL RECONCILIATION

	<u>2011</u>	<u>2010</u>
Short-term investments	\$ 570,882	\$ 256,169
Long-term investments		
Venture Partners II	12,633	27,029
Haverford Investment Co - Mutual Fund	409,480	330,892
Bank of New York - Other Assets	25,381	-
Bank of New York - Bond Construction Fund	3,473,628	4,371,845
DuPont Stock	865	553
Bank of New York - Equities	3,338,888	2,312,043
Bank of New York - Fixed Income Securities	5,141,376	5,271,782
Principal Financial Group	<u>64,218</u>	<u>49,482</u>
Balance in University investment pool	<u>\$ 13,037,351</u>	<u>\$ 12,619,795</u>

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

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 28,705	\$ 28,705
Carrying amount of deposits	22,227,953	16,206,525
Carrying amount of investments	<u>13,037,351</u>	<u>12,619,795</u>
Total cash and investments per statement of net assets	<u>\$ 35,294,009</u>	<u>\$ 28,855,025</u>
Cash and cash equivalents	\$ 14,228,557	\$ 12,715,772
Expendable endowment investment - current	570,882	587,062
Noncurrent endowment investments and assets held in trust	12,466,469	12,032,733
Unexpended State appropriation - cash equivalents	<u>8,028,101</u>	<u>3,519,458</u>
Total cash and investments per statement of net assets	<u>\$ 35,294,009</u>	<u>\$ 28,855,025</u>

1. Restricted Bond Cash (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.

Delaware State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - CASH AND INVESTMENTS - Continued

At June 30, 2011 and 2010, assets held in trust consisted of:

	<u>2011</u>	<u>2010</u>
Expense fund	\$ 497	\$ 497
Capitalized interest account	-	10
Interest account	5	6,891
Project fund	-	787,477
Debt service reserve fund	<u>3,473,126</u>	<u>3,576,970</u>
Balance in restricted bond cash (assets held in trust)	<u>\$ 3,473,628</u>	<u>\$ 4,371,845</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
Capitalized interest account	-	-
Interest account	5	5
Project fund	-	-
Debt service reserve fund	<u>3,473,126</u>	<u>3,501,954</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	\$ 502	\$ 502
1-5 years	<u>3,473,126</u>	<u>3,501,954</u>
	<u>\$ 3,473,628</u>	<u>\$ 3,502,456</u>

The cost and fair value of the assets held in trust at June 30, 2010, follow:

	<u>Fair value</u>	<u>Cost</u>
Expense fund	\$ 497	\$ 497
Capitalized interest account	10	10
Interest account	6,891	6,891
Project fund	787,477	787,477
Debt service reserve fund	<u>3,576,970</u>	<u>3,559,509</u>
Balance in restricted bond cash (assets held in trust)	<u>\$ 4,371,845</u>	<u>\$ 4,354,384</u>

Delaware State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - CASH AND INVESTMENTS - Continued

Maturities of long-term investments are as follow:

	<u>Fair value</u>	<u>Cost</u>
Less than 1 year	\$ 794,875	\$ 794,875
1-5 years	<u>3,576,970</u>	<u>3,559,509</u>
	<u>\$ 4,371,845</u>	<u>\$ 4,345,384</u>

2. Interest Rate Risk

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, 2011, met the University's investment policy as of that date.

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

	<u>2011</u>	<u>2010</u>
Net interest and dividends	\$ 554,480	\$ 745,484
Net increase in the fair value of investments	<u>648,251</u>	<u>454,112</u>
Total investment return	<u>\$ 1,202,731</u>	<u>\$ 1,199,596</u>

3. Custodial Credit Risk

The Bank of New York (BONY) manages the majority of the University's investment portfolio. The table below provides information about the credit risks associated with the University's investments.

4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the University. The majority of the debt investments for the University were rated as of June 30, 2011 and are listed below using the Standard and Poor's rating scale:

<u>Investment type and fair value</u>	<u>AAA</u>	<u>AA</u>	<u>A+</u>	<u>A</u>	<u>A-</u>	<u>AA-</u>	<u>BBB+</u>	<u>BBB</u>	<u>BBB-</u>	<u>NR</u>	<u>Total</u>
Bank of New York- Fixed Income:											
U.S. Treasury Bonds and Notes	\$381,932	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 366,152	\$ 748,084
U.S. Government Agency Securities	-	-	-	-	-	-	-	-	-	847,441	847,441
Corporate bonds and notes fixed income	95,133	27,601	108,636	98,662	217,913	63,627	72,031	46,497	37,266	26,625	793,991
Other fixed income	110,984	10,362	38,135	-	-	-	-	-	-	2,592,379	2,751,860
Venture Partners II	-	-	-	-	-	-	-	-	-	12,633	12,633
Total debt investments	<u>\$588,049</u>	<u>\$37,962</u>	<u>\$146,771</u>	<u>\$98,662</u>	<u>\$217,913</u>	<u>\$63,627</u>	<u>\$72,031</u>	<u>\$46,497</u>	<u>\$37,266</u>	<u>\$3,845,230</u>	<u>\$5,154,009</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - CASH AND INVESTMENTS - Continued

5. Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. At June 30, 2011, the University had the following investments and maturities disclosed by investment category and stated fair value:

<u>Investment type</u>	<u>Investment maturities (in years)</u>					<u>Total</u>
	<u>Fair value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>	
Bank of New York- Fixed Income:						
U.S. Treasury bonds and notes	\$ 748,084	\$ 30,200	\$ 575,018	\$ 142,866	\$ -	\$ 748,084
U.S. fixed income - mortgage backed Funds	847,441	-	-	71,606	775,835	847,441
Corporate bonds and notes fixed income	3,545,851	2,608,830	579,175	253,243	104,603	3,545,851
Common Fund- Pooled Investments not subject to categorization:						
Venture Partners II	<u>12,633</u>	<u>-</u>	<u>12,633</u>	<u>-</u>	<u>-</u>	<u>12,633</u>
Total	<u>\$ 5,154,009</u>	<u>\$ 2,639,030</u>	<u>\$ 1,166,826</u>	<u>\$ 467,715</u>	<u>\$ 880,438</u>	<u>\$ 5,154,009</u>

6. Foreign Credit Risk

The University's foreign credit risk is limited to those dollars currently invested with the Bank of New York Mellon in international equities. The fair value of these investments at June 30, 2011 and 2010 was \$476,882 and \$357,821, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - CASH AND INVESTMENTS - Continued

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION:

1. Investments and Reserves

At June 30, 2011 and June 30, 2010, funds held by the trustee for the Housing Foundation consisted of:

	<u>PHASE I and II (2004 A)</u>		<u>PHASE III (2004 B&C)</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Construction	\$ -	\$ -	\$ 223,138	\$ 223,138	\$223,138	\$ 223,138
Principal account	390,000	380,000	-	-	390,000	380,000
Bond fund interest	-	-	572	572	572	572
Capitalized fees	-	-	120	120	120	120
Debt service reserve	1,374,348	1,365,060	2,765,324	2,734,808	4,139,672	4,099,868
Capitalized interest	394,897	400,976	844	844	395,741	401,820
Operating reserve	298,196	298,192	-	-	298,196	298,192
Revenue	-	-	-	-	-	-
Pledged revenue	-	-	-	-	-	-
Qualified exchange	-	-	509,887	597,046	509,887	597,046
Reimbursement account	-	-	1,631,750	1,608,747	1,631,750	1,608,747
Issuing exchange account	24,494	24,494	16,655	16,655	41,149	41,149
Rebate account	-	-	258	258	258	258
Renewal/replacement	<u>72,227</u>	<u>72,227</u>	<u>478,879</u>	<u>478,874</u>	<u>551,106</u>	<u>551,101</u>
	2,554,162	2,540,949	5,627,427	5,661,062	8,181,589	8,202,011
Less current portion	<u>(1,473,917)</u>	<u>(1,239,282)</u>	<u>(3,174,544)</u>	<u>(3,043,492)</u>	<u>(4,648,461)</u>	<u>(4,282,774)</u>
Total noncurrent	<u>\$ 1,080,245</u>	<u>\$ 1,301,667</u>	<u>\$ 2,452,883</u>	<u>\$ 2,617,570</u>	<u>\$ 3,533,128</u>	<u>\$ 3,919,237</u>

The long-term portion consisted of the following:

	<u>2011</u>	<u>2010</u>
Debt service reserve - government agencies	<u>\$ 3,533,128</u>	<u>\$ 3,919,237</u>

Cost and fair values consisted of the following at June 30, 2011 and June 30, 2010:

<u>Investment type</u>	<u>2011</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Loss</u>
Money market	\$ 4,648,461	\$ 4,648,461	\$ -
Government and agencies	<u>3,533,128</u>	<u>3,575,838</u>	<u>2,710</u>
Total Foundation investments	<u>\$ 8,181,589</u>	<u>\$ 8,224,299</u>	<u>\$ (42,710)</u>

Delaware State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - CASH AND INVESTMENTS - Continued

<u>Investment type</u>	<u>2010</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Loss</u>
Money market	\$ 4,282,774	\$ 4,282,774	\$ -
Government and agencies	<u>3,919,237</u>	<u>4,055,844</u>	<u>136,607</u>
Total Housing Foundation investments	<u>\$ 8,202,011</u>	<u>\$ 8,338,618</u>	<u>\$ 136,607</u>

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

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
1 - 5 years	\$ 2,203,249	\$ 2,200,000	\$ 1,053,953	\$ 1,038,565
Greater than 10 years	<u>1,329,879</u>	<u>1,375,838</u>	<u>2,865,284</u>	<u>2,954,936</u>
	<u>\$ 3,533,128</u>	<u>\$3,575,838</u>	<u>\$ 3,919,237</u>	<u>\$ 3,993,501</u>

DELAWARE STATE UNIVERSITY FOUNDATION, INC.:

The bank balances of the Advancement Foundation's deposits were \$3,086,919 and \$2,156,355, at June 30, 2011 and 2010, respectively.

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

	<u>2011</u>	<u>2010</u>
Carrying amount of deposits	\$ 3,086,919	\$ 2,448,487
Carrying amount of investments	<u>13,332,350</u>	<u>10,800,257</u>
Total cash and investments per Statements of Net Assets	<u>\$ 16,419,269</u>	<u>\$ 13,248,744</u>
Cash and cash equivalents and expendable endowment investments	\$ 3,086,919	\$ 2,448,487
Investments	<u>13,332,350</u>	<u>10,800,257</u>
Total cash and investments per Statements of Net Assets	<u>\$ 16,419,269</u>	<u>\$ 13,248,744</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - CASH AND INVESTMENTS - Continued

Fair values and cost consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Unrealized gain (loss)</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>
	<u>2010</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Unrealized gain (loss)</u>
U.S. Common Stock	\$ 5,229,029	\$ 5,447,415	\$ (218,386)
Mid-Cap Stock Fund	1,165,109	1,306,836	(141,727)
International Mutual Funds	1,388,357	1,627,694	(239,337)
Emerging Markets Mutual Funds	1,140,041	1,329,280	(189,239)
Small Cap Funds	491,950	481,930	10,020
Investment in Schwartz Theater	<u>1,385,771</u>	<u>1,500,000</u>	<u>(114,229)</u>
Total Advancement Foundation investments	<u>\$ 10,800,257</u>	<u>\$ 11,693,155</u>	<u>\$ (892,898)</u>

At June 30, 2011 and 2010 the Bank of New York (BONY) manages the majority of the Advancement Foundation's investment portfolio. Previously, the Haverford Trust Company fulfilled this service.

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>2011</u>	<u>2010</u>
Vendor credits	\$ 218,568	\$ 113,395
State of Delaware payroll	1,975,405	2,043,734
Other	<u>362,630</u>	<u>348,649</u>
	2,556,603	2,505,778
Accounts receivable from Affiliates	<u>63,630</u>	<u>578,119</u>
Total	<u>\$ 2,620,233</u>	<u>\$ 3,083,897</u>

Delaware State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

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. Capital asset activity of the University for the years ended June 30, 2011 and 2010 was as follows:

	<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>
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>\$ 171,480,014</u>

Delaware State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE D - PROPERTY, PLANT AND EQUIPMENT - Continued

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u> <u>and transfers</u>	<u>Retirements</u> <u>and transfers</u>	<u>Balance</u> <u>June 30, 2010</u>
Assets not being depreciated				
Land and land improvements	\$ 16,968,407	\$ -	\$ -	\$ 16,968,407
Construction in progress	<u>38,068,410</u>	<u>(38,061,195)</u>	<u>-</u>	<u>7,215</u>
Total assets not being depreciated	<u>55,036,817</u>	<u>(38,061,195)</u>	<u>-</u>	<u>16,975,622</u>
Assets being depreciated				
Buildings and improvements	136,210,714	47,460,628	-	183,671,342
Equipment	42,352,349	7,402,509	-	49,754,858
Library books	6,309,887	68,782	-	6,378,669
Assets under capital lease	<u>3,402,475</u>	<u>-</u>	<u>-</u>	<u>3,402,475</u>
Total assets being depreciated	<u>188,275,425</u>	<u>54,931,919</u>	<u>-</u>	<u>243,207,344</u>
Total	<u>243,312,242</u>	<u>16,870,724</u>	<u>-</u>	<u>260,182,966</u>
Less accumulated depreciation				
Buildings and improvements	41,828,482	3,341,672	-	45,170,154
Equipment	29,366,010	3,081,795	-	32,447,805
Library Books	6,106,251	159,220	-	6,265,471
Assets under capital lease	<u>2,927,462</u>	<u>475,013</u>	<u>-</u>	<u>3,402,475</u>
Total accumulated depreciation	<u>80,228,205</u>	<u>7,057,700</u>	<u>-</u>	<u>87,285,905</u>
Total capital assets, net	<u>\$ 163,084,037</u>	<u>\$ 9,813,024</u>	<u>\$ -</u>	<u>\$ 172,897,061</u>

Delaware State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE D - PROPERTY, PLANT AND EQUIPMENT - Continued

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION:

Capital asset activity of the Housing Foundation follows:

	<u>2011</u>	<u>2010</u>
Capital assets		
Buildings and improvements	\$ 44,855,622	\$ 44,847,631
Equipment	3,058,707	3,047,507
Improvements under capital lease	<u>329,701</u>	<u>329,701</u>
Total capital assets	<u>48,244,030</u>	<u>48,224,839</u>
Less accumulated depreciation		
Buildings and improvements	8,300,978	7,101,627
Equipment	<u>3,255,756</u>	<u>3,019,322</u>
Total accumulated depreciation	<u>11,556,734</u>	<u>10,120,949</u>
Total capital assets, net	<u>\$ 36,687,296</u>	<u>\$ 38,103,890</u>

NOTE E - ACCRUED EMPLOYEE COMPENSATION

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

	<u>2011</u>	<u>2010</u>
Unrestricted current funds		
Accrued salaries	\$ 1,350,929	\$ 1,336,032
Accrued lag payroll		
University	2,047,552	1,836,495
State	1,734,185	1,814,910
State share of pension expense	<u>241,220</u>	<u>228,824</u>
Total	<u>\$ 5,373,886</u>	<u>\$ 5,216,261</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE F - LONG-TERM DEBT

DELAWARE STATE UNIVERSITY:

Long-term debt activity of the University (including capital leases) for the years ended June 30, 2011 and 2010, follows:

	<u>Long-term debt for the year ended June 30, 2011</u>				
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Current portion</u>
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>-</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>

	<u>Long-term debt for the year ended June 30, 2010</u>				
	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Current portion</u>
Lease obligations	\$ 361,457	\$ -	\$ (204,178)	\$ 157,279	\$ 96,941
Notes payable	828,622	-	(54,120)	774,502	49,316
Revenue bonds	<u>56,106,563</u>	<u>-</u>	<u>(777,735)</u>	<u>55,328,828</u>	<u>805,000</u>
Total	<u>\$ 57,296,642</u>	<u>\$ -</u>	<u>\$ (1,036,033)</u>	<u>\$ 56,260,609</u>	<u>\$ 951,257</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 aircraft. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE F - LONG-TERM DEBT - Continued

Future minimum payments under capital leases and the asset purchase agreement are as follows:

<u>Fiscal year</u>	
2012	\$ <u>63,218</u>
Total future payments	63,218
Less amount representing interest	<u>2,880</u>
Present value of future interest	<u>\$ 60,338</u>

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.

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 44,969	\$ 21,142	\$ 66,111
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 - 2021	228,125	102,424	330,549
2022 - 2026	<u>264,054</u>	<u>33,449</u>	<u>297,503</u>
Totals	<u>\$ 725,244</u>	<u>\$ 233,364</u>	<u>\$ 958,608</u>

3. Revenue 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 bonds are due on October 1, 2017 and are secured by unappropriated gross revenues of the University.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE F - LONG-TERM DEBT - Continued

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 nonoperating 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, who had no letter of credit expiration date.

Interest rates and remaining maturities of the 1999 bonds are as follows:

<u>Fiscal year</u>	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
2012	4.00	\$ 835,000	\$ 290,129	\$ 1,125,129
2013	4.00	875,000	254,008	1,129,008
2014	4.40	905,000	215,635	1,120,635
2015	4.40	945,000	174,721	1,119,721
2016	5.25	990,000	125,344	1,115,344
2017 - 2018	5.25	<u>2,140,000</u>	<u>85,575</u>	<u>2,225,575</u>
		6,690,000	1,145,412	7,835,412
Less unamortized bond discount		<u>(29,171)</u>		
Total 1999 revenue bonds		<u>\$ 6,660,829</u>		

On December 20, 2007 the University issued revenue refunding bonds in the amount of \$47,580,000 (par value) through the Delaware Economic Development 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 are 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. Pursuant to the Indenture, the Authority issued for the benefit of the University, its \$15,865,000 Revenue Refunding Bonds (Delaware State University Project) Series 1999 to advance refund all other Bonds then outstanding under the Indenture. 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. 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, who had no letter of credit expiration date.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE F - LONG-TERM DEBT - Continued

<u>Fiscal year</u>	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
2012	4.00	\$ -	\$ 2,207,895	\$ 2,207,895
2013	4.00	-	2,207,895	2,207,895
2014	4.00	-	2,207,895	2,207,895
2015	4.00	-	2,207,895	2,207,895
2016	4.00	-	2,207,895	2,207,895
2017 - 2021	4.00 - 5.00	3,995,000	10,761,353	14,756,353
2022 - 2026	4.00 - 5.00	8,025,000	9,233,295	17,258,295
2027 - 2031	4.00 - 5.00	10,135,000	7,040,958	17,175,958
2032 - 2036	4.00 - 5.00	12,700,000	4,216,688	16,916,688
2037 - 2040	4.00 - 5.00	<u>12,725,000</u>	<u>1,018,406</u>	<u>13,743,406</u>
		47,580,000	43,310,174	90,890,174
Plus unamortized bond premium		<u>281,073</u>		
Total 2007 revenue refunding bonds		<u>\$ 47,861,073</u>		

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION:

The Housing Foundation's long-term debt consisted of the following at June 30, 2011 and June 30, 2010:

	<u>2011</u>	<u>2010</u>
Tax-exempt Series 2004A term bonds dated January 21, 2004; due at various intervals beginning July 1, 2004 through July 1, 2034, payable in semiannual installments of interest and annual installments of principal; various fixed coupon rates, as defined in the trust indenture, are secured by deed and assignment of rents.	\$16,335,000	\$ 16,715,000
Tax-exempt Series 2004B term bonds dated January 21, 2002 due at various intervals through July 1, 2036, payable in semi-annual installments of interest and annual installments of principal; variable interest rates determined weekly up to 3.34% as defined in the trust indenture, are secured by deed and assignment of rents.	<u>33,870,000</u> 50,205,000	<u>34,530,000</u> 51,245,000
Less current portion	(34,023,326)	(1,040,000)
Less bond discount (net of accumulated amortization of \$154,568 and \$132,712, respectively)	<u>(520,225)</u>	<u>(542,081)</u>
Total long-term liabilities	<u>\$ 15,661,449</u>	<u>\$ 49,662,919</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE F - LONG-TERM DEBT - Continued

The Housing Foundation refinanced the 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. It was further noted that the letter of credit for the 2004A bonds were backed by ACA with no letter of credit expiration, whereas the 2004B bonds were backed by Wachovia (now Wells Fargo), who provided a letter of credit extension through January 2012. The letter of credit supporting the 2004 B Bonds expires on January 20, 2012. As a result, the principal amount of \$33,633,326 has been classified as a current liability on the Housing Foundation's Statements of Net Assets. This does 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. See Note L.

The Housing Foundation financed development and construction of Phase III with a loan payable in an aggregate amount of \$36,300,000 funded with the proceeds from the issuance of variable rate demand student housing revenue bonds, Series 2004B. Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004 Bonds are restricted to financing the construction, furnishing, and equipping Phase III of the Project, to defease in advance of their maturities, the Series 2000B and 2002B Bonds (the Taxable Refunded Bonds), to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the Series 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 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 2004 Bonds began on July 1, 2004. Total accrued interest as of June 30, 2011 and June 30, 2010, was \$398,191 and \$408,971, respectively.

Maturities of the Housing Foundation's long-term debt June 30, 2011, follow:

<u>Year ending June 30,</u>	<u>Amount</u>
2012 (including bond discount of \$237,000)	\$ 34,260,000
2013	405,000
2014	420,000
2015	435,000
2016	455,000
2017 - 2021	2,590,000
2022 - 2027	3,280,000
2028 - 2032	4,185,000
2033 - 2036	<u>4,175,000</u>
Totals	<u>\$ 50,205,000</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE F - LONG-TERM DEBT - Continued

4. Interest Rate Swap Agreements

In February of 2009 management terminated an interest rate swap held with Wachovia, which was previously entered into for its variable rate, tax-exempt, Series 2004B bonds in the amount of \$35,900,000. The settlement of the swap resulted in a payment of \$212,670, with a June 30, 2009 obligation of (\$212,629). While the termination of the swap resulted in a violation of its debt covenant for its 2004B bonds, the Housing Foundation obtained a waiver for the respective covenant through January 2010. The Housing Foundation entered into a new interest rate swap agreement with Wells Fargo (formerly Wachovia) in February 2010.

In February 2010, the University entered into an interest rate swap agreement in order to hedge interest rate exposure on the underlying bonds. The swap agreement had a fair value liability of \$ 0 at June 30, 2011 which is reflected in the consolidated statement of financial position. The interest rate swap agreement expired on January 22, 2011 and Wells Fargo issued a waiver through June 30, 2011 because the University was in the process of refinancing the debt. See Note L.

The swap agreements are as follows:

	<u>Notional amount</u>	<u>Start date</u>	<u>Maturity date</u>	<u>Fixed rate</u>	<u>Floating rate</u>
Municipal Swap Index	\$ 34,530,000	02/01/2010	06/30/2010	0.68%	USD/SIFMA
Municipal Swap Index	\$ 33,870,000	07/01/2010	01/22/2011	0.68%	USD/SIFMA

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 17.2% and 15.27% of the employees' salary for 2011 and 2010, respectively. Employees contribute 3% of salary in excess of \$6,000. Pension cost of \$7,042,554 for 2011 and \$6,197,949 for 2010 was included in the accompanying financial statements. An employee pension rights are vested after five consecutive years of service. Certain significant plan provisions are as 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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE G - PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS – Continued

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.

NOTE H - ENDOWMENT SPENDING POLICY

The Advancement Foundation Board chooses to spend only a portion of the investment income 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 income. The authorized level of expenditures for the years ended June 30, 2011 and 2010 were \$447,540 for 2011 and \$568,727 for 2010, respectively.

NOTE I - LEASES

The University has entered into non-cancelable operating leases for the Wilmington campus and certain copying equipment. During the year ended June 30, 2011, related rental and copy equipment expense amounted to \$414,335 and \$455,422, respectively. As of June 30, 2011, future minimum rents due under these operating leases are as follow:

2012	\$ 427,514
2013	<u>180,319</u>
Total	<u>\$ 607,833</u>

NOTE J - RELATED PARTY TRANSACTION

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 periods:

	<u>2011</u>	<u>2010</u>
Due from Affiliate:		
Delaware State University	\$ 63,630	\$ 578,119
Housing Foundation	2,464,016	3,281,019
Advancement Foundation	<u>21,861</u>	<u>-</u>
Total	<u>\$ 2,549,507</u>	<u>\$ 3,859,138</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE J - RELATED PARTY TRANSACTION - Continued

	<u>2011</u>	<u>2010</u>
Due to Affiliate:		
Delaware State University	\$ 2,485,877	\$ 3,384,168
Housing Foundation	-	-
Advancement Foundation	<u>63,630</u>	<u>474,970</u>
Total	<u>\$ 2,549,507</u>	<u>\$ 3,859,138</u>

2. Ground Lease

On February 1, 2002, Phase I and II of the Housing Foundation (Lessee I) 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 (Lessee III) 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 expires on July 31, 2036. The liability of the lessees with respect to its obligations under the ground lease shall be 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 requires the utilization of the Project by students and faculty of Delaware State University for a minimum of 35 years. At the end of the lease date the property reverts to the University.

3. Unrestricted net deficit of Housing Foundation

The Housing Foundation had an unrestricted net surplus of \$157,699 and net deficit of \$1,005,548 for the years ended June 30, 2011 and 2010, respectively. The deficit was the result of start up costs, a dramatic increase in utilities associated with the increase in occupancy, and \$1,103,077 expense for the change in fair value of the interest rate swap.

The University's continuous monitoring of the expenses of the Courtyard and Village apartments has resulted in the 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. In addition, the extinguishment of Housing Foundation debt during FY10 resulted in annual savings of approximately \$336,000 annually.

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 is of the opinion that the outcome thereof will not have a material effect on the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE K - CONTINGENCIES AND COMMITMENTS - Continued

During FY 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 details DOE's consideration of the matters relating to the program review and the University's responses thereto and, assesses a liability of \$3,816,476. The University is disputing the findings and related assessment and, plans to exercise its rights under the DOE's appeal process.

Most student financial aid grants and loans, and cost-reimbursable contracts specify the types of expenses for which the grant or contract funds may be used. The expenses made by the University under some of these grants, loans and contracts are subject to audit. To date, other than the above, the University had not been notified by any of its granting agencies of any significant unallowable costs relating to its grants or contracts. Management is aware of certain areas of noncompliance with regard to the federal programs in which it participates; however, management is not of the opinion that such non-compliance will have a material effect on the accompanying financial statements or disclosures.

A significant source of funding for the University is the appropriations that are provided from the State of Delaware. For the years ended June 30, 2011 and 2010, noncapital appropriations to the University were \$35,872,430 and \$36,330,189, 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 evaluated its June 30, 2011 financial statements for subsequent events through January 6, 2012, the date the financial statements were available to be issued. Based on the University's evaluation, management believes that the following subsequent events meet the criteria for disclosure:

The University entered into a Guaranteed Energy Savings Agreement with Johnson Controls, Inc. in the amount of \$11,265,000. The energy efficiency revenue bonds were issued to the State of Delaware Sustainable Energy Utility, Inc. on August 1, 2011. Upon completion of the energy upgrades to various buildings and systems through out 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, Johnson Controls, Inc. will be responsible for the amount of that deficiency. The first payment to the Sustainable Energy Utility, Inc is due on March 15, 2012 and will continue thereafter semiannually on each September 15 and March 15 through 2033.

The University is in the process of refinancing the Housing Foundation's 2004 B Bonds. The re-financing is expected to be complete by January 31, 2012 and will include \$33,633,326 for the 2004 B debt, \$2,775,364 for the callable portion of the 1999 debt, \$5,000,000 for the Applied Optics Building project and \$2,191,310 for issuance costs and debt service funds. The total bond issuance is projected to be \$43,600,000.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE L - SUBSEQUENT EVENTS - Continued

Due to this expected refinancing, the University did not request Wells Fargo to renew its letter of credit supporting the 2004 B Bonds. The letter of credit expires on January 20, 2012 and the 2004 B Bonds will be subject to a mandatory tender on January 12, 2012. On that date, it is expected that Wells Fargo will use the proceeds of a draw on the letter of credit to purchase and hold the 2004 B Bonds pending their refinancing with a new bond issuance. Upon completion of the refinancing, the bank bonds held by Wells Fargo will be redeemed with proceeds of the new bond issue.