

Comprehensive Annual Financial Statements

Delaware State University

(A Component Unit of the State of Delaware)

June 30, 2014 and 2013

Dr. Harry Lee Williams
President

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CFO and Vice President for Finance and Administrative Services

Prepared by Division of Finance

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DELAWARE STATE UNIVERSITY

TABLE OF CONTENTS

	Page
Report of Independent Certified Public Accountants	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 16
Financial statements:	
Statements of Net Position	17
Statements of Revenue, Expenses and Changes in Net Position	18
Statements of Cash Flows	19 - 20
Notes to Financial Statements	21 - 41

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, 2014 and 2013. 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, 2014 and 2013, were audited by other auditors, whose report thereon dated _____, 2014 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, 2014 and 2013, and the respective changes in their Net Position and, where applicable, their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

_____, 2014

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DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013

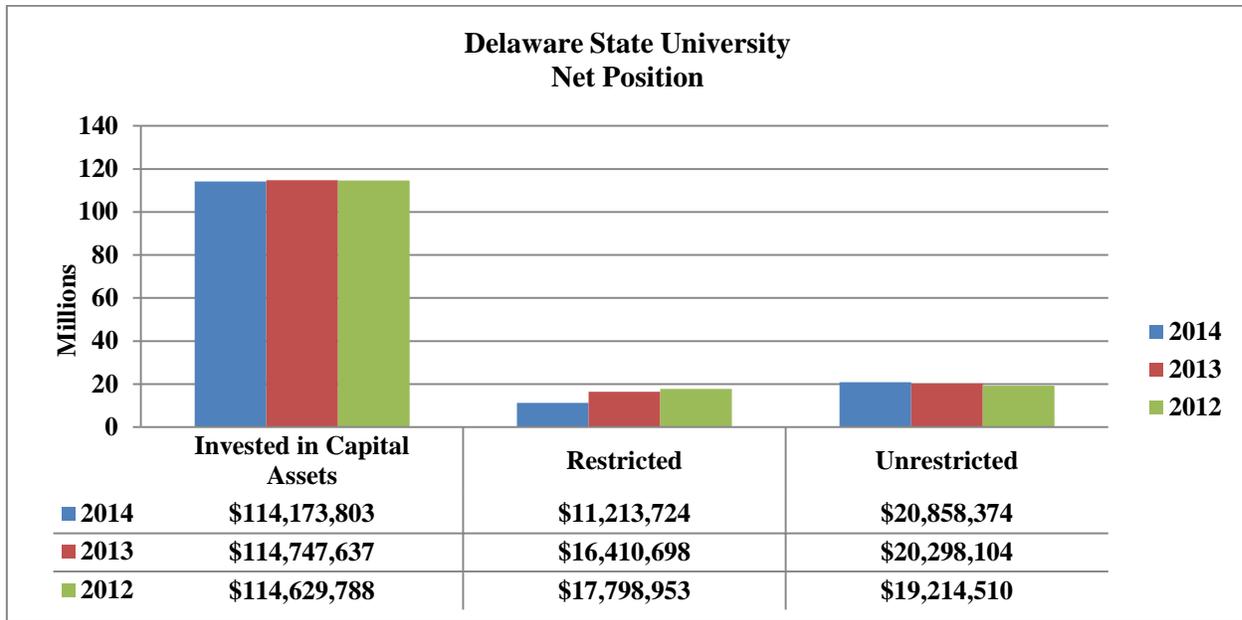
Management's discussion and analysis (MD&A) of Delaware State University's (the "University") financial statements provides an overview of the University's financial activities for the years ended June 30, 2014 and 2013. Management has prepared the financial statements and the related footnote disclosures 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:

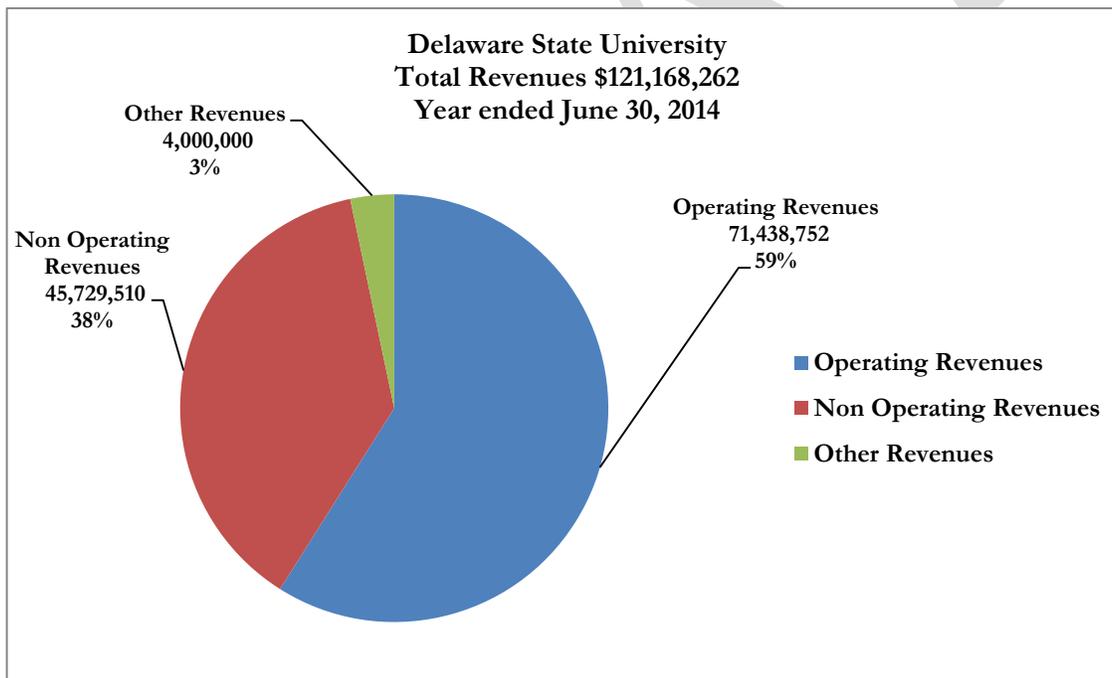
- The University's total net position decreased by \$5.2 million or 3.4% to \$146.3 million at June 30, 2014. The University's total net position decreased by \$.2 million or .1% to \$151.5 million in fiscal year 2013 and increased \$11.3 million or 8.0% to \$151.6 million in fiscal year 2012.
- For fiscal year 2014, the University's operating expenses were \$50.4 million greater than the operating revenues. Operating expenses were \$46.2 million and \$43.2 million greater than the operating revenues for FY13 and FY12, respectively.
- In fiscal year 2014, State appropriations were 28.4% of total operating expenses (28.4% FY13 and 29.7% FY12).
- At June 30, 2014, debt as a percentage of capital assets, net was 49.4% (47.0% FY 13 and 48.1% FY12).
- Total net position as a ratio of total operating expenditures is 1.2 times in FY14 (1.3 FY13 and 1.3 FY12).
- For fiscal year 2014, debt as a percentage of net position was 72.5% (63.7% FY13 and 64.4% FY12).
- For fiscal year 2014, unrestricted net position as a percentage of total net position was 14.3% (13.4% FY13 and 12.7% FY12).

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

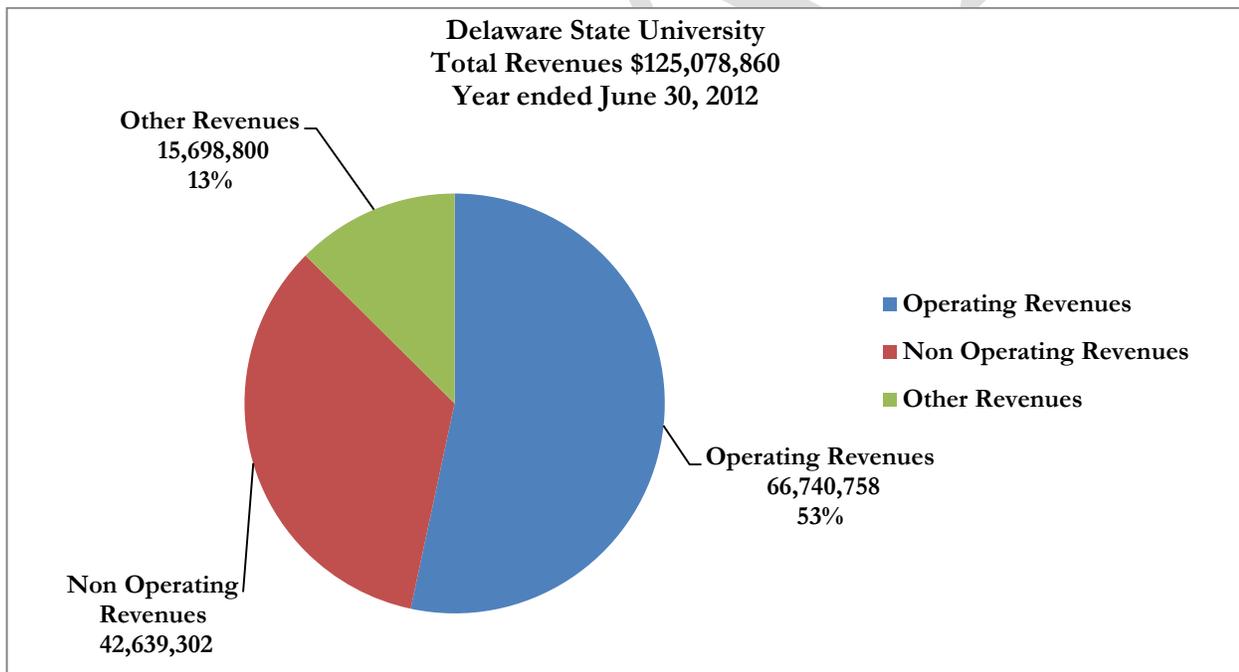
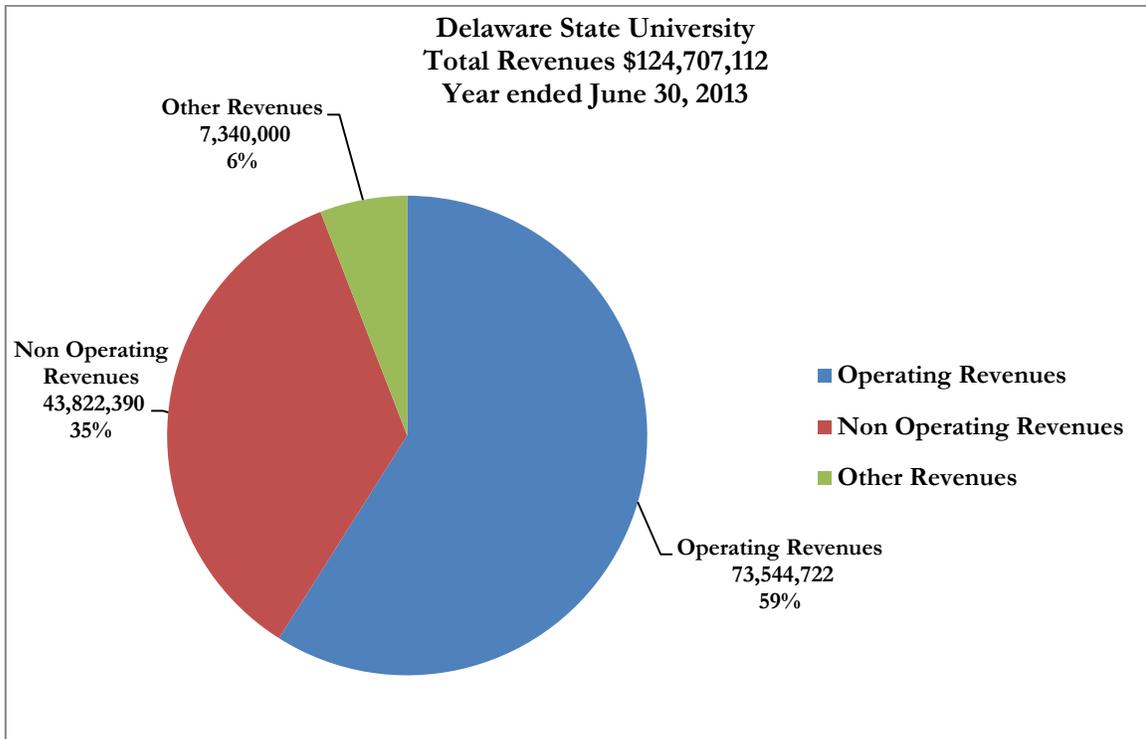
DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013



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



DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013



Although, the University's overall financial position decreased in 2014 by \$5.2 million, the unrestricted net position increased \$.5 million as a result of current year operations. Overall net position decreased primarily due to a large

DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013

capital asset donation in fiscal year 2013 (other revenues) and an increase in 2014 depreciation expense resulting from eliminating salvage values and including land improvements as depreciable assets in the prior year.

Operationally, there was a reduction in revenue related to federally funded grants (\$1.5 million) and an increase in scholarship allowances which reduced tuition and fees revenue by \$1.0 million. Operating expenses increased primarily due to a change in estimating depreciation expense (\$3.1 million) as explained in the previous paragraph. Decreases due to current year operations and other revenues were partially offset an increase in nonoperating revenues and expenses. Investment income increased \$1.5 million and interest expense decreased \$.6 million due to a write-off of bond issuance costs in fiscal year 2013.

Net position as of June 30, 2013 decreased \$.2 million or .1% 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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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 Position and the Statement of Revenues, Expenses and Changes in Net Position

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 Position and the Statement of Revenues, Expenses and Changes in Net Position 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 Position. When the opposite occurs, the result is a decrease in net position. The relationship between operating revenues plus non-capital state appropriations and expenses may be thought of as Delaware State University's operating results taken as a whole.

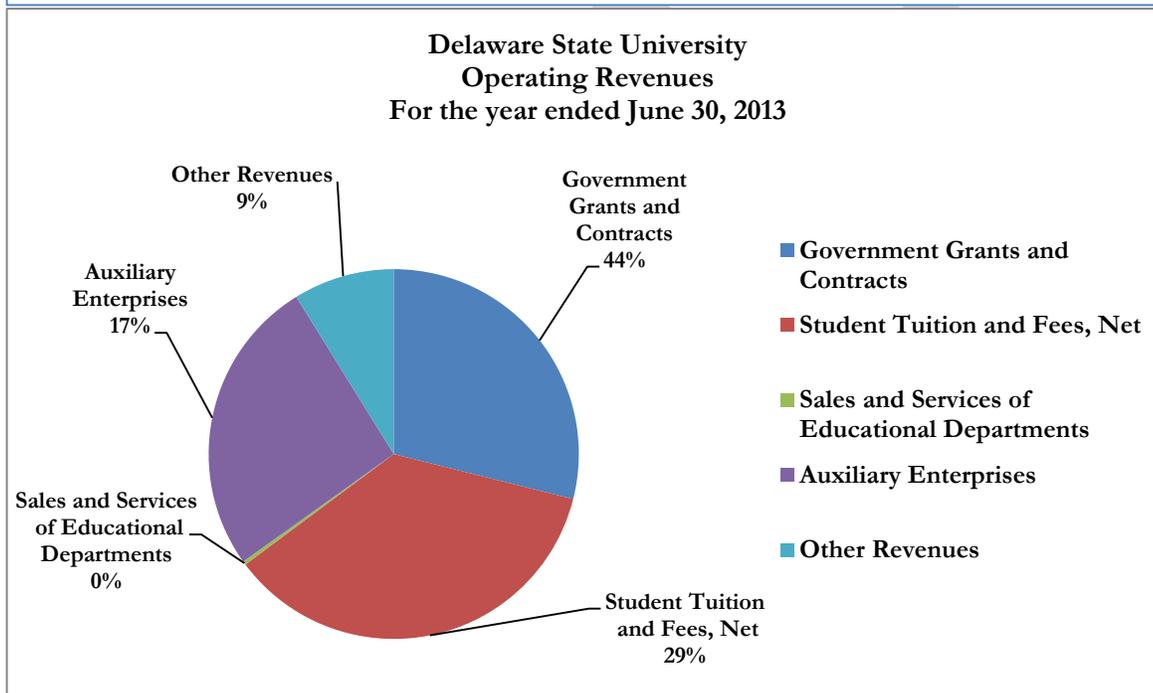
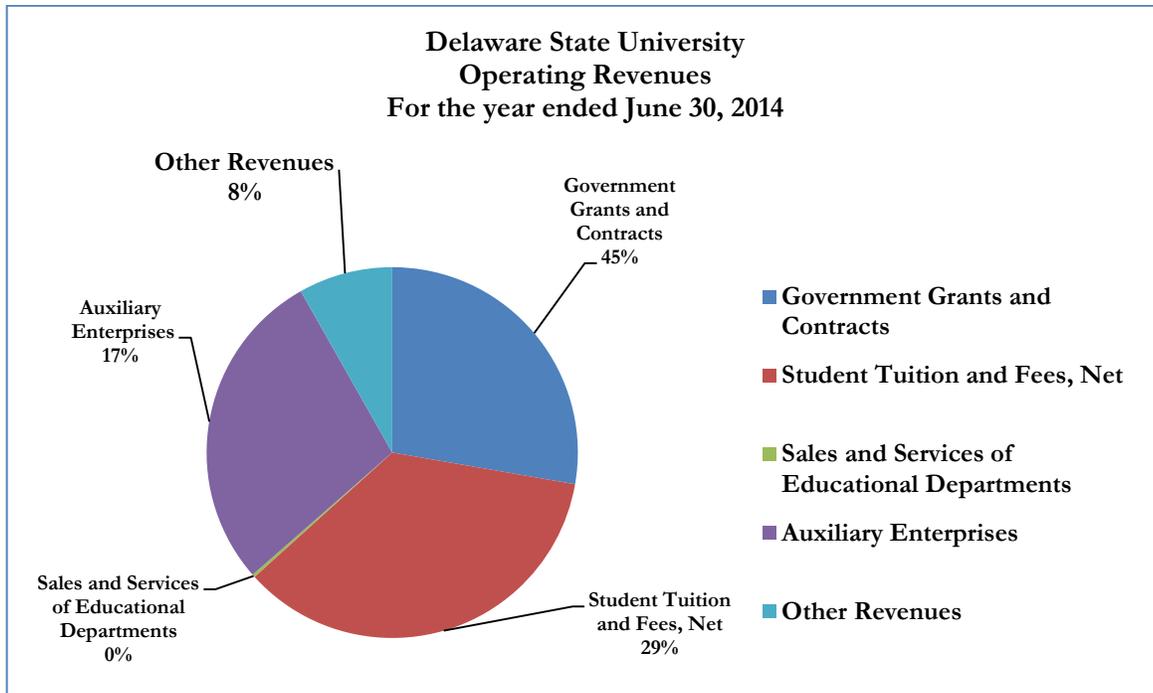
Delaware State University's net position and related change in net position is one way to measure the University's financial health, or financial position. Over time, increases or decreases in the University's net position are one indicator of whether its financial health is improving. However, several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

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

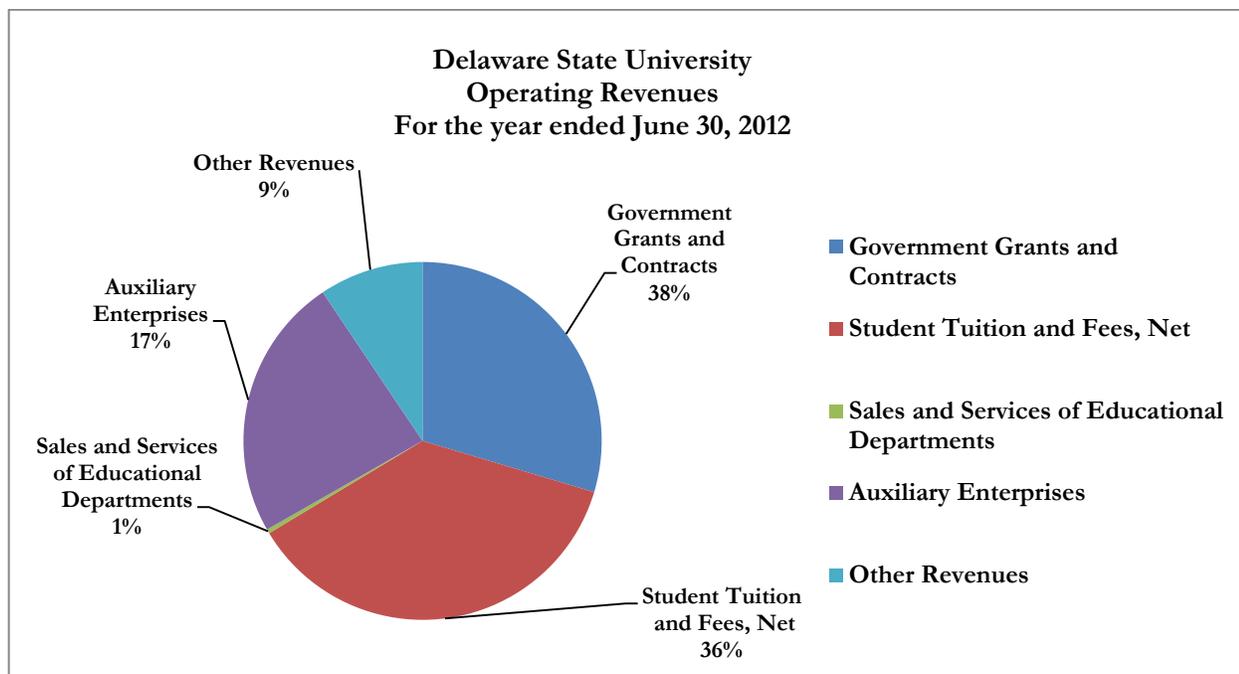
DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013

	Fiscal year ended June 30		
	2014	2013	2012
NET ASSETS			
Current assets	\$ 40,243,263	\$ 49,072,972	\$ 50,200,731
Noncurrent assets	232,654,531	221,835,056	223,322,106
Total assets	<u>272,897,794</u>	<u>270,908,028</u>	<u>273,522,837</u>
Current liabilities	\$ 18,468,017	\$ 17,978,361	\$ 18,149,108
Noncurrent liabilities	107,363,395	99,534,878	101,767,726
Total liabilities	<u>125,831,412</u>	<u>117,513,239</u>	<u>119,916,834</u>
Deferred Inflows	820,482	1,938,350	1,962,752
Net assets:			
Investment in capital assets, net of related debt	\$ 114,173,803	\$ 114,747,637	\$ 114,629,788
Restricted	11,213,724	16,410,698	17,798,953
Unrestricted	20,858,374	20,298,104	19,214,510
Total net assets	<u>146,245,901</u>	<u>151,456,439</u>	<u>151,643,251</u>
Increase or decrease in net position	<u>\$ (5,210,538)</u>	<u>\$ (186,812)</u>	<u>\$ 11,290,627</u>
OPERATING REVENUES			
Student tuition and fees (net of scholarship allowance of \$23.7, \$22.7 and \$21.5 million)	\$ 25,413,600	\$ 26,393,346	\$ 24,529,713
Government grants and contracts	19,810,970	21,265,997	19,769,942
Sales and services of educational departments	176,190	228,987	250,792
Auxiliary enterprises	20,180,706	19,164,921	15,912,279
Other revenues	5,857,286	6,491,222	6,278,032
Total operating revenues	<u>\$ 71,438,752</u>	<u>\$ 73,544,473</u>	<u>\$ 66,740,758</u>

DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013



DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013



Significant changes in the 2014 net position, compared to 2013, follow:

- Current assets decreased by \$8.8 million, principally due to decreases in cash and equities held with the state treasurer and government grant and other receivables.
- Noncurrent assets increased by \$10.8 million, primarily due to increases in investments and recording the Sheraton capital lease and the construction of the Optical Science Center for Applied Research building.
- Current liabilities increased by \$.5 million, primarily due to increases in accounts payable and recording the current portion of the Sheraton capital lease. This increase was partially offset by decreases in the current portion of compensated absences and employee compensation liabilities due to
- Long term liabilities increased by \$7.8 million, due primarily to recording the noncurrent portion of the Sheraton capital lease.
- Deferred inflows decreased by \$1.1 million due to increased spending on advanced restricted funds.

Significant changes in revenues follow:

- The University increased its scholarship program in 2014. Net student revenues include scholarship allowances of \$23.6 million in FY14 and \$22.7 million in FY13, an increase of approximately \$1.0 million.
- Government grants and contracts decreased in FY14 by \$1.5 million, principally from a decrease in federally funded grant awards.
- Auxiliary enterprise revenue increased in FY14 by \$1.0 million as a result of the increased student housing assignments and an increase in meal plan revenue.

DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013

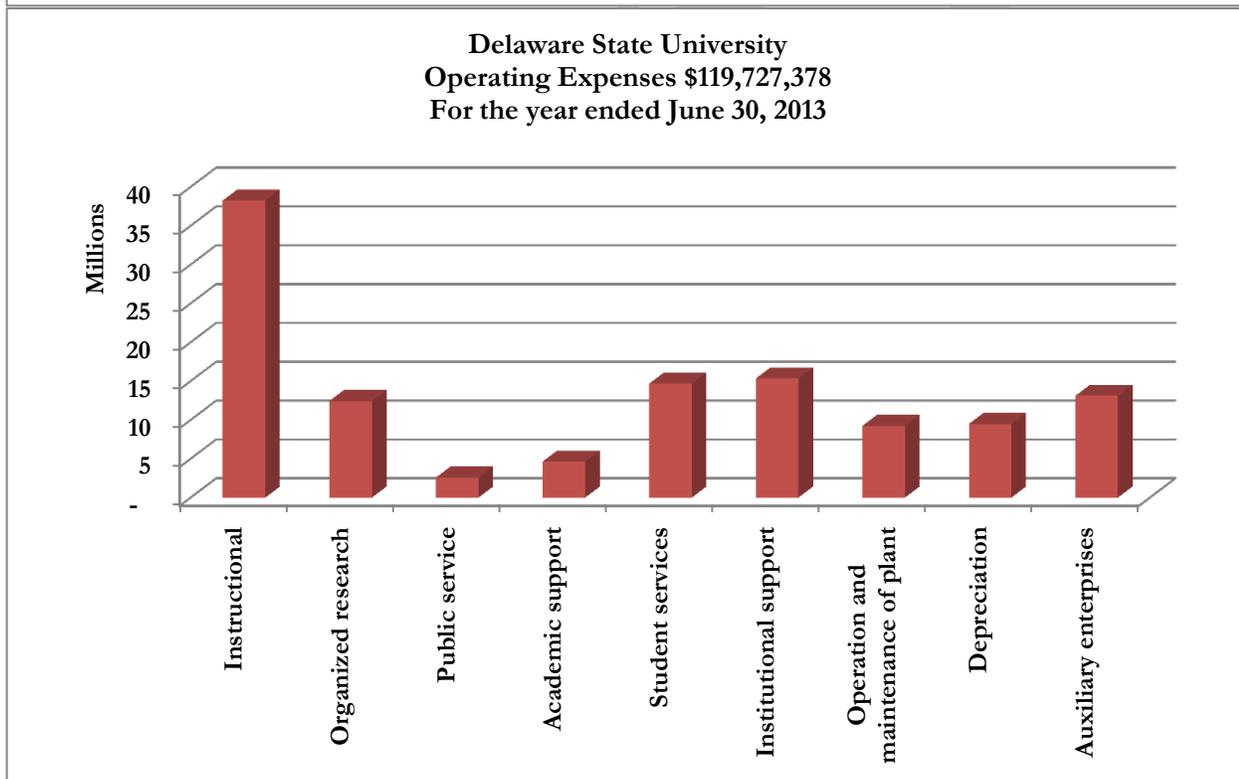
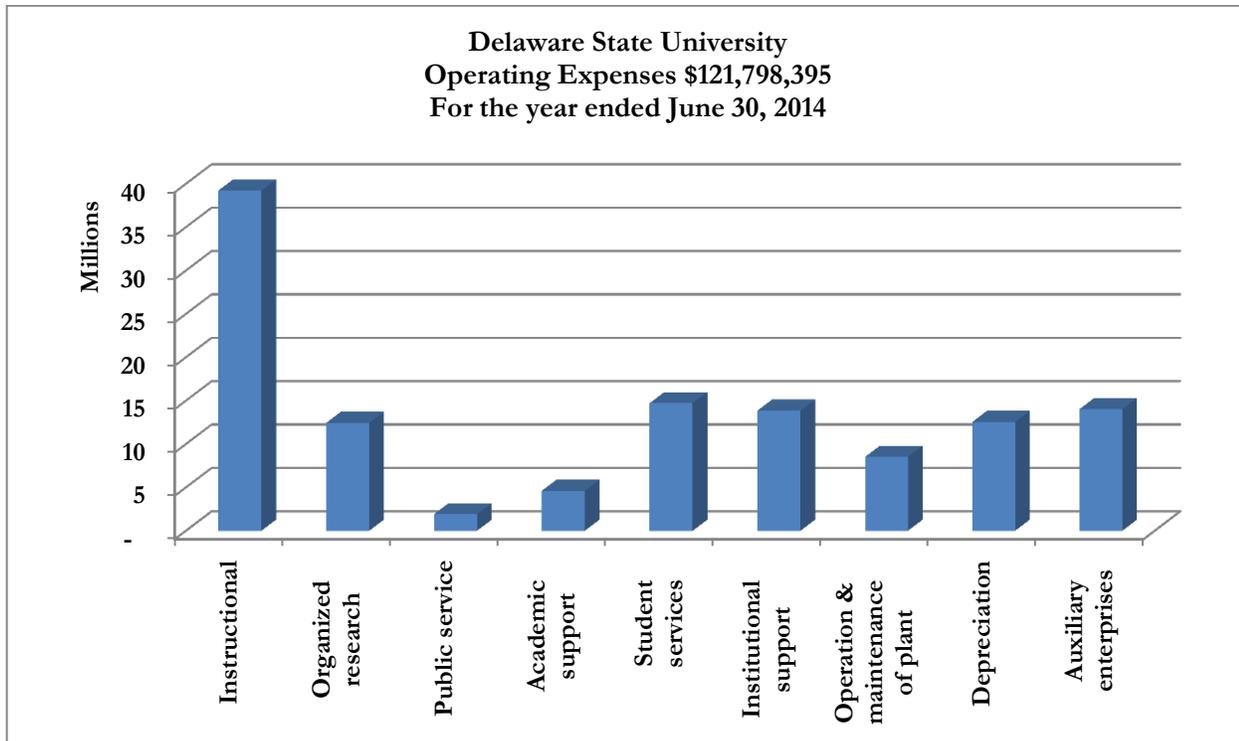
- Miscellaneous revenue decreased \$.4 million primarily due to less revenue related to bookstore commissions.

	For the year ended june 30,		
	2014	2013	2012
OPERATING EXPENSES			
Instructional	\$ 39,215,178	\$ 38,243,839	\$ 35,866,863
Organized research	12,431,678	12,432,234	11,472,862
Public service	1,904,737	2,583,953	2,849,235
Academic support	4,607,843	4,633,158	3,774,606
Student services	14,703,596	14,673,562	14,568,116
Institutional support	13,852,044	15,336,048	15,659,289
Operation and maintenance of plant	8,515,250	9,246,534	7,578,748
Depreciation	12,544,869	9,481,725	7,651,346
Auxiliary enterprises	14,023,200	13,096,325	10,494,021
Total operating expenses	<u>\$ 121,798,395</u>	<u>\$ 119,727,378</u>	<u>\$ 109,915,086</u>

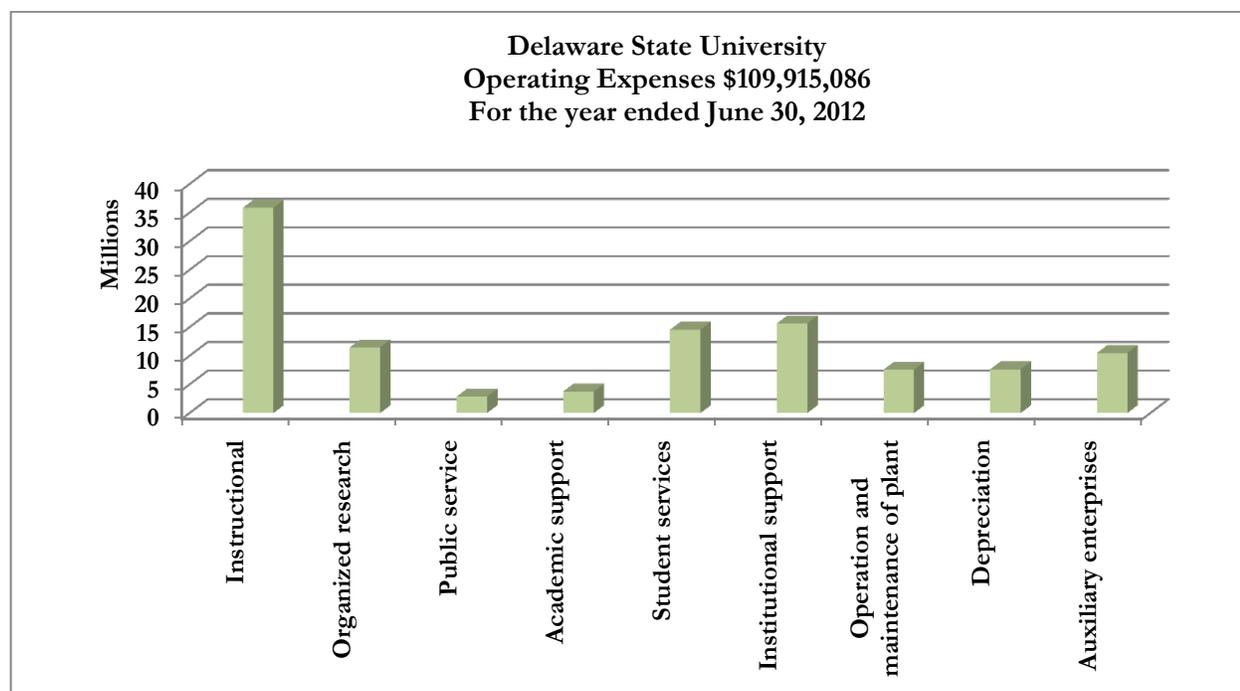
Overall operating expenses increased \$2.1 million but remained relatively flat from the previous year:

- Instructional expenses increased by \$.9 million during FY14 as a result of an increase in headcount, benefit costs, termination pay, and capital outlay expenses.
- Public service expenses decreased \$.7 million as a result of fewer federally funded grants.
- Institutional expenses decreased \$1.2 million mainly due to a reduction in the bad debt allowance reserve.
- Auxiliary enterprise expenditures increased by \$.9 million during FY14 due to an increase in auxiliary indirect cost allocation (Sheraton brought on line in FY14).
- Depreciation expenses increased by \$3.1 million due to the continual effect of the FY13 change in accounting estimate for buildings and land improvements.

DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013



DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013



Capital Asset and Debt Administration

At June 30, 2014, the University had \$214.8 million invested in capital assets, net of accumulated depreciation of \$112.7 million (\$205.2 million at June 30, 2013, net of accumulated depreciation of \$100.7 million). Depreciation charges totaled \$12.5 million for the current fiscal year compared to \$9.5 million in the prior year. Details of the capital assets, net for the three years are shown below:

	Capital assets, net, for the year ended June 30,		
	2014	2013	2012
Land, land improvements and infrastructure	\$ 20,757,559	\$ 21,586,213	\$ 18,919,475
Buildings and improvements	177,621,518	169,662,239	158,744,336
Construction in progress	5,136,944	1,049,278	8,328,417
Equipment	11,187,192	12,783,284	16,754,257
Library materials	90,591	155,091	239,890
Total	<u>\$ 214,793,804</u>	<u>\$ 205,236,105</u>	<u>\$ 202,986,375</u>

DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013

Major capital additions completed during FY14 included:

New Living and Learning Commons Property	\$ 12.9
Optical Science Center for Applied Research (OSCAR)	3.4
Renovations at Kirkwood Property	1.2
Campus Wide Wireless Project	0.3
	<u>\$ 17.8</u>

The University's planned capital expenditures for the fiscal year ending June 30, 2015 are approximately \$18.9 million. Projects planned include completing the Optical Science Center for Applied Research (OSCAR), ADA upgrades, and various maintenance projects which consist of HVAC upgrades to building and window replacements. Detailed information about the University's capital assets is presented in Note 4 to the financial statements.

At June 30, 2014, the University had \$106.1 million in debt outstanding versus \$96.4 million in the previous year. In fiscal year 2014, the University entered into a \$12 million, 15-year lease agreement with K.W. Lands, L.L.C., owners of the former Sheraton Hotel and Convention Center located at 1570 North DuPont Highway in Dover, Delaware. The property currently houses a 264 bed student housing facility known as the Living and Learning Commons and is the location of the Delaware State University Early College High School. A capital lease was recorded on the University's financial statement as a result of this transaction.

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

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

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

	<u>Outstanding debt for the year ended June 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Capital lease obligations	\$ 11,426,852	\$ -	\$ -
Notes payable	586,190	633,937	680,274
General obligation bonds	94,045,387	95,797,956	97,046,487
Totals	<u>\$106,058,429</u>	<u>\$96,431,893</u>	<u>\$97,726,761</u>

Detailed information about the University's long-term liabilities is presented in Note 6 to the financial statements.

DELAWARE STATE UNIVERSITY

Management's Discussion And Analysis (Unaudited)

June 30, 2014 and 2013

Summary of Operations

Although, the economic condition of Delaware State University remains closely tied to the availability of state appropriations, the administration is optimistic and has taken positive action to decrease its dependency on state appropriation revenue which has been flat over the past three fiscal years (\$34.6 million, \$33.9 million, and \$32.7 million in fiscal years 2014, 2013, and 2012 respectively). In 2014, the Board of Trustees elected not to increase tuition and fees for FY15 which continues to have a positive effect on student affordability and enrollment. For the current fiscal year (2015) and the third year in a row, the University experienced an enrollment increase. Additional positive impacts on enrollment are anticipated from the University receiving fully approval to provide Distance Education for degreed programs and the establishment of new Master's programs at the DSU@Wilmington campus. To further reduce the likelihood of operating deficits and gaps in state funding, University administration is committed to reducing spending and has reduced operating budgets for fiscal year 2015. The University will continue to closely monitor operational revenues and expenditures and maintain strong financial controls throughout the current year.

On April 7, 2014, Standard & Poor's Moody's Rating Services announced a downgrade of its rating of the University's revenue bond to "A" from "A+" with an outlook of "stable."

University Highlights

Early College High School

The Early College High School (ECHS) at Delaware State University is the first state's first public charter early high school. Classes began on August 25, 2014 with 132 students in its inaugural semester. Students enrolled could earn 30-60 college credits before they graduate. The ECHS's curriculum has a strong emphasis in STEM (science, technology, engineering, and mathematics). This year the school began with a ninth grade class of students and each subsequent year, a grade level of instruction will be added. Within the next four years, the ECHS will be a 9th through 12th grade charter high school.

DSU Agreements with Schools in Ghana and China

The University recently signed agreements with three Ghanaian institutions and two more institutions in China. The agreements between Delaware State University and Cape Coast, Ghana Institute of Management and Public Administration, and Kwame Nkrumah University of Science and Technology will facilitate faculty/student exchanges, research collaborations, joint grant proposals and other academic and development activities.

Two eight-year formal cooperative degree program agreements with Changchun University will provide Chinese students with an opportunity to study computational mathematics and optical information science/technology at DSU. A five-year formal accord with Dalian University will enable qualified students to enroll in DSU's Master of Business Administration program. The Dalian students will be able to enroll in the MBA program at either of DSU campus, in Dover or Wilmington. The University has agreement with 32 institutions of higher education outside of the United States.

Optical Science Center for Applied Research

The construction of the new state-of-the-art Optical Science Center for Applied Research (OSCAR) is currently underway (35% complete). The building will be the new home for DSU's prolific Optics Program, which since 2006 has been the recipient of \$23 million in research grants, produced the University's first two intellectual properties,

DELAWARE STATE UNIVERSITY
Management's Discussion And Analysis (Unaudited)
June 30, 2014 and 2013

and was involved with NASA in its Mars Curiosity Rover mission. The building was made possible initially by the support of Governor Markell, who earmarked \$10 million in the fiscal 2012 budget for the project. OSCAR will be built in three phases and will be consistent with the University's environmental stewardship efforts and its commitment to be a part of the Obama Administration's Better Building initiative. Towards those goals, OSCAR will be designed to be economic in its long-term energy usage through the installation of radiant cooling and heating systems. Once complete, the building will house eight (8) research laboratories, a shared nanotechnology facility, a shared wet lab, instrument room, testing and imaging room, office spaces, conference rooms, incubator space dedicated to research and development projects to be conducted in partnerships with high technology companies. The first of two buildings will be a total of 28,090 square feet and three floors. Construction is scheduled to be complete in June 2015.

DSU Named the Top 1890 Land-Grant University of the Year

The Association of Public and Land-Grant Universities (APLU) named Delaware State University as the 1890 Land-Grant Institution of the Year and also presented DSU with the 1890 Land-Grant Research Award. DSU received the awards during APLU's annual meeting held on November 11, 2013 during which the organization held its inaugural 1890 Land-Grant Universities Teaching, Research and Innovation Awards Ceremony.

The 14 award categories included: retention, degree completion, agriculture degree completion, education degree completion, STEM degree completion, intellectual property, innovation, research, international research, experiential student learning, international students, international student development, alumni engagement, and exemplary alumni. The Land-Grant University of the Year award was given for the best overall performance in each category from 2001-2013. DSU scored the highest of all Land-Grant institutions for being the only university in the top three in nine out of 14 categories. DSU also garnered the Research Award for its 129 percent increase in total federal funding between 2012 and 2013.

DSU Fully Approved for Distance Learning Programs

Delaware State University recently received full approval from the Middle State Commission on Higher Education to provide Distance Education Programs within the scope of the institution's accreditation. Full approval was granted to the University for Degrees on the Bachelors, Masters, and Doctoral levels.

DELAWARE STATE UNIVERSITY
Statements of Net Position
June 30, 2014 and 2013

	<u>Delaware State University</u>		<u>University</u>	<u>University</u>	<u>University</u>	<u>University</u>
	<u>2014</u>	<u>2013</u>	<u>Student Housing</u>	<u>Foundation,</u>	<u>Student Housing</u>	<u>Foundation,</u>
			<u>Foundation</u>	<u>Inc.</u>	<u>Foundation</u>	<u>Inc.</u>
CURRENT ASSETS						
Cash	\$ 11,657,079	\$ 18,336,842	\$ 327,300	\$ 3,450,432	\$ 287,361	\$ 3,450,432
Expendable investments	448,204	364,209	-	-	-	-
Equities held with state treasurer	15,701,953	16,525,976	-	-	-	-
Students receivables, net	3,929,265	3,075,604	157,816	-	156,470	-
Government grants receivable	7,763,008	9,101,218	-	-	-	-
Other receivables	641,275	1,600,657	-	429,652	-	435,118
Due from affiliate	102,479	68,466	3,671,711	12,512	3,443,393	12,512
Other assets	-	-	16,169	-	16,673	-
Total current assets	<u>40,243,263</u>	<u>49,072,972</u>	<u>4,172,996</u>	<u>3,892,596</u>	<u>3,903,897</u>	<u>3,898,062</u>
NONCURRENT ASSETS						
Investments	12,414,621	10,625,402	-	12,469,785	-	12,469,785
Assets held in trust	5,438,432	5,943,412	2,608,940	-	2,564,707	-
Other assets	7,674	30,137	-	-	-	-
Deferred charges	-	-	374,175	-	393,022	-
Capital assets, net	214,793,804	205,236,105	9,909,947	5,358	10,023,288	5,358
Total noncurrent assets	<u>232,654,531</u>	<u>221,835,056</u>	<u>12,893,062</u>	<u>12,475,143</u>	<u>12,981,017</u>	<u>12,475,143</u>
Total assets	<u>272,897,794</u>	<u>270,908,028</u>	<u>17,066,058</u>	<u>16,367,739</u>	<u>16,884,914</u>	<u>16,373,205</u>
CURRENT LIABILITIES						
Accounts payable	6,397,131	5,709,937	225,785	104,249	232,692	104,219
Due to affiliate	3,671,710	3,455,905	-	68,466	-	68,466
Accrued employee compensation	2,409,902	3,563,612	29,117	-	33,774	-
Accrued interest	1,024,470	896,605	372,180	-	380,580	-
Unearned revenue	580,720	585,945	217,720	480,779	274,866	480,779
Compensated absences	1,659,221	2,078,611	-	-	-	-
Long-term debt -current portion	2,724,863	1,687,746	435,000	-	420,000	-
Total current liabilities	<u>18,468,017</u>	<u>17,978,361</u>	<u>1,279,802</u>	<u>653,494</u>	<u>1,341,912</u>	<u>653,464</u>
NONCURRENT LIABILITIES						
Accrued liability	533,457	720,410	-	-	-	-
Compensated absences	3,496,371	4,070,321	-	-	-	-
Long-term debt	103,333,566	94,744,147	14,438,074	-	14,860,865	-
Total noncurrent liabilities	<u>107,363,394</u>	<u>99,534,878</u>	<u>14,438,074</u>	<u>-</u>	<u>14,860,865</u>	<u>-</u>
Total liabilities	<u>125,831,411</u>	<u>117,513,239</u>	<u>15,717,876</u>	<u>653,494</u>	<u>16,202,777</u>	<u>653,464</u>
Deferred Inflows	820,482	1,938,350	-	-	-	-
NET POSITION						
Invested in capital assets, net of related debt	114,173,803	114,747,637	-	-	-	-
Restricted expendable:						
Capital projects	10,320,223	15,960,734	-	-	-	-
Loans	-	14,993	-	-	-	-
Grants and contracts	893,501	434,971	-	-	-	-
Quasi endowment	-	-	-	7,561,873	-	7,561,873
Restricted nonexpendable:						
Endowment	-	-	-	6,554,340	-	6,554,340
Unrestricted	20,858,374	20,298,104	1,348,183	1,603,528	682,137	1,603,528
Total net position	<u>\$ 146,245,901</u>	<u>\$ 151,456,439</u>	<u>\$ 1,348,183</u>	<u>\$ 15,719,741</u>	<u>\$ 682,137</u>	<u>\$ 15,719,741</u>

The accompanying notes are an integral part of these statements.

DELAWARE STATE UNIVERSITY
Statements of Revenue, Expenses and Change in Net Position
June 30, 2014 and 2013

	<u>Delaware State University</u>		Component Units 2014		Component Units 2013	
			Delaware State University Student Housing Foundation	Delaware State University Foundation, Inc.	Delaware State University Student Housing Foundation	Delaware State University Foundation, Inc.
			2014	2013		
REVENUES						
Operating revenues:						
Unpledged revenues:						
Government grants and contracts	\$ 19,810,970	\$ 21,265,997	\$ -	\$ -	\$ -	\$ -
Revenues of University pledged as security for bonds:						
Student tuition and fees (net of scholarship allowances of \$23,684,821 and \$22,728,042, respectively)	25,413,600	26,393,346	-	-	-	-
Auxiliary enterprises	20,180,706	19,164,920	3,289,594	-	3,524,134	-
Sales and services of educational departments	176,190	228,987	-	-	-	-
Athletics	1,580,824	1,862,772	-	-	-	-
Indirect cost recovery	1,837,510	1,795,173	-	-	-	-
Other revenues	<u>2,438,952</u>	<u>2,833,527</u>	<u>31,675</u>	<u>153,864</u>	<u>30,946</u>	<u>153,864</u>
Total operating revenues	<u>71,438,752</u>	<u>73,544,722</u>	<u>3,321,269</u>	<u>153,864</u>	<u>3,555,080</u>	<u>153,864</u>
EXPENSES						
Operating expenses:						
Educational and general:						
Instructional	39,215,178	38,243,839	-	-	-	-
Organized research	12,431,678	12,432,234	-	-	-	-
Public service	1,904,737	2,583,953	-	-	-	-
Academic support	4,607,843	4,633,158	-	-	-	-
Student services	14,703,596	14,673,562	-	-	-	-
Institutional support	13,852,044	15,336,048	-	919,504	-	919,504
Operation and maintenance of plant	8,515,250	9,246,534	-	-	-	-
Depreciation	12,544,869	9,481,725	355,083	-	359,729	-
Student aid	-	-	-	994,181	-	994,181
Auxiliary enterprises	<u>14,023,200</u>	<u>13,096,325</u>	<u>2,337,773</u>	<u>-</u>	<u>2,263,853</u>	<u>-</u>
Total operating expenses	<u>121,798,395</u>	<u>119,727,378</u>	<u>2,692,856</u>	<u>1,913,685</u>	<u>2,623,582</u>	<u>1,913,685</u>
Operating (loss) income	<u>(50,359,643)</u>	<u>(46,182,656)</u>	<u>628,413</u>	<u>(1,759,821)</u>	<u>931,498</u>	<u>(1,759,821)</u>
Nonoperating revenues (expenses):						
State appropriations	34,612,500	33,942,859	-	-	-	-
Private gifts	144,472	87,940	-	1,243,487	-	1,243,487
Pell grants	8,912,655	8,848,061	-	-	-	-
Investment income	1,948,510	466,780	17,003	219,466	14,083	219,466
Net gain (loss) on investments	111,373	474,515	20,630	-	(62,765)	957,687
Interest on loans receivable	-	2,235	-	-	-	-
Interest expense	<u>(4,580,405)</u>	<u>(5,166,546)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues	<u>41,149,105</u>	<u>38,655,844</u>	<u>37,633</u>	<u>1,462,953</u>	<u>(48,682)</u>	<u>2,420,640</u>
(Loss) income before other revenues (expenses), gains and (losses)	<u>(9,210,538)</u>	<u>(7,526,812)</u>	<u>666,046</u>	<u>(296,868)</u>	<u>882,816</u>	<u>660,819</u>
Other revenues (expenses), and gains and (losses):						
Capital appropriations - State	4,000,000	3,000,000	-	-	-	-
Donated Capital Assets	-	<u>4,340,000</u>	-	-	-	-
Total other revenue (expenses), and gains and (losses)	<u>4,000,000</u>	<u>7,340,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	<u>(5,210,538)</u>	<u>(186,812)</u>	<u>666,046</u>	<u>(296,868)</u>	<u>882,816</u>	<u>660,819</u>
Net position:						
Net position, beginning of year, as restated (see footnote 11)	<u>151,456,439</u>	<u>151,643,251</u>	<u>682,137</u>	<u>15,058,922</u>	<u>(200,679)</u>	<u>15,058,922</u>
Net position, end of year	<u>\$ 146,245,901</u>	<u>\$ 151,456,439</u>	<u>\$ 1,348,183</u>	<u>\$ 14,762,054</u>	<u>\$ 682,137</u>	<u>\$ 15,719,741</u>

The accompanying notes are an integral part of these statements.

DELAWARE STATE UNIVERSITY
Statements of Cash Flows
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of tuition and fees	\$ 24,559,939	\$ 25,213,062
Receipts from grants and contracts	21,149,180	27,038,229
Loan repayments received from students	(323,673)	34,174
Receipts from auxiliary services	19,057,612	19,701,550
Receipts from sales and service of educational departments	176,190	228,987
Other receipts	6,839,131	7,134,124
Payments to vendors	(32,618,622)	(34,639,685)
Payments for utilities	(3,564,094)	(3,391,346)
Payments to employees	(51,867,069)	(54,572,206)
Payments for benefits	(22,668,759)	(18,096,894)
Net cash used in operating activities	<u>(39,260,165)</u>	<u>(31,350,005)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	34,612,500	33,942,859
Receipts from private gifts for non-capital purposes	144,472	87,940
Receipt of interest on student loans	-	2,235
Net cash provided by non-capital financing activities	<u>34,756,972</u>	<u>34,033,034</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
State capital appropriations	4,000,000	3,000,000
Proceeds from capital lease	12,000,000	-
Change in assets held in trust	504,980	3,582,302
Purchases of capital assets	(10,593,490)	(7,391,456)
Principal paid on capital debt and leases	(2,260,894)	(1,226,587)
Interest paid on capital debt and leases	(4,565,103)	(4,067,887)
Net cash provided by (used in) capital financing activities	<u>(914,507)</u>	<u>(6,103,628)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from earnings on investments	477,889	401,082
Sale of Investments	10,944,829	1,851,123
Purchase of investments	(13,508,804)	(2,549,104)
Net cash (used in) provided by investing activities	<u>(2,086,086)</u>	<u>(296,899)</u>
Net increase in cash and cash equivalents	(7,503,786)	(3,717,498)
Cash and cash equivalents, beginning of the year	<u>34,862,818</u>	<u>38,580,316</u>
Cash and cash equivalents, end of the year	<u>\$ 27,359,032</u>	<u>\$ 34,862,818</u>

The accompanying notes are an integral part of these statements.

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING LOSS		
TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (50,359,643)	\$ (36,364,993)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	12,544,869	9,481,725
Bad debt expense on student receivables	(1,358,632)	213,928
Changes in operating assets and liabilities		
Student receivables	504,971	(1,394,212)
Other receivable	959,382	384,711
Due from affiliate	(34,013)	15,261
Government grants receivable	1,338,210	(3,075,829)
Student notes	(323,673)	34,174
Other assets	22,463	257,941
Accounts payable	500,240	(2,570,721)
Due to affiliate	215,806	747,116
Deferred revenue	(1,123,094)	536,629
Accrued employee compensation and compensated absences	(2,147,051)	384,265
Net cash used in operating activities	<u>\$ (39,260,165)</u>	<u>\$ (31,350,005)</u>

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

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

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

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

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

Basis of Presentation

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

DELAWARE STATE UNIVERSITY

Notes To Financial Statements

June 30, 2014 and 2013

accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recognized when earned and expenses are recognized when incurred.

Adoption of New Accounting Standards

In fiscal year ended June 30, 2014, the University implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this statement is to either (a) properly classify terms that were previously reported as assets and liabilities as deferred outflows of resources and (b) recognize these items as outflows of resources (expenses) or inflows of resources (revenues). Bond issuance costs, which were previously deferred over the life of the existing debt, are now recognized as an expense. This is recorded as a prior period adjustment for the fiscal year ended June 30, 2013. Net position of the University has been restated and reduced by \$1,332,887, as of June 30, 2013, due to the write off of previous bond issuance costs which were being amortized over the life of the bonds.

GASB issued Statement No. 69, entitled Government Combinations and Disposals of Government Operations which is effective for fiscal years beginning after December 15, 2013. This Statement is not anticipated to have a material effect on the University's financial statements upon implementation.

GASB also issued Statement No. 68, entitled Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and Statement No. 71, entitled Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 which is effective for fiscal years beginning after June 15, 2014. The University is analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

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.

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. Tuition also includes pledged revenues as security for 2007 bonds in the amounts of \$1,575,022 and \$1,519,800 as of June 30, 2014 and 2013, respectively.

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. Student receivables are recorded net of estimated uncollectible amounts.

Federal Financial Assistance Programs

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

DELAWARE STATE UNIVERSITY

Notes To Financial Statements

June 30, 2014 and 2013

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

Assets Held in Trust

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

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

Investments

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

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, twenty-five years for land improvements and infrastructure, seven years for equipment and vehicles, five years for software, 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.

In fiscal year 2013, the University implemented the Fixed Asset Module within its ERP system. Consequently, a complete review of its fixed assets was performed that led to the adoption of a revised fixed asset policy. The review resulted in recording additional assets identified during an extensive inventory process, the elimination of salvage values for buildings and equipment, and the inclusion of land improvements as depreciable assets. Depreciation for salvage value elimination and land improvements was calculated based on the remaining life of the assets. However, in both situations, decisions were made on a case by case basis on whether to extend the estimated useful lives of fully depreciated assets that were fully operational and there were no plans to demolish.

Long-lived Assets

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

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

Unearned Revenue

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

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, liabilities in the amounts of \$2,968,966 and \$3,563,798 at June 30, 2014 and 2013, respectively, have been recorded to reflect earned, but unused annual leave at those dates, as such amounts are not expected to be paid out within the following 12 month period.

It is the University's policy, upon retirement, to pay out sick leave balances that have been accrued up to a maximum of 60 days and for the collective bargaining unit members (1007, 1267 & 2888) to pay out yearly balances that exceed 60 days at the rate of one half day for every day accrued. Therefore, the University has recorded a long term liability in the amounts of \$2,186,626 and \$2,585,134 to reflect earned, unused sick leave at June 30, 2014 and 2013, respectively.

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).

Net Position

Net position is classified as restricted, unrestricted or invested in capital assets, net of related debt. Restricted net position is 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 position invested in capital assets, net of related debt; represent the net book value of capital assets less the outstanding portion of the related debt financing.

Operating and Nonoperating Components

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect reported amounts of assets and liabilities and disclosures about contingent assets and liabilities at the date of the statements of net position and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

2. CASH AND INVESTMENTS

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

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

Custodial Credit Risk - Custodial Credit Risk is the risk that, in the event of a failure of the counterparty, the University would not be able to recover the value of its deposits, investments or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the University and are held by either the counterparty or the counterparty's trust department or agent but not in the University's name. As of June 30, 2014 and 2013, all cash and investment accounts were held on behalf of the University by the Trustees, in the Trustee's name.

Concentration of Credit Risk - Concentration of credit risk is assumed to arise when the amount of investments that the University has with one issuer exceeds 5% or more of the total value of the University's investments. The University does have a formal policy for concentration of credit risk. According to this policy "holdings in any one company may generally not exceed 5% of the market value of each equity portfolio." In addition, the policy also spells out that "Portfolios should be well diversified in order to mitigate risk of loss". As of June 30, 2014 and 2013, respectively, there is no portion of the University portfolio, excluding U. S. Government guaranteed obligations, which exceed 5% of the portfolio.

Credit Risk - Credit risk is the risk that the University will lose money because of the default of the security issuer or investment counterparty. University policy has not clearly defined ratings for each type of investments; however, it states that "Investments should focus on high quality companies with an established and profitable operating record, be in sound financial condition, and have competent management". As of June 30, 2014 and 2013, respectively, there is no portion of the University portfolio that was invested in below investment grade securities.

The University's \$7,679,667 in fixed income investments were not rated as of June 30, 2014 using the Standard and Poor's rating scale.

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

At June 30, 2014 and 2013, cash on hand for petty cash and change fund was \$18,873 and \$28,705, respectively, and bank balances of the University's deposits were \$7,535,842 and \$16,303,717,

DELAWARE STATE UNIVERSITY

Notes To Financial Statements

June 30, 2014 and 2013

respectively. The carrying value of these deposits was \$11,638,206 and \$18,336,842 at June 30, 2014 and 2013, respectively. The University has a contractual agreement with both M&T Bank and PNC Bank for funds to be transferred daily from its operating accounts, included in cash on the statement of net position, 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 enable 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.

An additional \$15,701,953 and \$16,525,976 at June 30, 2014 and 2013, respectively, of cash and cash equivalents related to unexpended State appropriations are included on the statements of net position. 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 and the risk of loss resides with the State.

The University's investments totaled \$18,301,257 and \$16,933,023 at June 30, 2014 and 2013, respectively. These investments were stated at quoted market value and are owned by the University.

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

The University's cash and investments were as follows for the years ended June 30, 2014 and 2013:

<u>June 30, 2014</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>5 to 10</u>	<u>>10</u>
Federal agencies	\$ 5,096,131	\$ -	\$ 1,497,285	\$ 3,353,416	\$ 245,430
Corporate bonds	3,583,536	-	3,583,536	-	-
Total fixed income	<u>8,679,667</u>	<u>\$ -</u>	<u>\$ 5,080,821</u>	<u>\$ 3,353,416</u>	<u>\$ 245,430</u>
Other investments	571,423				
Money market	476,210				
Mutual funds	-				
Equities	<u>8,573,957</u>				
Total investments	18,301,257				
Cash on hand	18,873				
Cash deposits	11,638,206				
Cash held with State Treasurer	<u>15,701,953</u>				
Total cash	<u>27,359,032</u>				
Total cash and investments	<u>\$ 45,660,289</u>				
Reconciliation to Statement of Net Position:					
Cash	\$ 11,657,079				
Expendable investments	448,204				
Cash held with State Treasurer	15,701,953				
Investments	12,414,621				
Assets held in trust	<u>5,438,432</u>				
Total cash and investments	<u>\$ 45,660,289</u>				

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

June 30, 2013	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	5 to 10	>10
Federal agencies	\$ 4,994,701	\$ -	\$ 979,450	\$ 3,787,048	\$ 228,203
Corporate bonds	3,004,480	-	3,004,480	-	-
Total fixed income	<u>7,999,181</u>	<u>\$ -</u>	<u>\$ 3,983,930</u>	<u>\$ 3,787,048</u>	<u>\$ 228,203</u>
Other investments	654,327				
Money market	1,312,920				
Equities	6,966,595				
Total investments	<u>16,933,023</u>				
Cash on hand	28,705				
Cash deposits	18,308,137				
Cash held with State Treasurer	16,525,976				
Total cash	<u>34,862,818</u>				
Total cash and investments	<u>\$ 51,795,841</u>				
Reconciliation to Statement of Net Position:					
Cash	\$ 18,336,842				
Expendable investments	364,209				
Cash held with State Treasurer	16,525,976				
Investments	10,625,402				
Assets held in trust	5,943,412				
Total cash and investments	<u>\$ 51,795,841</u>				

Assets Held in Trust

At June 30, 2014 and 2013, assets held in trust consisted of:

	2014	2013
Debt service reserve fund	\$ 5,410,421	\$ 5,245,842
GESA – Sustainable Energy Utility account	28,006	697,565
Settlement account	5	5
Total assets held in trust	<u>\$ 5,438,432</u>	<u>\$ 5,943,412</u>

Investment Return

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. University management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the University from having to sell investments below original cost for that purpose. Investments at June 30, 2014, met the University's investment policy as of that date.

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>
Net interest and dividends	\$ 1,948,510	\$ 466,780
Net (decrease) increase in the fair value of investments	<u>111,373</u>	<u>474,515</u>
Total investment return	<u>\$ 2,059,883</u>	<u>\$ 941,295</u>

3. OTHER RECEIVABLES

The University's other receivables as of June 30, consisted of the following:

	<u>2014</u>	<u>2013</u>
Vendor credits	\$ 169,919	\$ 396,577
Other miscellaneous	<u>463,682</u>	<u>1,234,217</u>
	633,601	1,630,794
Less: non-current other assets	<u>7,674</u>	<u>30,137</u>
Total other receivables	<u>\$ 641,275</u>	<u>\$ 1,600,657</u>

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

4. PROPERTY, PLANT AND EQUIPMENT

Capital asset activity of the University for the years ended June 30, 2014 and 2013, follow:

	Balance June 30, 2013	Additions and transfers	Retirements and transfers	Balance June 30, 2014
Assets not being depreciated:				
Land	\$ 3,482,297	\$ 840,000	\$ -	\$ 4,322,297
Construction in progress	1,049,278	4,264,114	176,448	5,136,944
Total assets not being depreciated	<u>4,531,575</u>	<u>5,104,114</u>	<u>176,448</u>	<u>9,459,241</u>
Assets being depreciated:				
Land improvements and infrastructure	20,663,528	324,860	-	20,988,388
Buildings and improvements	235,300,883	14,518,557	-	249,819,440
Equipment	38,798,506	2,004,567	211,664	40,591,409
Library books	6,617,926	-	-	6,617,926
Total assets being depreciated	<u>301,380,843</u>	<u>16,847,984</u>	<u>211,664</u>	<u>318,017,163</u>
Total	<u>305,912,418</u>	<u>21,952,098</u>	<u>388,112</u>	<u>327,476,404</u>
Less accumulated depreciation:				
Land improvements and infrastructure	2,559,612	1,993,515	-	4,553,127
Buildings and improvements	65,638,644	6,559,278	-	72,197,922
Equipment	26,015,222	3,572,494	183,499	29,404,217
Library books	6,462,835	64,499	-	6,527,334
Total accumulated depreciation	<u>100,676,313</u>	<u>12,189,786</u>	<u>183,499</u>	<u>112,682,600</u>
Total capital assets, net	<u>\$ 205,236,105</u>	<u>\$ 9,762,312</u>	<u>\$ 204,613</u>	<u>\$ 214,793,804</u>
	Balance June 30, 2012	Additions and transfers	Retirements and transfers	Balance June 30, 2013
Assets not being depreciated:				
Land and land improvements	\$ 1,340,685	\$ 2,141,612	\$ -	\$ 3,482,297
Construction in progress	8,328,417	761,997	(8,041,136)	1,049,278
Total assets not being depreciated	<u>9,669,102</u>	<u>2,903,609</u>	<u>(8,041,136)</u>	<u>4,531,575</u>
Assets being depreciated:				
Land improvements and infrastructure	17,578,790	3,084,738	-	20,663,528
Buildings and improvements	217,469,988	17,830,895	-	235,300,883
Equipment	61,886,313	1,667,609	(24,755,416)	38,798,506
Library books	6,617,926	-	-	6,617,926
Total assets being depreciated	<u>303,553,017</u>	<u>22,583,242</u>	<u>(24,755,416)</u>	<u>301,380,843</u>
Total	<u>313,222,119</u>	<u>25,486,851</u>	<u>(32,796,552)</u>	<u>305,912,418</u>
Less accumulated depreciation:				
Land improvements and infrastructure	856,472	2,008,581	(305,441)	2,559,612
Buildings and improvements	57,869,180	7,769,464	-	65,638,644
Equipment	45,132,056	3,922,099	(23,038,933)	26,015,222
Library books	6,378,036	84,799	-	6,462,835
Total accumulated depreciation	<u>110,235,744</u>	<u>13,784,943</u>	<u>(23,344,374)</u>	<u>100,676,313</u>
Total capital assets, net	<u>\$ 202,986,375</u>	<u>\$ 11,701,908</u>	<u>\$ (9,452,178)</u>	<u>\$ 205,236,105</u>

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

5. LONG-TERM OBLIGATIONS

Details of the University's non-current liabilities as of June 30, 2014 and 2013 follow:

	June 30, 2014				Current portion
	June 30, 2013	Additions	Reductions	June 30, 2014	
Accrued liability	\$ 907,363	-	(186,953)	\$ 720,410	186,953
Compensated absences	6,148,932	-	(993,340)	5,155,592	1,659,221
Notes payable	633,937	-	(47,747)	586,190	49,198
Capital lease payable	-	12,000,000	(573,148)	11,426,852	645,665
Revenue bonds	<u>95,797,956</u>	<u>-</u>	<u>(1,752,569)</u>	<u>94,045,387</u>	<u>2,030,000</u>
Total	<u>\$ 103,488,188</u>	<u>\$ 12,000,000</u>	<u>\$ (3,553,757)</u>	<u>\$ 111,934,431</u>	<u>\$ 4,571,037</u>

	June 30, 2013				Current portion
	June 30, 2012	Additions	Reductions	June 30, 2013	
Accrued liability	\$ 1,625,000	-	\$ 717,637	\$ 907,363	\$ 186,953
Compensated absences	5,753,943	394,989	-	6,148,932	2,078,611
Notes payable	680,274	-	46,337	633,937	47,746
Revenue bonds	<u>97,046,487</u>	<u>-</u>	<u>1,248,531</u>	<u>95,797,956</u>	<u>1,640,000</u>
Total	<u>\$105,105,704</u>	<u>\$ 394,989</u>	<u>\$ 2,012,505</u>	<u>\$ 103,488,188</u>	<u>\$ 3,953,310</u>

6. LONG-TERM DEBT

Delaware State University

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.

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

Following is a summary of remaining payment schedule:

2015	49,198	16,913	66,111
2016	44,815	21,296	66,111
2017	40,916	25,196	66,112
2018	43,146	22,965	66,111
2019	45,498	20,613	66,111
2020-2024	267,515	63,042	330,557
2025-2026	95,102	4,056	99,158
Totals	<u>\$ 586,190</u>	<u>\$ 174,081</u>	<u>\$ 760,271</u>

Capital Lease

In July 2013, the University entered into a \$12 million, 15-year lease agreement with K.W. Lands, L.L.C., owners of the former Sheraton Hotel and Convention Center located at 1570 North DuPont Highway in Dover, Delaware. The property currently houses a 264 bed student housing facility known as the Living and Learning Commons and is also the location of the Delaware State University Early College High School.

The economic substance of the lease is that the University is financing the acquisition of the asset through the lease and accordingly, it is recorded in the University's statement of net position.

Although, the lease agreement is for 15 years, the University plans to exercise its option to purchase the property prior to the expiration of year two.

Following is a summary of remaining payment schedule:

Fiscal year	Principal	Interest	Total
2015	645,665	373,611	1,019,276
2016	667,670	351,606	1,019,276
2017	690,425	328,851	1,019,276
2018	713,955	305,321	1,019,276
2019	738,287	280,989	1,019,276
2020	763,449	255,827	1,019,276
2021-2025	4,225,722	870,659	5,096,381
2016	2,981,679	161,090	3,142,769
Totals	<u>\$ 11,426,852</u>	<u>\$ 2,927,954</u>	<u>\$ 14,354,806</u>

Revenue Bonds

Series 1999 Bonds:

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

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

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 and expires on October 1, 2017. The University has pledged all operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding.

On March 1, 2012 the University issued revenue refunding bonds in the amount of \$32,145,000 (par value) through the Authority which were in part used to refund certain maturities of Series 1999 bonds. The issuance of Series 2012 bonds and refunding resulted in a \$2,725,000 reduction in Series 1999 bond obligations. As of June 30, 2014, \$3,130,000 remained outstanding on the 1999 Revenue Bonds.

Series 2007 Bonds:

On December 20, 2007 the University issued revenue refunding bonds in the amount of \$47,580,000 (par value) through the Authority. The bonds are interest only through October 1, 2018; due on October 1, 2036; and are secured by un-appropriated gross revenues of the University. The 2007 bonds were being issued as "Additional Bonds" under the Indenture, secured equally and ratably with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. The 2007 Bonds are insured by MBIA Insurance Corporation. The University has pledged all operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding. The bonds were secured for the construction of a new student union, a swimming pool and a student wellness/recreation center. As of June 30, 2014, \$47,836,245 including \$256,245 of unamortized bond premium remained outstanding on the 2007 revenue bonds.

Series 2011 Energy Efficiency Bonds:

The University entered into a Guaranteed Energy Savings Agreement with Johnson Controls, Inc. in the amount of \$11,265,000. In connection with this agreement and to fund energy efficiency projects, energy efficiency revenue bonds were issued through the State of Delaware Sustainable Energy Utility, Inc. on August 1, 2011. The bonds are due September 15, 2032, and are limited obligations of the University, payable only from amounts appropriated by the State that are eligible for payment of the Installment Payments pursuant to the Energy Performance Contracting Act. The 2011 bonds are equally and ratably secured by the trust estate, and failure of the State to appropriate each year sufficient available funds will cause insufficient funds to be deposited into the bond fund to pay all principal and interest on the bonds when due. Johnson Controls, Inc. guaranteed that the savings achieved will be sufficient to cover the financing cost associated with the bond, upon completion of the energy upgrades to various buildings and systems throughout the University. In the event that the savings are not realized, Johnson Controls, Inc. will be responsible for the amount of that deficiency. As of June 30, 2014, \$11,930,436 including \$805,436 of unamortized bond premium remained outstanding on the 2011 energy efficiency bonds.

Series 2012 Bonds:

On March 1, 2012 the University issued revenue refunding bonds in the amount of \$32,145,000 (par value) through the Delaware Economic Development Authority. The bonds are due October 1, 2036 and are secured by a pledge of certain un-appropriated revenues of the University. The 2012 bonds were issued as "Additional Bonds" under the Indenture, secured equally and ratably with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. The proceeds of the 2012 bonds were used to finance: (1) the refunding of certain

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

maturities of The Delaware Economic Development Authority Revenue Refunding Bonds (Delaware State University Project) Series 1999; (2) the purchase of the University Village, a four building, 628 bed student housing facility and dining hall located on the campus of the University, the construction of which was financed by the Kent County, Delaware Variable Rate Demand Student Housing Revenue Bonds (Delaware State University Student Housing Foundation Project) Series 2004B; (3) the funding of any required reserve funds relating to the 2012 Bonds; and (4) the costs of issuance and any credit enhancement of the 2012 Bonds. As of June 30, 2014, \$31,148,706 including \$1,683,706 of unamortized bond premium remained outstanding on the 2012 revenue bonds.

Remaining Maturities

Remaining maturities and interest due relating to the University's revenue bonds at June 30, 2014, follows:

Fiscal year	Principal Amount	Interest Amount	Total
2015	2,030,000	4,054,210	6,084,210
2016	2,100,000	3,980,968	6,080,968
2017	2,230,000	3,885,993	6,115,993
2018	2,370,000	3,777,706	6,147,706
2019	2,630,000	3,699,077	6,329,077
2020 – 2024	15,190,000	16,748,789	31,938,789
2025 – 2029	18,730,000	13,153,538	31,883,538
2030 – 2035	26,745,000	9,496,744	36,241,744
2036 – 2040	19,275,000	2,352,025	21,627,025
Total	91,300,000	\$ 61,149,050	\$ 152,449,050
Plus unamortized bond premiums and discount	2,745,387		
Total	\$ 94,045,387		

Delaware State University Student Housing Foundation

The Housing Foundation refinanced its Series 2000A and 2002A Bonds (the Prior Bonds) with a loan payable in an aggregate amount of \$18,420,000 funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (Delaware State University Student Housing Foundation Project). Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding the Prior Bonds, to fund a debt service reserve fund for the Series 2004A Bonds, to fund an operating reserve fund for the Series 2004A Bonds, and to pay a portion of the costs of issuance of the Series 2004A Bonds. Effective February 21, 2004 the Housing Foundation defeased the tax-exempt series 2000A and the tax exempt series 2002A term bonds at face value. The liability of the Housing Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. The first monthly interest payment on the Series 2004A Bonds began on July 1, 2004. Total accrued interest as of June 30, 2014 and 2013, was \$372,180 and \$380,579, respectively.

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

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

<u>Fiscal year</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Interest amount</u>	<u>Total</u>
2015	4.00 %	435,000	735,659	1,170,659
2016	4.20 %	455,000	717,404	1,172,404
2017	4.30 %	475,000	697,636	1,172,636
2018	4.40 %	495,000	676,534	1,171,534
2019	4.50 %	515,000	654,056	1,169,056
2020 - 2024	5.00 %	2,980,000	2,854,344	5,834,344
2025 - 2029	5.00 %	3,795,000	2,011,719	5,806,719
2030 - 2035	5.00-5.125 %	5,970,000	960,459	6,930,459
Total		15,120,000	\$ 9,307,811	\$ 24,427,811
Less: unamortized bond premiums and discount		(246,926)		
Total 2004A revenues bonds		\$ 14,873,074		

7. 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 21.02% and 18.76% of employees' salary for fiscal years 2014 and 2013, respectively. Employees hired prior to January 1, 2012 contribute 3% of salary in excess of \$6,000 and employees hired after that date, contribute 5% of salary in excess of \$6,000. Pension costs of \$9,746,297 and \$9,121,263 for 2014 and 2013, respectively, were included in the accompanying financial statements. An employee's pension rights are vested after five consecutive years of service. Certain significant plan provisions follow:

Early retirement:

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

Service retirement:

- 15 years of service - age 60
- 30 years of service - any age
- 5 years of service - age 62
- 10 years of service - age 62 (if hired after January 1, 2012)

Disability retirement:

- 5 years of service and proof of disability

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

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

8. ENDOWMENT SPENDING POLICY

The Advancement Foundation's Board chooses to spend only a portion of the investment returns each year. Under the policy established by the Board, five percent of the three-year average fair value of endowment investments at March 31 was authorized for expenditure. The remaining amount, if any, is retained for use in future years when the amount computed using the spending rate policy exceeds the investment return. The authorized level of expenditures for the years ended June 30, 2014 and 2013 were \$498,701 and \$508,347, respectively.

9. RELATED PARTY TRANSACTIONS

Affiliate Transactions

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

	<u>2014</u>	<u>2013</u>
Due from Affiliate:		
Delaware State University	\$ 102,479	\$ 68,466
Housing Foundation	3,671,710	3,443,393
Advancement Foundation	10,215	12,512
Total	<u>\$ 3,784,404</u>	<u>\$ 3,524,371</u>
Due to Affiliate:		
Delaware State University	\$ 3,671,710	\$ 3,455,905
Housing Foundation	-	-
Advancement Foundation	112,694	68,466
Total	<u>\$ 3,784,404</u>	<u>\$ 3,524,371</u>

Ground Lease

On February 1, 2002, Phase I and II of the Housing Foundation (Phase I and II lessee) and the University (lessor) entered into an amendment of the original ground lease dated September 1, 2000. Pursuant to the amended ground lease the term expiration date was changed from August 31, 2035 to October 1, 2038. 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.

10. CONTINGENCIES AND COMMITMENTS

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

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

During fiscal year 2009, the University remitted \$713,661 to the U.S. Department of Education (DOE) in connection with a program review. On December 17, 2009, the University was informed by the DOE that certain additional matters relating to its program review could result in a probable future settlement of approximately \$750,000, which the University accrued. A final program review determination letter from the DOE dated December 6, 2011 was received by the University's finance office on December 22, 2011. This letter detailed DOE's consideration of the matters relating to the program review and the University's responses thereto and, asserted a liability of \$3,816,476. The University disputed those findings and related assessment and, exercised its rights under the DOE's appeal process. On September 20, 2012, the University entered into an agreement effectively settling the disputed liability in the amount of \$1,007,362.87. The liability is payable over the period of five years beginning October 1, 2012. At June 30, 2014 the balance is \$720,410.

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

Significant sources of funding for the University are the appropriations that are provided from the State of Delaware. For the years ended June 30, 2014 and 2013, noncapital appropriations to the University were \$34,612,500 and \$33,942,859, and capital appropriations were \$4,000,000 and \$3,000,000, 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. However, the University is taking action to decrease its dependency on state appropriations.

11. RESTATEMENT OF BEGINNING NET POSITION

As indicated in the "Adoption of New Accounting Standards," the University implemented GASB 65 and as a result restated the ending net position for June 30, 2013 to recognize as expense, the remaining balance of bond issuance costs at the end of that fiscal year.

Net position, beginning of year, June 30, 2013	\$ 153,758,928
Write-off of deferred charges for issuance costs	(1,332,887)
Write-off of State of Delaware payroll receivable	(969,602)
Net position, beginning of year, restated, June 30, 2013	<u>\$ 151,456,439</u>

12. SUBSEQUENT EVENTS

The University and its component units evaluated their June 30, 2014 financial statements for subsequent events through _____, 2014, the date the financial statements were available to be issued. Based upon such evaluation, other than the matter referred to below, management determined that there were no subsequent events that met the criteria for accrual or disclosure to the accompanying financial statements.

On September 22, 2014, the University was given approval by the Delaware Economic Development Authority to issue bonds not to exceed \$38,500,000 for 1) the construction, equipping, and furnishing of the Optical Science for Applied Research; 2) the purchase of University Courtyard, a 416 bed student housing facility, the construction of which was financed by the Kent County, Delaware Student Housing Revenue

DELAWARE STATE UNIVERSITY
Notes To Financial Statements
June 30, 2014 and 2013

Refunding Bonds Series 2004A; and 3) the acquisition and capital improvement of the former Sheraton Hotel and Convention Center, now known as the Living and Learning Commons, a 264 bed student housing facility.

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