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February 9, 2021

To the Executive Council  
American Association of University Professors, University of Delaware Chapter  
011F Hullihen Hall, University of Delaware  
Newark, Delaware 19716  
Attn: Deni Galileo, President

Dear Deni,

The American Association of University Professors, University of Delaware Chapter (AAUP-UD) has engaged us to provide consulting services with respect to financial information of the University of Delaware (UD). The purpose of our engagement is to analyze financial information of UD and provide AAUP-UD with a summary of relevant information regarding UD's financial position, including the liquidity and availability of its financial assets, in order to assist AAUP-UD in their negotiations with UD. Information we evaluated included financial documentation provided to us by AAUP-UD, financial information available publicly through UD's website, and financial information provided to AAUP-UD by UD in response to the request made by AAUP-UD for additional information dated December 10, 2020. References to UD's budget relate to the multi-year financial schedule (updated 12/7/20) made available on its website.

The following is a summary analysis based on our evaluation of the specified information.

#### Endowment Funds

UD's endowment exists to support the operations of UD and consists of both funds with donor restrictions and without donor restrictions. The donor-restricted endowment funds represent gifts with stipulations that the principal not be expended. Funds without donor restrictions that have been designated as endowments by UD do not have a requirement to maintain the principal. The donor-restricted portion of the endowment provides support specifically for general institutional support, student aid, instruction, and research. The value of total endowment funds as of June 30, 2020 was \$1,376,354,000, of which \$1,019,081,000 was classified as donor-restricted and \$357,273,000 was without donor restrictions.

UD has implemented investment and spending policies that has allowed the growth of the endowment funds to outpace the appropriations to support UD operations. As of June 30, 2020, 63% (\$646,054,000) of the donor-restricted endowment funds are subject to future appropriations and represent endowment earnings, capital appreciation and income that exceeds the original corpus of the gifts (\$373,027,000). UD's endowment spending policy guidelines target an annual distribution in the range of 4.0% to 5.0% of the average value of the fund over the prior 12 quarters.

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Endowment Funds (Continued)

The following is a retrospective analysis of UD's approved endowment spending rates:

<u>Year Ended</u> <u>June 30:</u>	<u>Endowment</u> <u>Value</u>	<u>Board Approved</u> <u>Spending Rate</u>	<u>Year Ended</u> <u>June 30:</u>	<u>Endowment</u> <u>Value</u>	<u>Board Approved</u> <u>Spending Rate</u>
2020	\$ 1,376,354,000	4.05%	2019	\$ 1,387,415,000	4.11%
2018	\$ 1,336,130,000	4.14%	2017	\$ 1,289,925,000	4.15%
2016	\$ 1,192,718,000	4.30%	2015	\$ 1,274,692,000	4.29%
2014	\$ 1,242,266,000	4.39%	2013	\$ 1,110,513,000	4.50%
2012	\$ 1,029,661,000	4.20%	2011	\$ 1,077,637,000	4.00%

During the past 10 years, UD's endowment has increased in value by 27.7%. During this time period, UD's approved spending rate has stayed within its target range of 4.0% to 5.0%, with an average approved spending rate of 4.21%.

For the fiscal year ending June 30, 2021, UD approved an endowment spending rate of 3.91%, which is below the target range for endowment appropriations. For all fiscal periods in which financial information was made publicly available, the fiscal year 2021 approved rate will represent the lowest approved spending rate and the only approved spending rate that is lower than the disclosed target range.

If UD had approved a spending rate for fiscal year ending June 2021 consistent with its 10-year average of spending rates, it would have increased the endowment draw for operations by approximately \$4,000,000. If UD had approved an endowment draw at the upper end within its target range, it would have increased the endowment draw for operations by approximately \$15,000,000.

Other Investment Funds

UD's June 2020 audited financial statements reports operating investments which represent invested liquid assets. These assets are not a component of its endowment, but instead represent invested assets in addition to its endowment funds. UD's audited financial statements indicate that operating investments in the amount of \$161,593,000 and operating funds in the pooled investment portfolio in the amount of \$227,384,000 were available, as of June 30, 2020, to meet cash needs for general expenditures within one year of that date.

UD has indicated that these other investment funds are utilized to support operating activities and fund capital expenditures. UD has demonstrated a willingness to utilize these unrestricted resources when it considers it to be necessary to satisfy its objectives. UD has indicated that they anticipate utilizing \$82,000,000 from these other investments during fiscal year 2021 to support liquidity needs, with approximately 80% funding capital projects, per the financial overview provided on the UD website.

Per UD's audited financial statements, and excluding the aforementioned approved \$82,000,000 investment draw, operating investments and operating funds invested in the pooled portfolio available as of June 30, 2020 to meet cash needs for general expenditures during the year ended June 30, 2021 exceeded \$300,000,000.

Senior Administrative Compensation

Our request letter for additional information addressed to AAUP-UD dated December 10, 2020 requested information regarding UD’s senior administrative compensation for the year ended June 30, 2020 and budgeted information for the year ending June 30, 2021, to allow AAUP-UD to evaluate the direct impact of the pandemic on UD’s decision-making employees. This information is considered public information accessible via UD’s IRS Form 990.

AAUP-UD requested information for fiscal year June 2020 and budgeted amounts for the June 2021 fiscal year end. These amounts related to operations reported subsequent to the most recently filed Form 990 for the June 2019 fiscal year. Despite the ready availability of UD’s audited financial statements for the June 2020 fiscal year through its website, UD had indicated in a response to AAUP-UD that they plan to delay filing its Form 990 until the extended statutory deadline and will not release the requested information except in the Form 990. The extended statutory deadline for UD’s form 990 for fiscal year ended June 2020 is May 15, 2021.

Utilization of Resources for Capital Expenditures

UD’s revised budget projects \$103,000,000 for capital expenditures, which include capital projects and deferred maintenance, for the fiscal year ending June 2021. This amount does not include the cost of debt service on past bond financing to fund prior year’s capital projects which is projected to be \$46,000,000 for the year ending June 2021 and will be funded from operating revenue.

UD’s capital expenditures are generally directly funded by a combination capital fundraising, state bond bill appropriations, and bond financing proceeds. Annual capital expenditures in excess of the direct funding are funded by a combination of operating investment distributions and operating revenue. The following is a summary of past and projected capital activities for UD:

	<u>Jun-17</u>	<u>Jun-18</u>	<u>Jun-19</u>	<u>Jun-20</u>	<u>Projected Jun-21</u>
Capital Funding	\$ 47,000,000	\$ 52,000,000	\$ 109,000,000	\$ 33,000,000	\$ 39,000,000
Capital Expenditures	<u>82,000,000</u>	<u>92,000,000</u>	<u>179,000,000</u>	<u>173,000,000</u>	<u>103,000,000</u>
Net Capital Activities	<u>(35,000,000)</u>	<u>(40,000,000)</u>	<u>(70,000,000)</u>	<u>(140,000,000)</u>	<u>(64,000,000)</u>

UD projects \$39,000,000 of capital funding for the fiscal year ending June 2021, resulting in a capital activities deficit of \$64,000,000. As previously mentioned, this deficit will be funded by a distribution of invested operating funds. The deficit from capital activities represents 30% of UD’s total projected deficit.


The preceding analysis of historic and projected net capital activities demonstrates UD’s willingness to utilize operating surplus and unrestricted operating investments when necessary to support its initiatives. This is made possible by UD’s strong financial position, driven by its unrestricted operating reserves and endowment.

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COVID Related Expenses

UD projects \$228,000,000 for supplies, materials, and other expenses in its revised fiscal year 2021 budget. This is an increase from fiscal June 2020, which reported \$149,000,000. The average annual expense for this cost category for the past four fiscal years was \$150,000,000. Explanation for the increase indicated the cause to be COVID specific expenses. In UD's response to AAUP-UD's prior questions, they indicated that on December 7, 2020 they applied for Higher Education Relief Funds from the CARES Act for reimbursement of COVID related expenses previously incurred. UD has indicated that their financial projections have not been updated for the anticipated receipt of CARES Act funding.

The preceding sections of this letter summarize data to assist AAUP-UD in interpreting financial information made available to them by UD. We are available to discuss these items in more detail or provide additional assistance upon your request.

A handwritten signature in black ink, appearing to read "Jonathan D. Moll". The signature is written in a cursive style with a large initial "J" and "M".

Jonathan D. Moll, CPA  
Director, Accounting and Auditing