Overview

The following is an all-funds[^1], multiyear financial schedule depicting annual operating and capital budgets and related impact on liquidity over the period FY17 to FY21 at the University of Delaware. This range of years begins when President Dennis Assanis joined the University and continues to the current year. Although much of the source data has already been available publicly in other institutional documents, including the University [audited financial statements][2] and the [IRS Form 990][3], the intent of this schedule is to increase clarity by combining data from multiple sources into a one-page financial summary[^3].

While a one-page schedule is convenient, additional detail is helpful in certain key areas, including research, personnel, and capital projects and deferred maintenance.

Strategic Financial Plan

In 2017, the UD Board of Trustees approved a financial plan in support of the University’s strategic plan to reach new levels of excellence, while increasing access and prioritizing student success, including student life and wellness. Over a five- to seven-year timeline, goals included: 1) grow undergraduate enrollment by 1,000, 2) increase net new faculty by 250, 3) increase the number of graduate students, 4) build new facilities to support 21st century learning and innovation, while maintaining and upgrading existing facilities, and 5) invest in financial aid to improve access and attract diverse/high-quality students.

In addition to increasing tuition revenue through expanded undergraduate and graduate enrollments and the launch of a record $750M philanthropic campaign, the financial plan included issuance of bonds, reduction of the annual operating surplus in the near term to invest primarily in faculty and student recruitment and financial aid, as well as strategic utilization of operating investments[^4] to address deferred maintenance needs and support capital initiatives.

COVID-19 Impact: FY20 and Beyond

As concerns around the global pandemic quickly escalated in 2020, the impact on the UD community was both jarring and significant. With a primary focus on the health and safety of the campus, change happened overnight. International students were unable to return to campus in the spring, and the entire campus shut down in March as residence halls were closed and events were canceled, including competitive sports. Total operating revenues dropped significantly, falling $37M below FY19 levels (line 35). Through aggressive cost-mitigation efforts to reduce the budget deficit, initially projected to be $49M, the University realized an actual operating deficit of about $20M. Reduction in research expenditures, also included in these numbers, impacts the generation of research indirect cost revenue (F&A).

With ongoing uncertainty about the pandemic’s trajectory during summer, expenses were again reduced in preparation of the FY21 initial operating and capital budgets. Because about 70% of the operating budget is compensation, on July 1 UD was projecting a $168M gap between revenue and expenses. Even with $86M of expense mitigation, UD was still projecting an operating shortfall of $100M (line 53), or $82M which included a
Guided by the UD Campus Reopening and Fall Planning Task Force, the University’s optimism for a fall return to campus quickly pivoted from plans for a full residential campus, maximizing face-to-face classes, to one with 20% density in the residence halls and 90% online classes, in alignment with public health guidelines to minimize spread of the coronavirus. Associated efforts to implement appropriate health and safety protocols resulted in significant revenue impact (see column “Changes Related to Reduced Density Campus”). Looking to spring, the column “Moderate Scenario” reflects projected revenues and expenditures including a spring semester at moderate density, defined as follows: 1) greater than 50% occupancy in residence halls; 2) maximizing face-to-face classes, following physical distancing standards; and 3) moderate on-campus student life and athletics. This scenario generates an additional net loss of $60M (line 53) on top of the FY21 initial mitigated loss of $82M. Even reducing deferred maintenance budget further, to about $9M (line 65) in FY21, results in an operating investment balance of $297M (line 6). Although this seems sufficient, it is important to note that an institution of this size should have a minimum of 60–90 days of cash on hand for stability—for UD this equates to about $250M (line 6). When you consider the potential for an additional $60M shortfall if spring density mirrors fall, the need for additional measures, which will include reorganization and personnel actions, becomes clear.

**Operating Budget**

The University develops its operating budget (lines 20–53) on a source and uses basis. This budget is approved annually by the Board of Trustees. The operating revenues that are generated fund the related operating expenses. To the extent operating revenues exceed operating expenses, this surplus is available to fund capital expenses. To the extent expenses exceed revenues in a fiscal year, the University must utilize existing operating investments (line 6).

Operating revenue (line 35) has grown every year since FY16, and the University has generated operating surpluses (line 53) every year, until FY20. FY21 is the first year operating revenue has dropped below $1B since FY17 (line 35). Only auxiliary revenue, which includes housing and dining, was projected to increase over FY20 when UD anticipated full residence capacity in FY21; however, the shift to 20% capacity had a $73M impact on auxiliary revenue (line 27), which has been mitigated to $32M impact (line 51).

More significant is the net tuition revenue loss as a result of increased financial aid (line 24), as well as enrollment decline, which has a multiyear impact on operating revenue. The impact of this is greater than anticipated due to returning student attrition, increased financial aid and increased receivables, which would only be exacerbated by low spring campus density.

Operating expenses include Total Compensation of $506M (line 43) in the initial FY21 budget, which includes faculty, professionals and staff, as well as graduate student and S-contract salaries and benefits. From the personnel schedule, it can be seen that faculty compensation has grown by $20M since FY17, associated with contractual salary and benefits rate increases, as well as a net increase in faculty FTE of about 118; professionals and staff compensation has grown by $37M and 229 FTE during the same time period. As the financial schedule depicts all funds growth, the growth of professionals and staff has been across funds, with hires in research institutes like NIIMBL, as well as strategic investments in student success and wellness (including investments in student life and diversity, student health, academic advisors, athletics staff in recreation and supporting compliance efforts), and in development and alumni relations to support the campaign. The imminent reduction in FTE due to reorganization, retirements and other personnel actions,
as well as the associated salary savings are not yet captured in this schedule. Importantly, UD’s FT Staff to
FT Faculty ratio using fall 2020 data, prior to retirements or other personnel actions, is still one of the lowest
among peers, while the headcount of UD full-time staff members also appear to be in the normal range
based on student enrollment.

Supplies, Materials and Other expenses have grown every year, with more material increases in FY18 and
FY19 due to increased start-up expenses for new faculty, and other expenses for system upgrades related to
budgeting, purchasing and data warehousing, including Jagger, e-procurement, Helio-Campus, and Axiom.
FY20 expenses are intentionally reduced to partially mitigate COVID revenue losses, but also because events
and other expenses were eliminated due to remote operations and shuttered campus. Due to continuing
budget challenges and projected revenue losses, non-salary expenses were significantly curtailed for FY21
compared to the initial projected budget. However, COVID-related safety expenses and investments in
online equipment, software and testing services, as well as continuing start-up costs have actually increased
projected expenses over FY20.

**Capital Budget: Funding New Buildings and Addressing Deferred Maintenance**

Annually a capital budget, consisting of new projects, renovations, and deferred maintenance, is developed
by the Administration and approved by the Board of Trustees. Capital expenditures are funded by operating
surpluses, bond proceeds, state appropriation and gifts for capital. The accumulated operating surpluses,
as well as the bond issuance, were targeted to fund the strategic plan that included major capital projects
(line 66), including the Carol Ammon and Marie Pinizzotto Biopharmaceutical Innovation Building (BPI),
Worrilow Hall renovation, South Academy Residence Hall, Whitney Athletics Center (WAC), as well as the
McKinly Building replacement. Also, part of the plan was doubling deferred maintenance spend from $18M
to $36M annually (line 65) in order to reduce a deferred maintenance backlog of almost $500M as of FY16,
and to improve the Facilities Condition Index (FCI) of UD’s existing buildings. Funding sources have included
a combination of operating investments as well as donor funds. State funding for capital has amounted to
about $6M/year, increasing to $10M/year in the most recent years; the accumulated funding will be spent
on the addition/renovation of Drake Lab and other projects in FY21. The balance that must be funded from
operating investments in FY21, approximately $70M (line 68), represents encumbered funding of committed
expenses for projects near completion, with bills that need to be paid in FY21 (BPI, Worrilow, Warner, WAC,
and campus infrastructure).

In the foreseeable horizon, UD will continue to pursue new capital projects, but these will be funded through
state bond appropriation, philanthropic support and external funding received through public-private
partnerships.

**The Endowment and the Pooled Portfolio: Ensuring Stability for the Next 275 Years**

The University endowment consists of approximately 1,269 individual funds totaling about $1.4B (line 11) that
were established for a variety of purposes and are intended to provide perpetual funding to support the
University’s educational goals. The endowment is comprised of approximately $1B in donor-restricted funds
that must be utilized in accordance with donor intent and $357M of board-designated funds that may
be used for purposes of the University, as determined by the Board of Trustees. The ongoing generosity
of UD alumni and friends has helped to ensure the long-term financial health of the University through
the establishment of endowed gifts and the University has an obligation to ensure those gifts support the
University for many years to come. A strong endowment allows the University to fund initiatives that will have
a lasting impact on the student experience and the overall institution.
In recent years, the Endowment's role in supporting the University has become more important as funding from the State of Delaware has been relatively flat, while UD’s commitment to access and student financial aid has increased. This support is likely to become even more important in the coming years given the challenges facing higher education today.

To ensure that the endowment funds are available in perpetuity, the University’s Board of Trustees, Investment Visiting Committee, and Administration have a shared mission to maximize the Endowment's total return consistent with the University’s prudent investment risk constraints and preserving real value for future generations. This mission requires an expected long-term return that exceeds the inflation-adjusted annual spending rate. The target spending rate for the Endowment is 4% to 5% of the three-year average market value as determined annually by the University's Board of Trustees. In Fiscal 2020, the spending distribution from the Endowment was $52M (line 31), providing financial support and flexibility to the University’s operating budget.

The combined endowment and pooled investment portfolio totaled $1.6B at the beginning of FY21 (lines 5 and 11). Over the past 20 years, the University has taken approximately $200M in unrestricted operating funds and invested them with the endowment funds to create the Pooled Investment Portfolio. As mentioned previously, the University had projected to liquidate approximately $100M of operating funds in the Pooled Investment Portfolio to support the strategic financial plan, sacrificing a return to operating funds of at least $5M in perpetuity. While further utilization of any unrestricted endowment funds or increasing the payout on permanent endowments to fund COVID-19 impacts would provide short-term budget relief, this would create a structural funding gap that would need to be covered by tuition increases or increased State appropriations, both of which would be extremely difficult in these challenging times.

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[1] The All Funds Basis of reporting is presented as source and uses and is the principal reporting format utilized throughout the University to manage operations. As such capital expenditures, proceeds from issuance of debt, and principal payments on debt are reflected as an expenditure. In the financial statements presented in accordance with Generally Accepted Accounting Principles capital expenditures are capitalized and depreciation is reflected in the statement of activities as an expense. Bond proceeds and principal payments are reflected on the balance sheet and statement of cash flows.

[2] On an annual basis, the University files a Form 990 with the IRS. Form 990 is intended to provide the government and interested members of the public with a snapshot of the organization’s activities for that year. Differences between Form 990 Part I Summary, line 19, Revenue less Expenses are attributable primarily to the IRS including as revenue realized gains in the pooled portfolio and revenue for endowment and capital. In the GAAP financial statements these items are excluded from the Change in Net Assets from Operations as they are not eligible to be used to support operations. The pooled portfolio supports operation via the annual endowment distribution that is approved by the Board of Trustees. In any given year through reallocation of investments the pooled portfolio could experience significant gains, however these gains are reinvested in new investments.

[3] This summary is not meant to replace any of the source documents. It should also be noted there will always be differences in numbers between sources for valid reasons, including different methodologies of national agencies to which UD reports.

[4] Like other large corporations, not-for-profit organizations and universities the University of Delaware
maintains operating funds which represent accumulated surpluses and invests these funds in various operating investments (cash and cash equivalents, bonds and the University-managed Pooled Investment Portfolio “PIP”).

In consultation with the Trustee Finance committee, the University has set a target of 90 days of revenue on hand (approximately $250 million) and an absolute minimum of 60 days (approximately $170 million). This target was established to ensure adequate funds are available in the event of a financial disruption (Federal government shutdown, weather related events, pandemic).

Employee categories are per FLSA definitions: Professional employees are exempt (they are not eligible for overtime pay), and this group includes a wide variety of titles - postdocs, academic advisors, development officers, administrators. Staff employees are non-exempt (eligible for overtime).
### Adjustments and Changes

#### Reinvested within pooled portfolio, recognized as revenue by IRS

#### Reinvested within pooled portfolio, recognized as revenue by IRS

#### Change in net assets from operating activities, GAAP Basis

#### Change in net assets from operating activities, GAAP Basis

#### Reinvestment-related capital transactions in pooled portfolio

####变化 in net assets from operating activities, GAAP Basis

#### Brunswick funds market value, net

#### Brunswick funds market value, net

#### Operating Revenue:

#### Operating Revenue:

#### Financial statements:

#### Financial statements:

#### Moderate scenarios presented for FY21. Conservatism continues with a 15% reduction in enrollment and a 20% reduction in capital expenditures.