

Comprehensive Annual Financial Statements

Delaware State University

(A Component Unit of the State of Delaware)

June 30, 2016 and 2015

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President

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Prepared by Division of Finance

DELAWARE STATE UNIVERSITY

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Trustees
Delaware State University

Report on the Financial Statements

We have audited the accompanying financial statements and the aggregate discretely presented component unit of Delaware State University (the University), a component unit of the State of Delaware, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The University's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its aggregate discretely presented component unit, as of June 30, 2016 and 2015, and their respective change in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplemental Schedule of Proportionate Share of Net Pension Liability and Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hunt Valley, Maryland
November 23, 2016

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.

DELAWARE STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2016 and 2015

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, 2016 and 2015, with comparative amounts for 2014. 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 increased by \$3.3 million or 3.0% to \$124.1 million as of June 30, 2016 and decreased by \$4.4 million or 3.5% to \$120.8 million as of June 30, 2015.
- During fiscal year 2015, the University implemented GASB No. 68, which resulted in a \$17.0 million liability in fiscal year 2016 compared to \$9.4 million liability in fiscal year 2015.
- For fiscal year 2016, the University's operating expenses were \$42.5 million greater than the operating revenue and \$48.5 million greater than the operating revenue for fiscal year 2015.
- In fiscal years 2016 and 2015, State appropriations were 28.7% and 29.1%, respectively of total operating expenses.
- As of June 30, 2016 and 2015, debt as a percentage of net capital assets was 51.9% and 54.7% respectively.
- Total net position as a ratio of total operating expenses was 1.01 times and 1.02 for the fiscal years ended June 30, 2016 and 2015, respectively.
- For fiscal years 2016 and 2015, debt as a percentage of net position was 99.3% and 104.5% respectively.
- For fiscal years 2016 and 2015, unrestricted net position as a percentage of total net position was (.01%) and (2.2%) respectively.

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for element, deferred outflows of resources. This separate financial statement element, deferred outflows of resource, represents a consumption of net position that applies to a further period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

It is the University's policy to allow employees to carry over unused annual leave up to a maximum of 32 days. As of June 30, 2016 and 2015, the liability for unused compensated absences was \$2,813,447 and \$2,838,852, respectively.

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 liability of \$2,498,164 and \$2,262,070, related to earned, unused sick leave as of June 30, 2016 and 2015, respectively.

Net Position

Net position is classified as restricted, unrestricted or net investment in capital assets. 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. The net investment in capital assets represents the net book value of capital assets less the outstanding portion of the related debt financing of capital assets.

Operating and Non-operating Components

Operating revenue of the University are generally associated with those activities that directly relate to the core activities of instruction and research and consist of tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenue. Transactions related to capital and financing activities, noncapital financing activities, investing activities and State appropriations are reported as components of non-operating 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
For the Years Ended June 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The University is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code and is recognized as such by the Internal Revenue Service. The provisions included in accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The University performed an evaluation of uncertain tax positions as of June 30, 2016, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of June 30, 2016, the statute of limitations for fiscal years 2013 through 2016 remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the University files tax returns.

Reclassifications

Certain reclassifications have been made to the 2015 amounts to conform with 2016 presentation.

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.

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, 2016 and 2015, all cash and investment accounts were held in the name of the University.

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, 2016 and 2015, there was 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, 2016 and 2015, there was no portion of the University portfolio that was invested in below investment grade securities.

The University's \$9,040,612 and \$8,421,445, in fixed income investments were not rated as of June 30, 2016 and 2015, respectively using the Standard and Poor's rating scale or any other major rating agency's system.

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

2. CASH AND INVESTMENTS (continued)

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.

As of June 30, 2016 and 2015, cash on hand for petty cash and change fund was \$18,550, bank balances of the University's deposits were \$4,471,715 and \$8,428,593, respectively. The University has a contractual agreement with M&T 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.

Additional \$8,035,457 and \$7,164,567 of funds available from the state treasurer at June 30, 2016 and 2015 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 \$20,912,506 and \$21,618,986 as of June 30, 2016 and 2015, respectively. These investments were stated at quoted market value and are owned by the University.

The University categorizes its fair value measurements when the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are other observable inputs; Level 3 inputs are significant unobservable inputs.

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

2. CASH AND INVESTMENTS (continued)

University's cash, cash equivalents and investments were as follows as of June 30, 2016 and 2015:

<u>June 30, 2016</u>	<u>Fair Value</u>	<u>Level</u>	<u>Investment Maturities (in years)</u>		
			<u>Less than 1</u>	<u>1 to 5</u>	<u>5 to 10</u>
Federal agencies	\$ 5,420,789	1	\$ -	\$4,448,948	\$ 971,841
Corporate bonds	<u>3,619,823</u>	1	<u>-</u>	<u>3,619,823</u>	<u>-</u>
Total fixed income	<u>9,040,612</u>		<u>\$ -</u>	<u>\$8,068,771</u>	<u>\$ 971,841</u>
Other investments	2,796,235	1			
Money market	601,387	1			
Equities	<u>8,474,273</u>	1			
Total investments	<u>20,912,507</u>				
Cash on hand	3,488,279				
Funds available from state treasurer	<u>8,035,457</u>				
Total cash	<u>11,523,736</u>				
Total cash and investments	<u>\$ 32,436,243</u>				

Reconciliation to Statement of Net Position:

Cash	\$ 3,488,279
Expendable investments	568,423
Funds available from state treasurer	8,035,457
Investments	12,503,740
Assets held in trust	<u>7,840,344</u>
Total cash and investments	<u>\$ 32,436,243</u>

Assets Held in Trust

As of June 30, 2016, assets held in trust consisted of:

Debt service reserve fund	<u>\$ 7,840,344</u>
Total assets held in trust	<u>\$ 7,840,344</u>

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

2. CASH AND INVESTMENTS (continued)

June 30, 2015	Fair Value	Level	Investment Maturities (in years)		
			Less than 1	1 to 5	5 to 10
Federal agencies	\$ 4,589,471	1	\$ -	\$1,004,980	\$2,607,770
Corporate bonds	<u>3,831,974</u>	1	<u>-</u>	<u>3,831,974</u>	<u>-</u>
Total fixed income	8,421,445		<u>\$ -</u>	<u>\$4,836,954</u>	<u>\$2,607,770</u>
Other investments	3,793,615	1			
Money market	709,860	1			
Equities	<u>8,694,066</u>	1			
Total investments	21,618,986				
Cash on hand	18,580				
Cash deposits	6,990,088				
Funds available from state treasurer	<u>7,164,567</u>				
Total cash	<u>14,173,235</u>				
Total cash and investments	<u>\$ 35,792,221</u>				
Reconciliation to Statement of Net Position:					
Cash	\$ 7,008,668				
Expendable investments	13,314				
Funds available from state treasurer	7,164,567				
Investments	13,255,737				
Assets held in trust	<u>8,349,935</u>				
Total cash and investments	<u>\$ 35,792,221</u>				

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

2. CASH AND INVESTMENTS (continued)

Assets Held in Trust

As of June 30, 2015, assets held in trust consisted of:

Debt service reserve fund	\$ 7,689,011
2014 Bond Project Fund	632,899
GESA – Sustainable Energy Utility account	<u>28,025</u>
Total assets held in trust	<u>\$ 8,349,935</u>

Delaware State University Foundation

The Delaware State University Foundation's investments as of June 30, 2016 and 2015, consisted of the following:

	As of June 30, 2016			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Money market funds	\$ 18,126	\$ -	\$ -	\$ 18,126
Fixed income funds	3,637,123	38,600	61,542	3,614,181
US Equity	5,523,910	115,784	80,241	5,559,453
Non-US equity	3,543,931	51,049	266,103	3,328,877
Mutual fund	1,079,990	-	44,685	1,035,305
Leading Edge Ventures I, L.P.	50,000	-	-	50,000
Total	<u>\$ 13,853,080</u>	<u>\$ 205,433</u>	<u>\$ 452,571</u>	<u>\$ 13,605,942</u>

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

1. CASH AND INVESTMENTS (continued)

Delaware State University Foundation

	As of June 30, 2015			
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Money market funds	\$ 19,702	\$ -	\$ -	\$ 19,702
Fixed income funds	3,796,592	7,742	34,864	3,769,470
US Equity	5,837,361	72,133	83,690	5,825,804
Non-US equity	3,497,698	86,323	40,007	3,544,014
Mutual fund	1,102,327	59,433	-	1,161,760
Leading Edge Ventures I, L.P.	50,000	-	-	50,000
Total	<u>\$ 14,303,680</u>	<u>\$ 225,631</u>	<u>\$ 158,561</u>	<u>\$ 14,370,750</u>

The following is a description of the valuation methodology used for assets measured at fair value as of June 30, 2016 and 2015:

Money Market Fund: Valued at amortized cost.

Fixed Income Fund, US Equity, Non-US Equity, Mutual funds: Valued at the closing price reported on the active market by which the fund is traded.

Leading Edge Ventures I, L.P.: Valued based on management estimate using unobservable data.

The methods described above may produce a fair value calculation that may not be indicative of NRV or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2016 and 2015:

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

2. CASH AND INVESTMENTS (continued)

	As of June 30, 2016			
	Level 1	Level 2	Level 3	Fair Value
Money market funds	\$ 18,126	\$ -	\$ -	\$ 18,126
Fixed income funds	3,614,181	-	-	3,614,181
US Equity	5,559,453	-	-	5,559,453
Non-US equity	3,328,877	-	-	3,328,877
Mutual fund	1,035,305	-	-	1,035,305
Leading Edge Ventures I, L.P.	-	-	50,000	50,000
Total	\$ 13,555,942	\$ -	\$ 50,000	\$ 13,605,942

	As of June 30, 2015			
	Level 1	Level 2	Level 3	Fair Value
Money market funds	\$ 19,702	\$ -	\$ -	\$ 19,702
Fixed income funds	3,769,470	-	-	3,769,470
US Equity	5,825,804	-	-	5,825,804
Non-US equity	3,544,014	-	-	3,544,014
Mutual fund	1,161,760	-	-	1,161,760
Leading Edge Ventures I, L.P.	-	-	50,000	50,000
Total	\$ 14,320,750	\$ -	\$ 50,000	\$ 14,370,750

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

3. OTHER RECEIVABLES AND OTHER ASSETS

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

	<u>2016</u>	<u>2015</u>
Prepaid Vendors	\$ 289,991	\$ 2,634,093
Early College High School	345,966	593,778
Childcare lab	108,821	105,654
Other miscellaneous	<u>568,834</u>	<u>365,348</u>
	1,313,612	3,698,873
Less: non-current other assets	<u>7,674</u>	<u>7,674</u>
Total other receivables	<u>\$ 1,305,938</u>	<u>\$ 3,691,199</u>

Pledge Receivables - Delaware State University Foundation, Inc.

	<u>2016</u>	<u>2015</u>
Amounts due in less than one year	\$ 1,122,573	\$ 831,962
Amounts due in two to five years	<u>892,500</u>	<u>982,356</u>
Total	2,015,073	1,814,318
Less: present value discount of 2.0%	26,670	65,243
allowance for uncollectable receivable	<u>131,116</u>	<u>32,069</u>
Pledges Receivable, net	<u><u>\$ 1,857,287</u></u>	<u><u>\$ 1,717,006</u></u>

Other Assets Non-Current Asset

The Foundation invested \$1,500,000, for a one-third membership interest in the Friends of the Capitol Theater, Inc., a non-stock corporation, which was established to acquire and maintain the Schwartz Center for the Arts (the Theater). The Foundation has recorded its interest in the Theater at its initial investment of \$1,500,000 (cost) adjusted by its one-third share of the annual operating income or loss of the Theater through June 30, 2016. Dividends, if received, will reduce the Foundation's carrying amount of the investment. The table below sets forth a summary of changes in the Foundation's, interest in the Theater for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 1,111,164	\$ 1,186,508
Decline in net book value	<u>(108,016)</u>	<u>(75,344)</u>
Ending balance	<u><u>\$ 1,003,148</u></u>	<u><u>\$ 1,111,164</u></u>

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

4. PROPERTY, PLANT AND EQUIPMENT

Capital asset activity of the University for the year ended June 30, 2016 was as follows:

	<u>Balance June 30, 2015</u>	<u>Additions and transfers</u>	<u>Retirements and transfers</u>	<u>Balance June 30, 2016</u>
Assets not being depreciated:				
Land	\$ 4,322,297	\$ -	\$ -	\$ 4,322,297
Construction in progress	15,751,369	5,695,857	18,249,561	3,197,665
Total assets not being depreciated	<u>20,073,666</u>	<u>5,695,857</u>	<u>18,249,561</u>	<u>7,519,962</u>
Assets being depreciated:				
Land improvements and infrastructure	21,377,741	1,338,845	-	22,716,586
Buildings and improvements	267,005,651	23,274,960	-	290,280,611
Equipment	43,937,362	4,249,906	468,425	47,718,843
Library books	6,617,926	-	-	6,617,926
Total assets being depreciated	<u>338,938,680</u>	<u>28,863,712</u>	<u>468,425</u>	<u>367,333,966</u>
Total	<u>359,012,346</u>	<u>34,559,569</u>	<u>18,717,986</u>	<u>374,853,928</u>
Less accumulated depreciation:				
Land improvements and infrastructure	6,554,648	2,030,894	-	8,585,542
Buildings and improvements	80,151,235	4,986,508	-	85,137,743
Equipment	33,898,357	3,689,253	380,110	37,207,500
Library books	6,583,210	30,747	-	6,613,957
Total accumulated depreciation	<u>127,187,450</u>	<u>10,737,402</u>	<u>380,110</u>	<u>137,544,742</u>
Total capital assets, net	<u>\$ 231,824,896</u>	<u>\$ 23,822,167</u>	<u>\$ 18,337,875</u>	<u>\$ 237,309,186</u>

	<u>Balance June 30, 2014</u>	<u>Additions and transfers</u>	<u>Retirements and transfers</u>	<u>Balance June 30, 2015</u>
Assets not being depreciated:				
Land	\$ 4,322,297	\$ -	\$ -	\$ 4,322,297
Construction in progress	5,136,944	10,909,875	295,450	15,751,369
Total assets not being depreciated	<u>9,459,241</u>	<u>10,909,875</u>	<u>295,450</u>	<u>20,073,666</u>
Assets being depreciated:				
Land improvements and infrastructure	20,988,388	389,353	-	21,377,741
Buildings and improvements	249,819,440	17,186,211	-	267,005,651
Equipment	40,591,409	3,441,094	95,141	43,937,362
Library books	6,617,926	-	-	6,617,926
Total assets being depreciated	<u>318,017,163</u>	<u>21,016,658</u>	<u>95,141</u>	<u>338,938,680</u>
Total	<u>327,476,404</u>	<u>31,926,533</u>	<u>390,591</u>	<u>359,012,346</u>
Less accumulated depreciation:				
Land improvements and infrastructure	4,553,127	2,001,521	-	6,554,648
Buildings and improvements	70,799,922	9,351,313	-	80,151,235
Equipment	29,404,217	4,575,162	81,022	33,898,357
Library books	6,527,334	55,876	-	6,583,210
Total accumulated depreciation	<u>111,284,600</u>	<u>15,983,872</u>	<u>81,022</u>	<u>127,187,450</u>
Total capital assets, net	<u>\$ 216,191,804</u>	<u>\$ 15,942,661</u>	<u>\$ 309,569</u>	<u>\$ 231,824,896</u>

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

5. LONG-TERM OBLIGATIONS

Details of the University's non-current liabilities as of June 30, 2016 and 2015, were as follows:

	June 30, 2015	As of June 30, 2016			Current portion
		Additions	Reductions	June 30, 2016	
Accrued liability	\$ 533,457	\$ -	\$ 186,953	\$ 346,504	\$ 186,953
Compensated absences	5,100,922	1,722,842	1,512,153	5,311,611	1,058,567
Notes payable	1,536,992	-	143,702	1,393,290	240,916
Net pension liability	9,397,681	7,555,537	-	16,953,218	-
Revenue bond premium	6,271,923	-	208,761	6,063,162	-
Revenue bonds	118,495,000	-	2,750,000	115,745,000	2,915,000
Total	<u>\$ 141,335,975</u>	<u>\$ 9,278,379</u>	<u>\$ 4,801,569</u>	<u>145,812,785</u>	<u>\$ 4,401,436</u>

	June 30, 2014	As of June 30, 2015			Current portion
		Additions	Reductions	June 30, 2015	
Accrued liability	\$ 720,410	\$ -	\$ 186,953	\$ 533,457	\$ 186,953
Compensated absences	5,155,592	-	54,670	5,100,922	1,512,153
Notes payable	586,190	1,000,000	49,198	1,536,992	144,815
Capital lease payable	11,426,852	-	11,426,852	-	-
Net pension liability	26,899,050	-	17,501,369	9,397,681	-
Revenue bond premium	2,745,387	3,728,404	201,868	6,271,923	-
Revenue bonds	91,300,000	29,225,000	2,030,000	118,495,000	2,750,000
Total	<u>\$ 138,833,481</u>	<u>\$ 33,953,404</u>	<u>\$ 31,450,910</u>	<u>\$ 141,335,975</u>	<u>\$ 4,593,921</u>

Accrued Liability

On September 20, 2012, the University entered into an agreement with the Department of Education to settle a program review by agreeing to pay \$1,007,363 over a five year period. As of June 30, 2016, the balance was \$346,504. The future annual payments are \$186,953 and \$159,551 for the fiscal years ending June 30, 2017 and 2018, respectively.

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

5. LONG-TERM OBLIGATIONS (continued)

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 which began on 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.

On May 28, 2015, the University entered into an agreement with The Delaware Economic Development Authority (DEDA), also a discretely presented component unit of the State of Delaware, for funding to purchase new equipment for phase one of the Optical Science Center for Applied Research (OSCAR) facility located on the Dover Campus, to conduct advanced optical research. In connection with this agreement, Delaware State University agreed to pay a twelve-year note in the amount of \$3,000,000. There was no interest on the loan. DEDA made a disbursement in the amount of \$1,000,000 on June 29, 2015. The disbursement in the amount of \$1,000,000 due on June 30, 2016, has not been received. Another payment of \$1,000,000 is scheduled on June 30, 2017. On July 1, 2015, the first principal payment of \$100,000 was made. On the July 1, 2016, a principal payment of \$200,000 will be made. On July 1, 2017, and on the 1st day of the next 84 months (7 years), a principal payment of \$300,000 will be made annually. On July 1, 2025, payment of \$200,000 will be made. On July 1, 2026, a final principal payment of \$100,000 will be made.

Following is a summary of remaining payment schedule for Delaware River and Bay Authority and Delaware Economic Development Authority notes payable as of June 30, 2016:

<u>Fiscal Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 240,916	\$ 25,196	\$ 266,112
2018	343,146	22,965	366,111
2019	345,498	20,613	366,111
2020	147,979	18,133	166,112
2021	50,594	15,517	66,111
2022-2026	<u>265,157</u>	<u>33,448</u>	<u>298,605</u>
Totals	<u>\$ 1,393,290</u>	<u>\$ 135,872</u>	<u>\$ 1,529,162</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 revenue of the University.

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

5. LONG-TERM OBLIGATIONS (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 \$1,433,608 and expires on October 1, 2017. The University has pledged all operating and non-operating revenue, 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. At June 30, 2016, \$2,140,000 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 revenue 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 revenue, 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, 2016, \$47,819,693 including \$239,693 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, 2016, \$11,377,371 including \$787,371 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 revenue of the University. The 2012 bonds were issued as “Additional Bonds” under the Indenture, secured equally and ratably with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. The proceeds of the 2012 bonds were used to finance: (1) the refunding of certain maturities of The Delaware

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

5. LONG-TERM OBLIGATIONS (continued)

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, 2016, \$28,354,114 including \$1,514,114 of unamortized bond premium remained outstanding on the 2012 revenue bonds.

Series 2014 Bonds:

On December 11, 2014 the University issued revenue refunding bonds in the amount of \$29,225,000 (par value) through the Delaware Economic Development Authority. The bonds are due October 1, 2039 and are secured by un-appropriated gross revenue of the University. The 2014 bonds were 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 outstanding as provided in the Indenture and in the Loan Agreement. The proceeds of the 2014 bonds, together with other available funds, were used to finance: (1) purchase the University Courtyard, a 416 bed student housing facility located on campus from the Delaware State University Housing Foundation; (2) construction, equipping and furnishing of an optical science center for applied research; (3) 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 and space used to Delaware State University Early College High School. As of June 30, 2016, \$32,116,984 including \$3,541,984 of unamortized bond premium remained outstanding on the 2014 revenue bonds.

Remaining Maturities

Remaining maturities and interest due relating to the University’s revenue bonds as of June 30, 2016, were as follows:

Fiscal Years	Principal Amount	Interest Amount	Total
2017	\$ 2,915,000	\$ 5,239,814	\$ 8,154,814
2018	3,070,000	5,100,739	8,170,739
2019	3,365,000	4,986,395	8,351,395
2020	3,565,000	4,848,845	8,413,845
2021	3,705,000	4,694,720	8,399,720
2022 - 2026	21,280,000	20,820,625	42,100,625
2027 - 2031	26,385,000	15,607,048	41,992,048
3032 - 3036	29,180,000	8,878,688	38,058,688
2037 – 2041	18,455,000	2,968,100	21,423,100
2042 – 2045	3,825,000	395,126	4,220,125
Total	115,745,000	<u>\$ 73,540,100</u>	<u>\$ 189,285,100</u>
Plus unamortized bond premiums and discount	6,063,162		
Total	<u>\$ 121,808,162</u>		

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

6. PENSION PLAN

The State Employees' Pension Plan (the Plan) is a cost sharing multiple-employer defined benefit plan established in the Delaware Code. Separately issued financial statement for the Delaware Public Employees Retirement Plan (DPERP) are available at pension office at McArdle Building, Suite 1, 860 Silver Lake Blvd., Dover, DE 19904.

Plan description and eligibility. The State Employees' Pension Plans covers virtually all full time or regular part-time employees of the State, including employees of other affiliated entities. There are two tiers within this plan 1) Employees hired prior to January 1, 2012 (Pre-2012), 2) Employees hired on or after January 1, 2012 (Post- 2011).

Service Benefits. Final average monthly compensation (employees hired Post 2011 may not include overtime in its compensation) multiplied and multiplied by years of credited service prior to January 1, 1997, plus final average monthly compensation multiplies by 1.85% and multiplied by years of credited services after December 31, 1996, subject to minimum limitations. For this plan final average monthly compensation is monthly average of the highest three periods of 12 consecutive months of compensation.

Vesting. Pre-2012 date of hire: 5 years of credited service. Post 2011 date of hire: 10 years of credited service.

Retirement: Pre-2012 date of hire: Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age. Post-2011- date of hire: age 65 with at least 10 years of credited service; age 60 with 20 years of credited service; and 30 years of credited service at any age.

Disability Benefits: Pre-2012 date of hire: same as Service Benefits. Employee must have 5 years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Post – 2011 date hire – in the Disability Insurance Program.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension (or 75% with 3% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the benefit the employee would have received at age 62.

Burial Benefit: \$7,000 per member.

Contributions:

Employer- Determined by Board of Pension Trustees. Employer contributions were 20.66% of earnings for fiscal year 2015.

Pre-2012 date of hire Member – 3% of earnings in excess of \$6,000.

Post-2011 date of hire Member -5% of earnings in excess of \$6,000.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016 and 2015, the University reported a liability of \$16,953,218 and \$9,397,681, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively. The total pension liability used to calculate the net pension liability was

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

6. PENSION PLAN (continued)

determined by an actuarial valuation as of June 30, 2014 and 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014 and a roll forward methodology was again used to determine the total pension liability for 2015. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units actuarially determined. As of June 30, 2016, the University's proportion was 2.55 percent, which was substantially the same from its proportion measured as of June 30, 2015.

For the years ended June 30, 2016 and 2015, the University recognized a pension expense of \$2,807,333 and \$1,965,782, respectively. As of June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of actuarial assumptions	\$ 494,037	\$ (32,301)
Net Difference between projected and actual earnings on pension plan investments	6,000,215	(11,200,955)
Difference between actual and expected experience	-	(380,280)
Contributions made subsequent to the measurement	4,639,186	-
Total	<u>\$ 11,133,438</u>	<u>\$ (11,613,536)</u>

Deferred outflows of resources in the amount of \$4,639,186, related to the net pension liability resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Fiscal Years	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 6,266,418	\$ (3,835,182)
2018	1,622,340	(3,835,182)
2019	1,622,340	(3,835,182)
2020	1,622,340	(101,530)
2021	-	(6,460)
Total	<u>\$ 11,133,438</u>	<u>\$ (11,613,536)</u>

Information included in the DPERS financial statements

Actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate, and pension plan fiduciary net position are available in the financial statements of DPERS as noted above.

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

6. PENSION PLAN (continued)

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate.

The University's proportionate share of the net pension liability of \$16,953,218 was calculated using the discount rate of 7.2 percent. Additionally, the University's proportionate share of the net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (6.2 percent) is \$38,302,478 or 1-percentage-point higher (8.2 percent) is \$(8,070,084).

7. OTHER POST-RETIREMENT BENEFITS

The Delaware OPEB Trust Fund provides retirement medical coverage to pensioners and their eligible dependents in the State Employees' pension plan. The State of Delaware assumes the OPEB liability on behalf of employees who participate in the State's pension plan but are employed at outside agencies including Delaware State University. State employees become eligible for post-retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The plan provisions are as follows:

Eligibility:

Employees:

- Early retirement - age 55 with 15 years of service or any age with 25 years of service
- Normal retirement – age 62 with 5 years of service or age 60 with 15 years of service or any age with 30 years of service

Benefits:

The Plan provides health insurance options through several providers

Spouse and Survivor Coverage:

Both are available under any of the plan options with similar retiree contributions

Employee Contributions:

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on the years of service.

Information related to this plan is available in the State of Delaware's Comprehensive Annual Financial Report.

The University contributed \$10,130,864 and \$9,814,715 to the OPEB plan for the years ended June 30, 2016 and 2015.

DELAWARE STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

8. RISK MANAGEMENT

The University participates in the statewide self-insurance programs for workers' compensation, employee health care and accident, automobile accident, and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its general fund. The University continues to carry commercial insurance for all other risk of loss, including general liability, educators' legal liability, professional legal liability, supplemental workers' compensation, aviation and hired non-owned vehicle, cyber security breach, and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage. The University remits premiums to the State to cover the cost of servicing and claims payments. The premiums are based on a percentage of annual payroll.

More information can be obtained from the State of Delaware's Comprehensive Annual Financial Report. A report can be obtained from the Department of Finance, Division of Accounting @ <http://accounting.delaware.gov/cafrdefault.shtml>.

9. 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 expenses for the years ended June 30, 2016 and 2015 was \$550,372 and \$520,302, respectively.

10. RELATED PARTY TRANSACTIONS

In an arrangement with the University's component units, the 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 consist of \$157,009 and \$34,634 due to/from affiliate as of June 30, 2016 and 2015, respectively.

11. 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.

Most grants 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 these grants and contracts are subject to audit. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits would not have a material effect on the accompanying financial statements.

12. SUBSEQUENT EVENTS

The University evaluated its June 30, 2016 financial statements for subsequent events through November 23, 2016, the date the financial statements were available to be issued. Based upon such evaluation, management determined that there were no subsequent events that met the criteria for accrual or disclosure to the accompanying financial statements.

DELAWARE STATE UNIVERSITY
Required Supplementary Information
June 30, 2016 and 2015

**Schedule of Proportionate Share of
Net Pension Liability**

	<u>2016</u>	<u>2015</u>
The University's proportion of the total net pension liability	2.55%	2.55%
The University's proportionate share of the total net pension liability	\$ 16,953,218	\$ 9,397,681
State's others' proportionate share of the total pension liability	<u>648,315,362</u>	<u>358,816,820</u>
Total	<u>\$ 665,268,580</u>	<u>\$ 368,214,501</u>
The University's covered-employee payroll	\$ 48,488,990	\$ 48,633,104
The University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	34.96%	19.32%
Plan fiduciary net position as a percentage of the total pension liability	92.67%	95.80%

This schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2015 is not available.

**Schedule of Contributions
June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 4,639,186	\$ 4,543,491
Contribution in relations to the contractually required contribution	<u>(4,639,186)</u>	<u>(4,543,491)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered-employee payroll	\$ 48,488,990	\$ 48,633,104
Contributions as a percentage of covered-employee payroll	9.57%	9.34%

The schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2015 is not available.