UNIVERSITY OF DELAWARE

Consolidated Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
University of Delaware

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of University of Delaware and its subsidiaries (the University), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Philadelphia, Pennsylvania
November 14, 2022

UNIVERSITY OF DELAWARE

Consolidated Balance Sheets

June 30, 2022 and 2021

(Dollars in thousands)

Assets		**2022**	**2021**
Cash and cash equivalents	$	72,875	125,221
Operating investments		262,353	151,073
Total cash, cash equivalents, and operating investments		335,228	276,294
Restricted deposits		81,167	76,555
Accounts and notes receivable, net		62,542	51,493
Prepaid expenses and inventories		1,677	8,444
Operating lease right-of-use assets		11,967	12,525
Contributions receivable, net		24,302	34,726
Student loan receivables, net		5,519	6,576
Investments		1,974,257	2,171,747
Funds held in trust by others		78,982	93,659
Property, plant, and equipment, net		1,853,598	1,860,714
Total assets	$	4,429,239	4,592,733
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	130,892	138,813
Deferred revenue and student deposits		76,746	66,030
Operating lease liabilities		12,019	12,254
Long-term debt and finance leases		684,503	696,879
Postemployment benefit obligations		474,677	582,143
Other liabilities		62,442	81,389
Total liabilities		1,441,279	1,577,508
Net assets:			
Without donor restrictions		1,549,409	1,453,852
With donor restrictions		1,438,551	1,561,373
Total net assets		2,987,960	3,015,225
Total liabilities and net assets	$	4,429,239	4,592,733

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statements of Activities

Years ended June 30, 2022 and 2021

(Dollars in thousands)

		2022	2021
Changes in net assets without donor restrictions:			
Operating revenues:			
Tuition and fees, net of scholarships and fellowships ($193,958 in 2022 and $200,722 in 2021)	$	424,322	416,774
Auxiliary services revenue		120,573	49,936
Grants, contracts, and other exchange transactions		301,468	272,738
State operating appropriations		129,358	125,168
Contributions		9,361	9,881
Endowment distributions		56,097	53,048
Other investment income		15,714	16,041
Other revenue		50,961	37,650
Net assets released from restrictions		17,080	14,805
Total operating revenues		1,124,934	996,041
Operating expenses:			
Salaries and wages		511,142	501,615
Benefits		175,581	175,301
Postemployment benefits		18,669	18,396
Total compensation		705,392	695,312
Supplies, materials and purchased services		248,472	187,100
Student aid		20,006	10,358
Travel		17,013	2,683
Depreciation, amortization and loss on disposals		90,589	88,383
Interest		29,104	27,919
Total operating expenses		1,110,576	1,011,755
Change in net assets from operating activities		14,358	(15,714)
Other changes in net assets without donor restrictions:			
Investment return net of endowment distributions		(67,431)	193,871
Contributions		802	1,842
Postemployment costs other than service costs		(21,672)	(21,081)
Other changes in postemployment benefit obligations		128,203	7,319
Other, net		14,419	9,403
Net assets released from restrictions		26,879	31,596
Other changes in net assets without donor restrictions		81,200	222,950
Total changes in net assets without donor restrictions		95,558	207,236
Changes in net assets with donor restrictions:			
Investment return net of endowment distributions		(146,160)	365,107
Contributions		48,397	41,942
State capital appropriations		10,617	3,139
Other, net		8,282	1,027
Net assets released from restrictions		(43,959)	(46,401)
Total changes in net assets with donor restrictions		(122,823)	364,814
Total changes in net assets		(27,265)	572,050
Net assets at beginning of year		3,015,225	2,443,175
Net assets at end of year	$	2,987,960	3,015,225

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Functional Expenses

Year ended June 30, 2022

(Dollars in thousands)

	Instruction and departmental research	Sponsored research	Extension and public service	Academic support	Student services	Student aid	Auxiliary enterprises	General institutional support	Total
Operating expenses:									
Salaries and wages	$ 268,575	82,141	29,037	40,477	19,036	3,555	8,442	59,879	511,142
Benefits	90,224	23,947	10,189	16,459	6,701	17	2,988	25,056	175,581
Postemployment benefits	12,198	1,891	792	1,310	425	—	213	1,840	18,669
Total compensation	370,997	107,979	40,018	58,246	26,162	3,572	11,643	86,775	705,392
Supplies, materials and purchased services	52,968	69,736	13,578	12,091	12,709	674	60,363	26,353	248,472
Student aid	—	—	—	—	—	20,006	—	—	20,006
Travel	11,875	2,223	820	651	622	26	22	774	17,013
Depreciation, amortization and loss on disposals	27,679	16,380	1,219	13,050	3,029	—	25,184	4,048	90,589
Interest	12,036	689	—	—	—	—	16,379	—	29,104
Total operating expenses	475,555	197,007	55,635	84,038	42,522	24,278	113,591	117,950	1,110,576
Other changes in net assets without donor restrictions:									
Postemployment costs other than service costs	14,764	2,019	846	1,398	453	—	228	1,964	21,672
Total functional expenses	$ 490,319	199,026	56,481	85,436	42,975	24,278	113,819	119,914	1,132,248

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statement of Functional Expenses

Year ended June 30, 2021

(Dollars in thousands)

	Instruction and departmental research	Sponsored research	Extension and public service	Academic support	Student services	Student aid	Auxiliary enterprises	General institutional support	Total
Operating expenses:									
Salaries and wages	$ 271,448	75,975	27,199	40,208	16,912	3,350	8,189	58,334	501,615
Benefits	93,606	22,169	9,520	16,387	6,398	19	3,096	24,106	175,301
Postemployment benefits	12,191	1,774	766	1,252	439	—	209	1,765	18,396
Total compensation	377,245	99,918	37,485	57,847	23,749	3,369	11,494	84,205	695,312
Supplies, materials and purchased services	36,622	57,293	10,750	7,640	8,428	500	40,884	24,983	187,100
Student aid	—	—	—	—	—	10,358	—	—	10,358
Travel	1,608	438	105	72	155	1	25	279	2,683
Depreciation, amortization and loss on disposals	30,718	16,456	1,227	13,112	2,843	—	18,064	5,963	88,383
Interest	11,254	657	—	—	—	—	16,008	—	27,919
Total operating expenses	457,447	174,762	49,567	78,671	35,175	14,228	86,475	115,430	1,011,755
Other changes in net assets without donor restrictions:									
Postemployment costs other than service costs	14,566	1,862	804	1,314	461	—	220	1,854	21,081
Total functional expenses	$ 472,013	176,624	50,371	79,985	35,636	14,228	86,695	117,284	1,032,836

See accompanying notes to consolidated financial statements.

UNIVERSITY OF DELAWARE

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

(Dollars in thousands)

		2022	2021
Cash flows from operating activities:			
Changes in net assets	$	(27,265)	572,050
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Change in postemployment benefit obligations and other nonoperating activities		(104,385)	15,927
Net realized and unrealized losses (gains)		156,899	(616,293)
Change in fair value of swap		(15,800)	(10,355)
Gifts of equipment		(637)	(955)
State capital appropriations		(10,617)	(3,139)
Contributions restricted for endowment and capital		(26,863)	(21,789)
Endowment income restricted for reinvestment		(348)	(336)
Depreciation, amortization and loss on disposals		89,545	87,821
Changes in operating assets and liabilities:			
Accounts and notes receivable, net		(11,049)	(9,950)
Prepaid expenses and inventories		6,767	(6,110)
Contributions receivable, net		2,039	(2,279)
Accounts payable, accrued and other liabilities		(10,013)	(5,302)
Deferred revenue and student deposits		10,716	19,714
Postemployment benefit obligations		(935)	(1,276)
Operating leases, net		323	(271)
Net cash provided by operating activities		58,377	17,457
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		1,800,590	1,058,604
Purchases of investments		(1,856,603)	(996,903)
Acquisitions of property and buildings		(41,076)	(76,640)
Acquisitions of equipment and library materials		(43,557)	(35,801)
Disbursements of loans to students		(295)	(204)
Repayments of loans by students		1,352	1,880
Net cash used in investing activities		(139,589)	(49,064)
Cash flows from financing activities:			
Repayments of principal on long-term debt and finance leases		(11,680)	(12,188)
State capital appropriations		10,617	3,139
Endowment income restricted for reinvestment		348	336
Contributions restricted for endowment and capital		35,248	32,579
Repayments to federal government for student loans		(1,056)	(1,751)
Change in restricted deposits		6,210	4,691
Net cash provided by financing activities		39,687	26,806
Net change in cash and cash equivalents		(41,525)	(4,801)
Cash, cash equivalents and restricted cash, beginning of year		127,852	132,653
Cash, cash equivalents and restricted cash, end of year	$	86,327	127,852
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized	$	30,525	31,511
Construction – accounts payable		9,850	8,825
Right-of-use assets obtained in exchange for new operating lease liabilities		6,811	2,166

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of Operations

The University of Delaware (the University), a privately chartered university with public support, is a doctoral/research institution-extensive, land-grant, sea-grant, space-grant, and urban-grant institution. The University, with origins in 1743, was chartered by the State of Delaware (the State) in 1833. A Women's College was opened in 1914, and in 1945, the University became permanently coeducational. The main campus is located in Newark, Delaware, a suburban community of 31,155 situated midway between Philadelphia and Baltimore. Courses are also offered at other locations throughout the State, including Wilmington, Lewes, Dover, Milford, and Georgetown.

The University receives an annual operating and capital appropriation from the State of Delaware. The University also participates in certain benefit plans of the State (note 13).

The significant accounting principles and practices followed by the University are presented below to assist the reader in analyzing the consolidated financial statements and accompanying notes.

(b) Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the various academic and support divisions and other affiliated entities, including 1743 Holdings, LLC; Blue Hen Wind, Inc.; and Blue Hen Hotel, LLC, controlled by the University. 1743 Holdings, LLC was created as a wholly owned subsidiary of the University for the purpose of purchasing and managing a 272-acre site, which is contiguous to the University's 968-acre Newark campus. Blue Hen Wind, Inc. operates a wind turbine adjacent to the University's Hugh R. Sharp campus in Lewes. Blue Hen Hotel, LLC is a limited liability company originally formed on May 4, 2001. It was formed for the sole purpose of developing, managing, and operating a 125-room Courtyard Marriott Hotel adjacent to the Clayton Hall Conference Facility located in Newark, Delaware and owned by the University. All significant inter-entity activities and balances are eliminated for financial reporting purposes.

Accordingly, net assets of the University and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets that are not subject to donor imposed stipulations. Net assets without donor restrictions may be designated by the Board of Trustees for specific or general purposes.
- Net assets with donor restrictions – Net assets subject to donor imposed stipulations that may or will be met by actions of the University and/or the passage of time, and net assets subject to donor imposed stipulations that are maintained permanently by the University. Generally, the donors of these assets permit the University to use all of, or part of, the total investment return on related investments for general or specific purposes.

In addition to the three primary consolidated financial statements presented under U.S. GAAP for not-for-profit organizations, the consolidated statements of functional expenses present expenses by natural classification within functional categories. Functional categories are programmatic with the exception of general institutional support, which is management and general. Operation and maintenance of plant, depreciation and accretion expense, and disposals are allocated based on square footage. Postemployment and fringe benefit expenses are allocated based on salaries and wages. Interest expense and amortization of bond discount are allocated to the functional classification that benefited from the use of the debt proceeds. Operation and maintenance of plant costs were approximately $67,573,000 and $57,359,000, and fund-raising costs were approximately $17,786,000 and $16,105,000 for the years ended June 30, 2022 and 2021, respectively.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions that reflect reclassifications from net assets with donor restrictions to net assets without donor restrictions. Releases from restrictions are presented as either operating or nonoperating. Nonoperating releases represent capital gifts for which the related assets were placed into service, and operating releases represent utilization of restricted gifts for program and operating purposes and related pledge payments.

(c) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid, interest-bearing deposits and short-term investments with maturities of three months or less at time of purchase, excluding amounts held for long-term investments.

The following table summarizes cash, cash equivalents, and restricted cash reported on the consolidated statements of cash flows as of June 30, 2022 and 2021 (in thousands):

		2022	2021
Cash and cash equivalents	$	72,875	125,221
Restricted deposits:			
Cash held in other restricted deposits		13,452	2,631
	$	86,327	127,852

(d) Revenue Recognition – Contracts with Customers and Accounts Receivable

Revenues from student education (tuition and fees) are reflected net of reductions from scholarships and fellowships, while residence, dining services, and student health services are not reflected net of financial aid. All of these revenues are recognized as the services are provided over the academic year, which generally aligns with the University’s fiscal year. Disbursements made directly to students for services or other costs are reported as expenses. Scholarships are funded from unrestricted resources as well as funds from donors, federal, and state governments, and endowment income restricted for student financial assistance (see note 16).

The University provides financial aid to eligible students, generally in an "aid package" that includes loans, compensation under work-study programs, and/or grant and scholarship awards. The loans are provided primarily through programs of the U.S. government (including direct and guaranteed loan programs) under which the University is only responsible for certain administrative duties. These direct and guaranteed loans are not reflected on the University's consolidated financial statements as the loans are issued to the students.

Payments for student services are generally received prior to the commencement of each academic term and are reported as deferred revenue to the extent services will be rendered in the following fiscal year.

The composition of student tuition and fees, net revenue was as follows for the years ended June 30, 2022 and 2021 (in thousands):

		2022	2021
Undergraduate	$	335,063	337,019
Graduate		27,443	29,832
Other, primarily fees		61,816	49,923
Total	$	424,322	416,774

Auxiliary services revenue consisted of the following for the years ended June 30, 2022 and 2021 (in thousands):

		2022	2021
Student housing	$	59,654	23,515
Dining services		38,516	11,720
Student health services		14,326	14,126
Parking		6,519	474
Conference services		737	66
Other		821	35
Total	$	120,573	49,936

Other revenue includes revenues from service centers, program accounts, and other miscellaneous activities. Such revenues are recognized when goods or services are provided to customers.

Student receivables are invoiced based upon contractual terms with students. The University maintains allowances for doubtful accounts to reflect management's best estimate of probable losses inherent in receivable balances. Management determines the allowances for doubtful accounts based on known troubled accounts, historical experience, and other currently available evidence.

(Continued)

(e) Revenue Recognition – Contributions, Including Government Grants and Contracts

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Unconditional promises to give are recognized initially at fair value giving consideration to anticipated future cash receipts and discounting such amounts at a risk-adjusted rate. Amortization of the discount is included in contributions revenue. Conditional promises to give are not recognized until they become unconditional, that is, when the barriers on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Allowance is made, if necessary, for uncollectible contributions receivable based upon management’s judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Contributions received with donor imposed restrictions that are met in the same year as received are reported as revenue in net assets without donor restrictions. Income and realized and unrealized net gains (losses) on investments of donor restricted endowment and similar funds are reported as follows:

- Changes in net assets with donor restrictions if the terms of the gift or the University’s interpretation of relevant state law require that they be added to the principal of a permanent endowment fund.
- Changes in net assets with donor restrictions if the terms of the gift impose restrictions on the use of the income or the income is not available to be used until appropriated by the University under state law.

State operating appropriations are provided by the State of Delaware to support the general operations of the University. Funds are to be spent in accordance with applicable law and revenue is recognized ratably over the fiscal year as the funds are received and expended.

The University conducts sponsored program activity with various sponsors, including agencies and departments of the federal government, local government entities, and foundations. Such grants and contracts revenue (research and other programs) are recognized as the related qualifying expenses are incurred. Certain sponsors, however, provide funding in advance of related expenses, and such funding is recorded as deferred revenue of grant funds on the consolidated balance sheets. There is no assurance that sponsored awards will continue to be made at current levels.

State construction grants are provided by the State of Delaware to fund certain capital projects in support of the University’s mission. This revenue is recognized as expenditures are incurred for construction and classified as with donor restrictions until the capital project is completed and placed in service, at such time the net assets are released from restrictions.

In response to the COVID-19 pandemic, the federal government passed the Coronavirus Aid, Relief, and Economic Stimulus Act of 2020 (CARES Act) and the American Rescue Plan Act of 2021 (ARPA) which made funds available to the University through various provisions of the legislation.

The University was granted $6,847,000 and $32,549,000 of institutional relief funds from the State of Delaware during the years ended June 30, 2022 and June 30, 2021 respectively. In addition, the University was granted a $41,000,000 capital grant during the year ended June 30, 2022.

(Continued)

For the year ended June 30, 2021, the University was granted student emergency grants of approximately $22,218,000 and funding to offset the University's institutional costs related to the pandemic of $28,032,000.

Total revenue of $39,636,000 and $52,822,000 related to COVID-19 funding is recognized as grants, contracts, and other exchange transactions in the consolidated statements of activities for the years ended June 30, 2022 and June 30, 2021, respectively. An additional $6,069,000 is recognized as other revenue from non-operating activities in the consolidated statements of activities for the year ended June 30, 2022.

(f) Split-Interest Agreements and Interests in Trusts

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuity agreements for which the University serves as trustee. Assets held under these arrangements are included in investments and are recorded at fair value. Contribution revenue is recognized at the date the trusts or agreements are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the values of the assets, accretion of the discounts, and other changes in estimates of future benefits.

The University is also the beneficiary of certain perpetual and remainder trusts held and administered by others. The fair values of the trusts are recognized as assets and contribution revenue at the dates the trusts are established. The assets held in these trusts are included in funds held in trust by others and are adjusted for changes in the fair value of the trust assets.

(g) Investments

Investments are stated at fair value or estimated fair value using net asset value as a practical expedient, as described in notes 5 and 6. Other investment income, including dividend and interest, is recognized when earned.

Investments measured at net asset value, as a practical expedient for fair value, include the University's interests in limited partnerships and LLCs and are reported by investment managers unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. As of June 30, 2022 and 2021, the University had no plans or intentions to sell investments at amounts different from net asset value. The estimated fair values are reported by the general partners or fund managers and are reviewed and evaluated by the University. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments and the differences could be significant.

(h) Property, Plant, and Equipment

Property, plant, and equipment is stated at cost, if purchased, or at estimated fair value at the date of gift, if donated, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the lease term, if shorter. Land, including land deeded by the Board of Trustees of Delaware College to the State in the early 1900s and thereafter, used by the University is not depreciated. Costs of major renovations to buildings are capitalized. Costs of equipment in excess of $5,000 with a useful life expectancy of two years or more are also capitalized. Repairs and maintenance costs are expensed as incurred. Costs relating to retirement, disposal, or abandonment of assets where the University had a legal obligation to perform activities are accrued using site-specific information.

Interest on borrowings is capitalized from the date of the borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use or the borrowing is retired, whichever occurs first. Capitalized interest is amortized over the useful life of the qualifying asset.

(i) Nonoperating Activities

Nonoperating activities include investment return, net of endowment distributions for operations; contributions and appropriations for endowment and plant purposes; the operations of subsidiaries ancillary to the University's mission, as discussed in note 1(b); changes in postemployment benefit and asset retirement obligations and interest rate swaps; and nonrecurring or unusual transactions. Nonoperating activities are presented in the consolidated statement of activities in the "other changes in net assets without donor restrictions" and "changes in net assets with donor restrictions."

(j) Income Taxes

The University and its affiliates have been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code except for taxes on income from activities unrelated to its exempt purpose. Accordingly, no provisions for income taxes have been made in the accompanying consolidated financial statements. Management has analyzed the tax positions taken by the University and has concluded that as of June 30, 2022 and 2021, there are no uncertain positions. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(k) Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(l) Refundable Advances from the U.S. Government

Student loan programs provided by the U.S. government under the Federal Nursing Student Loan program are loaned to qualified students, administered by the University, and are required to be reloaned after collections. These funds, which are ultimately refundable to the government and are included in other liabilities, aggregated $7,153,000 and $8,586,000 as of June 30, 2022 and 2021, respectively.

(m) Derivative Financial Instruments

The University uses interest rate swap agreements to manage interest rate risk associated with certain variable-rate debt or to adjust its debt structure. Derivative financial instruments are measured at fair value and recognized in the consolidated balance sheets as assets or liabilities, with changes in fair value recognized in the consolidated statements of activities.

(2) Liquidity

The following table reflects the University's financial assets as of June 30, 2022 and 2021, available for general expenditures within one year (in thousands):

		2022	2021
Cash and cash equivalents	$	72,875	125,221
Operating investments		262,353	151,073
		335,228	276,294
Accounts and notes receivable collectible within one year		62,542	51,493
Operating funds invested in pooled portfolio		237,106	278,347
Estimated endowment spending payout – 2023 and 2022		61,755	53,048
Financial assets available to meet cash needs for general expenditures within one year	$	696,631	659,182

The University manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments or fixed income securities. To help manage unanticipated liquidity needs, the University has a committed line of credit in the amount of $100,000,000, which it could draw upon. Additionally, as of June 30, 2022 and 2021, the University had board-designated endowments and other investments of $435,126,000 and $479,597,000. Although the University does not intend to spend from these investments, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, they could be made available, if necessary, subject to liquidity of the underlying investments.

(3) Contributions Receivable

Contributions receivable as of June 30, 2022 and 2021 are summarized as follows (in thousands):

		2022	2021
Amounts due in:			
Less than one year	$	12,414	13,554
One to five years		11,321	17,096
Over five years		3,170	8,280
		26,905	38,930
Less:			
Allowance for uncollectible pledges		(791)	(1,141)
Unamortized discounts		(1,812)	(3,063)
	$	24,302	34,726

Contributions to be received after one year are discounted at rates ranging from 1.1% to 4.7%.

(4) Restricted Deposits

Restricted deposits as of June 30, 2022 and 2021 consisted of the following (in thousands):

		2022	2021
Unexpended bond proceeds	$	56,586	61,714
Debt service reserve funds		10,977	12,059
Other deposits		13,604	2,782
	$	81,167	76,555

The unexpended bond proceeds represent the amount of unspent 2018 general obligation bond proceeds that are held internally by the University, to be used in certain capital projects. The unexpended bond proceeds are generally invested in short-term U.S. government or commercial securities with maturities that support the anticipated cash flow of the underlying construction projects.

Debt service reserve funds are held with a trustee. The University transfers funds to the trustee in accordance with bond covenant agreements to meet future bond payments. These funds remain on deposit until scheduled interest payments and scheduled or optional redemption principal payments are made, as disclosed in note 11. These funds are generally invested in cash equivalents, but not considered restricted cash equivalents for purposes of the statements of cash flows.

(5) Investments

Investments are recorded at fair value, or estimated fair value as a practical expedient, as described in note 6. The fair value by investment class as of June 30, 2022 and 2021 was as follows (in thousands):

		2022	2021
Money market and other liquid funds	$	35,264	41,560
U.S. government obligations		377,898	157,295
Corporate obligations		237,072	91,125
Stock and convertible securities		241,324	597,872
International equity investments		1,933	2,271
Limited partnerships and limited liability corporations (LLCs)		1,337,219	1,427,676
Other		5,900	5,021
Total	$	2,236,610	2,322,820

		2022	2021
Operating investments	$	262,353	151,073
Investments		1,974,257	2,171,747
	$	2,236,610	2,322,820

Included in the investments table above is $6,130,000 and $7,132,000 of annuity and life-income funds at June 30, 2022 and 2021, respectively.

The asset allocation of the University's investments involves exposure to a diverse set of markets. The investments within these markets involve various risks, such as interest rate, market, sovereign, and credit risks. The University anticipates that the value of its investments may, from time to time, fluctuate substantially as a result of these risks.

Net Asset Value as a Practical Expedient for Fair Value

The following table presents the attributes of the University's alternative investments, which are stated at net asset value as a practical expedient for fair value, as reported by the funds (in thousands):

	2022	2021	Estimated remaining lives (years)	As of June 30, 2022 unfunded commitments	Redemption frequency	Redemption notice frequency
Limited partnerships and LLCs:						
U.S. corporate debt funds	$ 23,400	—	—	$ —	Monthly	10 Days
International equity funds	232,801	422,426	—	—	Monthly	10 Days
Multistrategy hedge funds	261	243	—	—	Annually	100 Days
Long-short hedge funds	253,324	296,712	—	—	Annually	90 Days
Private equity	403,280	352,860	1-13	167,923	Not eligible	N/A
Venture capital	229,341	179,840	1-13	137,522	Not eligible	N/A
Real estate	68,218	52,124	1-12	81,267	Not eligible	N/A
Distressed securities	50,464	52,989	1-3	7,857	Not eligible	N/A
Oil and gas	37,559	27,564	5-10	12,986	Not eligible	N/A
Natural resources	32,840	33,484	1-10	768	Not eligible	N/A
Hybrid fund of funds	5,731	9,434	1-4	5,418	Not eligible	N/A
	$ 1,337,219	1,427,676		$ 413,741		

Subsequent to June 30, 2022, the University executed additional commitments of $15,000,000.

(a) U.S. Corporate Debt Funds and International Equity Funds

These categories are investments in commingled funds that invest primarily in public debt and equity securities.

(b) International Equity Funds

This category includes investments in commingled funds that invest primarily in equity securities.

(c) Multistrategy Hedge Funds

This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds that make up these funds invest in a variety of marketable securities, including stocks, bonds, credit-oriented securities, and arbitrage investments. The managers have the ability to shift investments between strategies and between net long and net short positions.

(d) Long-Short Hedge Funds

This category includes commingled funds that invest, both long and short, in a variety of instruments, including U.S. stocks, international stocks, fixed-income securities, currencies, and derivative transactions. The funds can be further broken down into the following categories: equity long/short, event-driven, credit, macro, and multistrategy funds. These investments are subject to risks, including market risk, manager risk, and liquidity risk. The goal of these investments is to provide returns that exhibit lower correlations and lower volatility than the public equity markets.

All of the following University limited partnerships and LLCs, paragraphs (d), (e), and (f), receive distributions through the liquidation of the underlying assets of the funds. These investments can never be redeemed. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

The University is obligated, under certain limited partnership agreements, to make additional capital contributions up to contractual levels (unfunded commitments). The timing and amounts of the contributions will be determined by the general partner of the respective limited partnership.

(e) Private Equity, Venture Capital, Hybrid Fund of Funds, and Distressed Securities

These categories include illiquid investments in buyout, mezzanine, venture capital, growth equity, and distressed debt held in commingled limited partnership funds.

(f) Real Estate

This category includes illiquid investments in residential and commercial real estate assets, projects, or land held in commingled limited partnership funds.

(g) Natural Resources and Oil and Gas

These categories include illiquid assets in timber, oil and gas production, mining, energy, and related businesses held in commingled limited partnership funds.

(h) Investment Return

Investment return for fiscal years ended June 30, 2022 and 2021 was as follows (in thousands):

		2022	2021
Dividend and interest income	$	22,905	19,504
Net realized and unrealized gains (losses)		(156,899)	616,293
External investment management fees and expenses		(7,428)	(7,647)
Investment return, net	$	(141,422)	628,150

Investment return is presented for fiscal years ended June 30, 2022 and 2021 as follows (in thousands):

		2022	2021
Without donor restrictions:			
Other investment income	$	15,714	16,041
Endowment distributions		56,097	53,048
Investment return net of endowment distributions		(67,431)	193,871
		4,380	262,960
With donor restrictions:			
Investment return net of endowment distributions		(146,160)	365,107
Other, net		358	83
		(145,802)	365,190
Investment return, net	$	(141,422)	628,150

(6) Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market in an orderly transaction between participants at the measurement date and establishes a framework for measuring fair value.

The three levels of the fair value hierarchy are defined as follows:

Level 1: Quoted or published prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The University measures its restricted deposits, investments, liabilities related to annuity and life-income funds, and interest rate swaps using the valuation methodologies described below:

(a) Investments and Restricted Deposits

Investments and restricted deposits are recorded at fair value. Additional considerations used to categorize investments include:

Money market and other liquid funds, certain U.S. government obligations, stock and convertible securities, and international investments held directly by the University are classified as Level 1 since quoted prices in active markets are available. Corporate obligations and certain U.S. government obligations are classified as Level 2 as they are not traded in an active market but are valued using third-party vendor pricing services by custodian banks, for similar securities. Certain stock and convertible securities and international investments are classified as Level 2 because the underlying investments are held in annuity and life-income funds (see paragraph (b) below.)

Other investment classes classified as Level 2 consist primarily of municipal obligations held in commingled funds, while those classified as Level 3 consist primarily of collateralized mortgage obligations and restricted real estate.

(b) Annuity and Life-Income Funds

The annuity and life-income funds assets represent the fair value of assets held in irrevocable charitable remainder trusts and charitable gift annuity agreements. These assets consist primarily of corporate obligations, stock and convertible securities, and international investments and have been classified as Level 2 using the same methodology described above for similar types of underlying assets.

The annuity and life-income funds payable represents the present value of future annuity payments due under these agreements, as calculated for each annuity using discount rates and actuarial assumptions consistent with American Counsel of Gift Annuities standards. These liabilities have been classified as Level 3 as the fair value is determined based upon a discounted cash flow methodology, which required judgment and estimation.

(c) Funds Held in Trust by Others

Funds held in trust by others represent amounts held by third parties where the University receives an income stream in perpetuity, but the assets are required to be held by a trustee. The University does not own the underlying assets, but rather has a beneficial interest in the trust. These trusts are invested in a combination of readily marketable assets, limited partnerships, and land and have been classified as Level 3 since the University maintains an interest in the trust not the underlying investments.

(d) Debt Interest Rate Swap Agreements

The fair value of the University's interest rate swaps is based on a third-party valuation independent of the counterparty using observable market data. The University considers this a Level 2 measurement.

The following tables present the University's fair value hierarchy for financial instruments that are measured at fair value on a recurring basis, as shown on the June 30, 2022 and 2021 consolidated balance sheets (in thousands):

		June 30, 2022			
		Total	Level 1	Level 2	Level 3
Financial assets:					
Investments:					
Money market and other liquid funds	$	35,264	35,138	126	—
U.S. government obligations:					
Mortgage-backed securities		41,797	—	41,797	—
Treasury obligations		334,261	334,101	160	—
Other		1,840	817	1,023	—
		377,898	334,918	42,980	—
Corporate obligations		237,072	342	236,730	—
Stock and convertible securities		241,324	239,018	2,306	—
International investments		1,933	60	1,873	—
Other		5,900	1,571	—	4,329
Limited partnerships and LLCs (1)		1,337,219	—	—	—
Total investments		2,236,610	611,047	284,015	4,329
Restricted deposits		81,167	81,167	—	—
Funds held in trust by others		78,982	—	—	78,982
Total	$	2,396,759	692,214	284,015	83,311
Financial liabilities, included in the other liabilities:					
Annuity and life income funds payable	$	4,014	—	—	4,014
Interest rate swaps		11,889	—	11,889	—
Total	$	15,903	—	11,889	4,014

	June 30, 2021			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Investments:				
Money market and other liquid funds	$ 41,560	41,438	122	—
U.S. government obligations:				
Mortgage-backed securities	21,756	—	21,756	—
Treasury obligations	134,398	134,393	5	—
Other	1,141	129	1,012	—
	157,295	134,522	22,773	—
Corporate obligations	91,125	496	90,629	—
Stock and convertible securities	597,872	595,166	2,706	—
International investments	2,271	86	2,185	—
Other	5,021	1,085	—	3,936
Limited partnerships and LLCs (1)	1,427,676	—	—	—
Total investments	2,322,820	772,793	118,415	3,936
Restricted deposits	76,555	76,555	—	—
Funds held in trust by others	93,659	—	—	93,659
Total	$ 2,493,034	849,348	118,415	97,595
Financial liabilities, included in the other liabilities:				
Annuity and life income funds payable	$ 4,965	—	—	4,965
Interest rate swaps	27,689	—	27,689	—
Total	$ 32,654	—	27,689	4,965

(1) Investments in limited partnerships and LLCs that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

During the years ended June 30, 2022 and 2021, there were no transfers of assets between levels. The University's interest in funds held in trust by others changed in 2022 and 2021 primarily due to underlying investment losses.

(7) Annuity and Life-Income Funds

The University held $6,130,000 and $7,132,000 in investments related to annuity and life income funds as of June 30, 2022 and 2021, respectively. A related liability of $4,014,000 and $4,965,000 as of June 30, 2022 and 2021, respectively, represents the present value of future annuity payments due under these agreements and was calculated for each annuity using discount rates and actuarial assumptions consistent with the terms of the gift. Such liabilities are included in other liabilities in the consolidated balance sheets.

The University complies with all applicable laws of certain states to maintain reserves against charitable gift annuities.

(8) Property, Plant, and Equipment

Property, plant, and equipment as of June 30, 2022 and 2021 consisted of the following (in thousands):

	2022	2021	Range of useful lives (years)
Land	$ 58,942	58,942	N/A
Land improvements	92,149	82,630	15
Buildings	2,267,269	2,233,321	40
Equipment and furnishings	380,920	356,014	2–20
Library	309,111	297,535	10
Finance leasehold	85,853	85,853	29–40
Collections and works of art	9,101	9,545	N/A
Construction in progress	60,329	62,487	N/A
	3,263,674	3,186,327	
Less accumulated depreciation	(1,410,076)	(1,325,613)	
	$ 1,853,598	1,860,714	

At June 30, 2022, the University had outstanding contractual commitments of $31,802,000 for building and renovation projects. Interest costs associated with various construction projects of $1,365,683 and $3,512,000 were capitalized at June 30, 2022 and 2021, respectively.

At June 30, 2022 and 2021, right-of-use assets from finance leases of $85,853,000 are included in finance leasehold and have corresponding accumulated depreciation of $15,823,000 and $12,944,000, respectively. Lease liabilities from finance leases are included in long-term debt and finance leases on the consolidated balance sheets.

(9) Asset Retirement Obligations

The University has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities. When an asset retirement obligation is identified, the University records the fair value of the obligation as a liability. The liability is accreted to its present value and accretion expense is

(Continued)

recognized. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the period of expected remediation.

The University had asset retirement obligations of $22,317,000 and $21,847,000 as of June 30, 2022 and 2021, respectively, which is included in other liabilities on the accompanying consolidated balance sheets. The following table reconciles the obligation as of June 30, 2022 and 2021 (in thousands):

	2022	2021
Balance at beginning of year	$ 21,847	21,631
Additional obligations incurred	433	53
Obligations settled in current period	(451)	(302)
Changes in estimates, including timing	(163)	(152)
Accretion expense	651	617
Balance at end of year	$ 22,317	21,847

(10) Leases

The University is the lessee of space under both operating and finance lease agreements. Lease right-of-use assets represent the University's right to use the underlying asset for the lease term. Lease liabilities represent the University's obligation to make lease payments arising from the lease. Leases with terms over twelve months are measured, classified, and recognized at lease commencement. Measurement is based on the present value of future minimum lease payments over the lease term, discounted at an appropriate incremental borrowing rate, which is based on the information available at the commencement date in determining the present value of lease payments. The present value of an option to extend or terminate a lease is included at commencement when it is reasonably certain to be exercised.

Lease expense for lease payments is recognized on a straight-line basis over the term of the lease. Amortization expense and interest expense is recognized as a component of lease payments for finance leases. The following table summarizes the components of lease expense for the years ended June 30, 2022 and 2021 (in thousands):

	2022	2021
Finance lease expense:		
Amortization of right-of-use assets	$ 2,880	3,132
Interest on lease liabilities	2,413	2,471
Operating lease expense	4,791	6,163
Total lease expense	$ 10,084	11,766

(Continued)

The following table contains the maturity analysis of the annual undiscounted cash flows reconciled to the carrying value of the operating and finance lease liabilities as of June 30, 2022 (in thousands):

Year		Operating	Finance
2023	$	4,622	3,694
2024		3,365	3,731
2025		2,116	3,734
2026		1,581	3,734
2027		387	3,734
Thereafter		83	72,254
Total lease payments		12,154	90,881
Less: imputed interest		135	33,951
Present value of lease liabilities	$	12,019	56,930

The weighted-average remaining lease term and discount rate for operating and finance leases as of June 30, 2022, are as follows (in thousands):

	Operating	Finance
Weighted average remaining lease term	3.25 Years	23.8 Years
Weighted average discount rate	0.57 %	4.19 %

The University leases as lessor rental properties to customers classified as operating leases. There are no sales-type or direct financing leases. Property owned by the University and leased to third parties remains in Property, plant, and equipment on the consolidated balance sheet. Revenue is recognized to the extent that amounts are determined to be collectible. The University recognized sublease income of $368,000 and $1,300,000 during the years ended June 30, 2022 and 2021, respectively.

(Continued)

(11) Long-Term Debt and Finance Leases

Indebtedness at June 30, 2022 and 2021 consisted of the following (in thousands):

	Fiscal year of maturity	Interest rate(s)%	Outstanding principal 2022	2021
Variable-rate debt:				
Series 2004B	2035	3.65 %	$ 29,305	29,305
Series 2005	2036	4.24	28,690	28,690
Series 2013C	2038	4.16	53,335	53,335
Variable-rate debt			111,330	111,330
Fixed-rate bonds:				
Series 2010A taxable Build America Bonds (BABs)	2041	3.93	119,580	119,580
Series 2013B taxable	2027	1.12–3.00	3,930	4,655
	2034	3.83	6,770	6,770
	2044	3.98	13,555	13,555
Series 2018 taxable	2051	4.07	76,770	76,770
	2059	4.22	123,230	123,230
Series 2019	2043	5.00	91,780	100,495
Series 2019A	2046	5.00	45,580	46,540
Fixed-rate debt			481,195	491,595
Finance leases (note 10)	2043–2049	4.11-4.25	56,930	58,210
			649,455	661,135
Premium on long-term debt, net of debt issue costs of $2.7 million (2022) and $2.8 million (2021)			35,048	35,744
Long-term debt and finance leases			$ 684,503	696,879

With the exception of the Series 2018, 2019, and 2019A bonds, the bonds in the preceding table were primarily issued to finance capital projects associated with auxiliary services and are secured by a pledge of gross revenue received by the University from the operations of all project facilities including housing, dining, parking, and other revenue-producing facilities and mandatory student fees. The Series 2018, 2019, and 2019A bonds are unsecured general obligations of the University. All variable-rate debt referenced are subject to fixed-rate interest rate swap agreements and the corresponding interest rates for each issue include the swap rate, credit costs, and remarketing fee.

The 2004B and 2005 bonds initially bear interest at a daily rate and can be converted to bear interest at a weekly, flexible, term, or fixed rate to maturity. The daily rate of interest on June 30, 2022 was 0.62% and 0.61% for the 2004B and 2005 bonds, respectively.

The Series 2010A Taxable Revenue Bonds are Build America Bonds and the University receives payments from the U.S. Treasury equal to 33.0% of the corresponding interest payable on the bonds (the Subsidy Payments). For the year ended June 30, 2022, the University recognized subsidy payments of $2,322,000, which are included as other revenue for the year ended June 30, 2022. The bonds are subject to mandatory redemption from November 1, 2028 through November 1, 2040 but are subject to optional redemption and tender for purchase prior to maturity.

The 2013C bonds were converted from a term rate to bear interest at a daily rate on May 1, 2016. The bonds can be converted to bear interest at a weekly, flexible, term, or fixed rate to maturity. The daily rate of interest on June 30, 2022 was 0.61%.

On April 12, 2018, the University issued its Taxable Bonds, Series 2018. The bonds are unsecured general obligations of the University. The bonds are subject to mandatory redemption from November 1, 2041 through November 1, 2058.

On June 20, 2019, the University issued its Tax-Exempt Bonds, Series 2019. The bonds are unsecured general obligations of the University. The bonds consist of serial bonds maturing from November 1, 2019 through November 1, 2043. The bonds maturing from November 1, 2029 through November 1, 2043 are subject to optional redemption.

On October 9, 2019, the University issued its Tax-Exempt Bonds, Series 2019A. The bonds are unsecured general obligations of the University. The bonds consist of serial bonds maturing from November 1, 2019 through November 1, 2045. The bonds maturing from November 1, 2030 through November 1, 2045 are subject to optional redemption.

The University's debt agreements require that the University meet certain financial and other covenants. The University was in compliance with these covenants as of June 30, 2022.

The aggregate amount of principal payments on the University's long-term debt and finance leases are due as follows (in thousands):

2023	$	12,245
2024		12,894
2025		11,644
2026		12,207
2027		12,818
Thereafter		587,647
	$	649,455

The University has Standby Bond Purchase Agreements (SBPA) for the Series 2004B, 2005, and 2013C variable-rate demand bonds to provide liquidity for the purchase of the bonds should the remarketing agent be unable to sell the bonds on the open market. The SBPAs provide for the banks to purchase any outstanding bonds not remarketed for a period of up to 90 days at variable interest rates, as defined in the SBPAs. The SBPAs for the Series 2004B, 2005, and 2013C bonds expire on April 5, 2024, May 31, 2024, and April 30, 2027, respectively.

(12) Interest Rate Swap Agreements

The University has interest rate swap agreements for notional amounts of approximately $127,405,000 and $135,945,000 as of June 30, 2022 and 2021 (in thousands):

	Consolidated balance sheets location	Location of change in fair value		Fair value 2022	Fair value 2021	Change in fair value 2022	Change in fair value 2021
Interest rate swap agreements	Other liabilities	Other, net	$	11,889	27,689	15,800	10,355

A portion of the total interest rate swap liabilities reported on the consolidated balance sheets contains provisions that require the University's debt and the counterparty to maintain an investment grade credit rating from one or both of the major credit rating agencies. A downgrade of the University or the counterparty's rating may require that party to provide collateralization above a predetermined threshold on all rate swaps in net liability positions. To date, the University has not posted collateral.

(13) Employee Benefit Plans

(a) University Pension Plans – Defined Contribution

The University's 403(b) Retirement Savings Plan is available to substantially all faculty and professional employees. The University's contribution for this program is fixed at 11% of annual base salary for eligible employees who contribute a minimum of 5% of their annual salary. The policy of the University is to pay its share of the cost accrued in connection with the University's Retirement Savings Plan. As a result, there are no unfunded benefits. Pension plan expense for the University's 403(b) Retirement Savings Plan was $36,455,000 in 2022 and $35,819,000 in 2021.

In addition, the University also offers two additional voluntary retirement benefit plans:

The Voluntary 403(b) Retirement Plan is available to all eligible full-time and part-time employees who wish to make additional contributions to their retirement savings. Participation is voluntary and does not require a minimum contribution. The University makes no contributions to this plan, incurs no expense for the operation of this plan, and has no unfunded liability.

The Voluntary 457(b) Deferred Compensation Plan is available to all eligible full-time and part-time employees who are already making the maximum allowable contribution to the Voluntary 403(b) Retirement Plan and wish to make additional contributions to their retirement savings. The University makes no contributions to this plan, incurs no expense for the operation of this plan, and has no unfunded liability.

(b) Faculty Retirement

Faculty members subject to the current collective bargaining agreement (CBA) that expires on June 30, 2023, who qualify for retirement can elect certain additional benefits upon notice of their retirement from the University. These benefits may include a combination of retirement leave or phased retirement, and a lump-sum payment based upon years of service and salary level. Faculty retirement benefits are funded by the University on a pay-as-you-go basis.

Net periodic postemployment benefit cost for 2022 and 2021 includes the following components (in thousands):

		2022	2021
Operating expenses:			
Service cost	$	4,331	4,052
Nonoperating costs:			
Interest cost		1,258	1,340
Amortization of prior service cost and losses		5,108	4,681
		6,366	6,021
Net periodic postemployment benefit cost	$	10,697	10,073

The University's estimated unfunded obligation related to this plan is $75,923,000 and $92,130,000, respectively, and is included in postemployment benefit obligations on the consolidated balance sheets as of June 30, 2022 and 2021.

The benefit obligation was determined using a discount rate of 4.68% as of June 30, 2022 and 2.54% as of June 30, 2021, and a rate of compensation increase of 3.00%. As of June 30, 2022, the University's expected future benefit payments for fiscal years 2023 through 2027 are $12,380,000, $11,974,000, $28,315,000, $2,190,000, and $2,346,000, respectively, and $15,544,000 thereafter. In fiscal year 2022, the discount rate used to calculate the actuarial-determined obligation increased from 2.61% to 4.68%, causing a change in the obligation of approximately $11,000,000 for the year then ended.

(c) Postemployment

The University also provides postemployment benefits primarily for medical insurance to retired employees who are not eligible under the State Plan, as described below. The University recognizes the funded status (i.e., the difference between the fair value of plan assets and the accumulated postemployment benefit obligation) of its postemployment benefit plan on the consolidated balance sheets. Also, the University measures the fair value of plan assets and benefit obligations as of the date of the June 30th consolidated balance sheets. As of June 30, 2022, the University has not funded these benefits.

Net periodic postemployment benefit cost for 2022 and 2021 includes the following components (in thousands):

		2022	2021
Operating expenses:			
Service cost	$	14,338	14,345
Nonoperating costs:			
Interest cost		13,293	12,823
Amortization of prior service cost and losses		2,013	2,237
		15,306	15,060
Net periodic postemployment benefit cost	$	29,644	29,405

The accumulated postemployment benefit obligation recognized in the consolidated balance sheets at June 30, 2022 and 2021 is as follows (in thousands):

		2022	2021
Accrued postemployment liability	$	429,557	410,173
Unrecognized net (gain) loss		(30,803)	79,840
Accumulated postemployment benefit obligation	$	398,754	490,013

Changes in the accumulated postemployment plan benefit obligation and funding status for 2022 and 2021 are as follows (in thousands):

	2022	2021
Benefit obligation at beginning of year	$ 490,013	486,522
Service cost	14,338	14,345
Interest cost	13,293	12,823
Plan amendment	—	2,477
Actuarial gain	(108,630)	(16,446)
Disbursements	(10,260)	(9,708)
Benefit obligation at end of year	398,754	490,013
Fair value of plan assets at beginning of year	—	—
Employer contributions	10,260	9,708
Benefits paid	(10,260)	(9,708)
Fair value of plan assets at end of year	—	—
Funded status at end of year – liability included in other postemployment benefit obligations on the consolidated balance sheets	$ 398,754	490,013

The accumulated postemployment benefit obligation was determined using a discount rate of 4.91% and 3.34% as of June 30, 2022 and 2021, respectively. Net periodic postemployment benefit costs were determined using a discount rate of 3.33% and 3.25% in 2022 and 2021, respectively. The healthcare cost trend rates used reflect the differences between pre-65 and post-65 claims were 7.00% and 6.75%, respectively, in 2022 and 6.50% and 6.25%, respectively, in 2021. This rate gradually decreases to 4.50% by the year 2033 for pre-65 and post-65 claims. The actuarial gains relate to changes in assumptions in discount rates, mortality, healthcare cost trends, and withdrawal rates.

At June 30, 2022, the University's expected future benefit payments for future service are as follows (in thousands):

Year ending June 30:	
2023	$ 12,911
2024	13,919
2025	15,698
2026	16,572
2027	17,317
2028 through 2032	98,644

(d) Participation in State Retirement Plans

Salaried and hourly staff employees participate in the Delaware State Employees' Pension Plan (the State Plan), a cost sharing defined-benefit plan. The State Plan (established in 1970) is one of nine plans encompassed within the Delaware Public Employees' Retirement System (http://www.delawarepensions.com/FinancialReports/AnnualFinancialReports.shtml). Under the state pension statute, a mandatory pretax contribution of 5% of salary (or 3% if pension-creditable service began prior to January 1, 2012) in excess of $6,000 per year plus 5% of salary in excess of the social security wage base is required by the employee (pension). In addition to these retirement benefits, salaried and hourly staff employees also receive postemployment healthcare benefits through the State Plan, which are funded by the State on a pay-as-you-go basis other postemployment benefits (OPEB).

The University is required to pay its share of the annual premium accrued in connection with the State Plan (inclusive of Pension and OPEB), which is based upon a percentage of covered payroll. The percentage of covered payroll was 23.80% and 22.95% in 2022 and 2021. Expense recognized for the State Plan was $13,369,000 and $12,604,000 in 2022 and 2021, respectively.

The State Plan's financial statements and actuarial reports for June 30, 2021 (most recent available) indicate the following:

The University has 1,018 active participants in the State Plan. The State Plan, in total, has 73,589 participants, 38,206 of which are active participants.

The University's contribution to the State Plan in fiscal year June 30, 2021 of $6,749,000 was approximately 2.5% of the $269,467,000 total annual required plan employer contributions to the State Plan.

At June 30, 2021, the State Plan had an 89.1% funded ratio of the actuarial accrued liability.

The funding objective of the State Plan is to establish contribution rates that, over time, will remain level as a percent of payroll. The contribution rate was developed to provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus level percent of payroll amortizations of each layer of the unfunded liability over a specified period. The participant organizations to the State Plan have consistently funded the full amounts required based on the actuarial valuations and specific statutory provisions.

As disclosed in the State of Delaware's Other Postemployment Benefits (OPEB) Fund Trust Schedules of Employer Allocations and OPEB Amounts by the Employer Report for the year ended June 30, 2021 (most recent available), the State had a net liability of $10.1 billion. The University's contribution to the OPEB Fund in fiscal year June 30, 2021, of $6,340,000 was approximately 2.4% of the $267,040,000 total annual required employer contributions to the plan.

(e) Participation in Other State Benefits

The University maintains health insurance benefits for its employee base through the State of Delaware. Premiums are established annually by the State based upon employee elections for coverages. The University remits premiums monthly to the State. Depending on the plan selected by the employee, premiums are funded 86.75% to 96.00% by the University and 4.00% to 13.25% by employee contributions. Medical insurance expense for 2022 and 2021 was $62,811,000 and $65,148,000, respectively.

(14) Net Assets

The University's net assets as of June 30, 2022 and 2021 includes (in thousands):

		2022	2021
Without donor restrictions:			
Undesignated	$	411,132	401,201
Board designated endowment		435,126	479,597
Commitments for postemployment obligations		(474,677)	(582,143)
Commitments for interest rate swap agreements		(11,889)	(27,689)
Net investment in plant		1,189,717	1,182,886
Total net assets without donor restrictions	$	1,549,409	1,453,852
With donor restrictions:			
Contributions receivable:			
For operations, primarily instruction	$	5,263	7,302
For buildings		11,477	19,897
For endowment		7,562	7,527
Total contributions receivable		24,302	34,726
Amounts received subject to expenditures for specified purposes:			
Student aid and instruction		23,148	23,337
Research and other		17,958	10,592
Capital additions		24,548	11,940
Total expendable subject to purpose restrictions		65,654	45,869
Endowment earnings subject to future appropriations:			
General institutional support		561,122	626,369
Student aid		109,164	134,123
Instruction		167,574	201,838
Research and other		24,506	30,919
		862,366	993,249

(Continued)

		2022	2021
Perpetual endowment funds – original gift corpus:			
General institutional support	$	71,637	71,472
Student aid and instruction		296,297	283,613
Research and other		36,769	36,203
		404,703	391,288
Other funds		2,544	2,582
Funds held in trust by others, primarily for general institutional support		78,982	93,659
Total net assets with donor restrictions	$	1,438,551	1,561,373

Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended June 30, 2022 and 2021 as follows (in thousands):

		2022	2021
Purpose restrictions accomplished – operating:			
Instruction and operations	$	8,983	6,953
Scholarships		3,489	3,172
Student services		281	97
Academic support		1,581	1,853
Other		2,746	2,730
Total purpose restrictions accomplished – operating	$	17,080	14,805
Purpose restrictions accomplished – non-operating:			
Capital asset additions	$	26,879	31,596

(15) Endowment

As of June 30, 2022, the University endowment consists of approximately 1,359 individual funds established for a variety of purposes. The endowment funds are subdivided into appropriate net asset classifications. The donor restricted endowment funds represent gifts with a stipulation by the donor that the principal not be expended. Board-designated endowment funds with and without donor restrictions represent funds where there is no requirement to maintain the principal.

(a) Interpretation of Relevant Law

Based upon its interpretation of the provisions of the State’s enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the University classifies all donor restricted endowment funds as donor restricted net assets. At the time of appropriation by the University, and provided there are no additional purpose restrictions in place, with donor restricted net assets will be reclassified to without donor restricted net assets. The University considers donor restricted net assets at historical cost value of the original donor restricted endowment to be permanent.

(b) Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment funds that attempt to provide in perpetuity financial support of the University's educational goals. Toward that end, the University's Board of Trustees, Investment Visiting Committee, and administration have a shared mission to maximize the endowment fund's total return consistent with the University's prudent investment risk constraints. Endowment funds include those assets of donor restricted funds that the University must hold in perpetuity or for a donor specified period as well as board-designated funds. Under this policy approved by the Board of Trustees, the endowment funds are invested in a manner that is intended to achieve an average annual real return of at least 5% over time while assuming an acceptable level of investment risk. Actual returns in any year may vary from that amount. To monitor the effectiveness of the investment strategy of endowment funds, performance goals are established and monitored related to benchmark indices and returns earned by comparable endowment funds.

(c) Investment Strategy

To satisfy its long-term rate of return objectives, the University employs a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). The University's investment policy includes a target asset allocation, well-diversified among suitable asset classes that is expected to generate, on average, the level of expected return necessary to meet endowment objectives while assuming a level of risk (volatility) consistent with achieving that return.

(d) Spending Policy

In accordance with the State's enacted version of UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the University and the donor restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the University, and (7) the investment policies of the University.

The University endowment spending policy guidelines target an annual distribution in the range of 4.0% to 5.0% of the endowment pooled portfolio average market value over the 12 trailing quarters through December 31 of the year prior to the new fiscal year. The actual rate is set annually by the Board of Trustees and was 4.00% and 3.91% at June 30, 2022 and 2021, respectively.

In establishing this policy, the University considered the long-term expected return on its funds. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at a rate in excess of inflation. This is consistent with the University's objective to maintain the purchasing power of the endowment funds held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the original gift amount maintained as net assets with donor restrictions. Deficiencies of this nature were approximately $475,000 and $0 as of June 30, 2022 and June 30, 2021, respectively. These deficiencies resulted from unfavorable market fluctuations.

(f) Net Asset Classification of Endowment Funds

Endowment net assets by type of fund consist of the following as of June 30, 2022 and 2021 (in thousands):

	2022		
	Without donor restrictions	**With donor restrictions**	**Total**
Donor restricted	$ —	1,263,822	1,263,822
Board designated	435,126	3,247	438,373
	$ 435,126	1,267,069	1,702,195

	2021		
	Without donor restrictions	**With donor restrictions**	**Total**
Donor restricted	$ —	1,380,961	1,380,961
Board designated	479,597	3,576	483,173
	$ 479,597	1,384,537	1,864,134

Board-designated with donor restrictions net assets represent the income on restricted gifts to the University that the Board of Trustees has designated as endowment, but which cannot reasonably be expended within a year. As of June 30, 2022, the amount of with donor restrictions net assets, which may be used for purposes of the University as determined by the Board of Trustees, was $542,820,000. Additionally, $316,299,000 as of June 30, 2022, is determined to be with purpose restrictions as set forth by the donors.

(Continued)

Changes in endowment net assets for the years ended June 30, 2022 and 2021 (in thousands) are as follows:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2020	$	357,273	1,019,081	1,376,354
Investment return:				
Investment income, net		3,603	10,402	14,005
Net appreciation – realized and unrealized		131,596	376,437	508,033
Total investment return		135,199	386,839	522,038
Contributions		887	16,620	17,507
Endowment spending distribution		(13,864)	(39,531)	(53,395)
Other changes, including life income fund and other transfers		102	1,528	1,630
Endowment net assets, June 30, 2021		479,597	1,384,537	1,864,134
Investment return:				
Investment income, net		4,386	12,810	17,196
Net depreciation – realized and unrealized		(34,648)	(101,680)	(136,328)
Total investment return		(30,262)	(88,870)	(119,132)
Contributions		165	12,285	12,450
Endowment spending distribution		(14,603)	(42,123)	(56,726)
Other changes, including life income fund and other transfers		229	1,240	1,469
Endowment net assets, June 30, 2022	$	435,126	1,267,069	1,702,195

(16) Scholarship Allowance

The University provides financial assistance to eligible students to partially offset the direct costs of tuition, on-campus housing, and meal contracts. These scholarship allowances are presented as a reduction of tuition and fees.

The table below identifies this financial assistance by source and by student classification for the years ended June 30, 2022 and 2021 (in thousands):

		2022			2021	
	Undergraduate	**Graduate**	**Total**	**Undergraduate**	**Graduate**	**Total**
Tuition:						
Unrestricted	$ 129,437	33,162	162,599	108,656	62,786	171,442
Federal grants	1,338	2,669	4,007	937	2,065	3,002
State grants	15,335	830	16,165	15,295	823	16,118
Private gifts	4,258	1,294	5,552	3,727	1,508	5,235
Endowment	5,414	221	5,635	4,717	208	4,925
Total	155,782	38,176	193,958	133,332	67,390	200,722
Student aid expenses	19,552	4,726	24,278	10,368	3,860	14,228
Total	$ 175,334	42,902	218,236	143,700	71,250	214,950

(17) Related-Party Transactions

Per University policy, each member of the Board of Trustees and senior administration completes a conflict of interest policy disclosure statement on an annual basis and at such other times as a potential conflict of interest may arise. This policy requires, among other things, that senior administrators act in a manner consistent with their fiduciary duty and responsibilities to the University. Senior administrators and Trustees are to recuse themselves from participation in any University decision in which, by any reasonable standard, institutional or other connections could influence his or her independent judgement. Disclosure is required in writing of any association, relationship, business arrangement, or circumstance that might suggest to disinterested and objective observers that decisions were made contrary to the best interests of the University and for personal gain or the gain of family, affiliates, or non-University business associates at the expense of the University.

The University may, from time to time, do business with companies that may be associated, either directly or indirectly, with members of the University's Board of Trustees or senior administrators. Although not material, the University believes that these transactions are executed on terms comparable to those available from unrelated parties and are in the best interest of the University.

(18) Contingencies

The University is party to certain claims and litigation arising in the ordinary course of business. In the opinion of management, the resolution of such claims and litigation will not materially affect the University's consolidated balance sheets, statements of activities or cash flows.

The University receives significant financial assistance from the federal government including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs, based on predetermined rates negotiated with the federal government. Indirect cost recovery rates from nonfederal sources may vary. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant or contract agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants and contracts, and the University's indirect cost rate, are subject to financial and compliance reviews and audits by the grantors.

(19) Subsequent Events

In connection with the preparation of the consolidated financial statements, the University evaluated subsequent events after the consolidated balance sheet date of June 30, 2022 through November 14, 2022, which was the date the consolidated financial statements were issued and determined no adjustments or disclosures were required.