Financial Statements and Report of Independent Certified Public Accountants

Delaware State University Student Housing Foundation - Phase III

February 29, 2012 and June 30, 2011

Contents

Grant Thornton

Audit • Tax • Advisory

Grant Thornton LLP
666 Third Avenue, 13th Floor
New York, NY 10017-4011

T 212.599.0100
F 212.370.4520
www.GrantThornton.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Delaware State University Student Housing Foundation:

We have audited the accompanying statements of financial position of the Delaware State University Student Housing Foundation - Phase III (the Project), a subsidiary of the Delaware State University Student Housing Foundation, as of February 29, 2012 and June 30, 2011, and the related statements of activities and cash flows for the period from July 1, 2011 through February 29, 2012, and for the year ended June 30, 2011. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware State University Student Housing Foundation - Phase III as of February 29, 2012 and June 30, 2011, and the changes in its net assets and its cash flows for the period from July 1, 2011 through February 29, 2012, and for the year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A, effective March 1, 2012 the Project transferred all of its assets, liabilities, net assets and related operations to Delaware State University.

Grant Thornton LLP

New York, New York
December 3, 2012

NOTES TO FINANCIAL STATEMENTS

February 29, 2012 and June 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

Delaware State University Student Housing Foundation - Phase III (the Project) represents Phase III of a three-phase student housing apartment facility known as University Village Apartments. The Project consists of 628 beds and through February 29, 2012, was owned by Delaware State University Student Housing Foundation (the Foundation), which is organized as a non-profit corporation under the laws of the State of Delaware for the purpose of acquiring, developing, constructing, and operating student housing facilities primarily for students and faculty of the Delaware State University (the University). The Foundation is considered to be a discretely presented component unit of the University.

The Project is a non-profit corporation formed under the laws of the State of Delaware and exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code.

On March 1, 2012 the Foundation transferred all of the assets, liabilities, net assets and related operations of the Project to the University as part of the plan to refinance the 2004B Bonds which was approved by the Foundation's and University's Boards of Trustees/Directors. The $33,170,000 2004B Bonds were refinanced by University issued debt and as part of the refinancing the assets, liabilities, net assets and related operations of the Project (Phase III apartments) were transferred to the University. Consequently, the University received $38,146,890 in assets and $35,948,090 in liabilities which effectively amounted to a transfer of net assets of $2,198,800. The accompanying financial statements reflect the assets, liabilities and net assets as of February 29, 2012 and the revenues and expenses for the 8-month period ended February 29, 2012.

2. Basis of Presentation

The accompanying financial statements of the Project have been prepared under the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Project's financial statements present the assets, liabilities, net assets, changes in net assets and cash flows of the Project, which constitute only Phase III of a three-phase apartment complex.

3. Cash Equivalents

The Project defines cash and cash equivalents as those assets with a maturity date of three months or less at the time of purchase.

4. Tenant Accounts Receivable and Allowance for Doubtful Accounts

Tenant accounts receivable primarily represent amounts due from students for dormitory rent. The Project's allowance for doubtful accounts is based upon management's judgments, including such factors as previous collection history and type of the receivables. The Project writes-off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The allowance was $368,415 at February 29, 2012 and June 30, 2011.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

5. Affiliate Transactions

In an arrangement with the University's component units, the Project and the Delaware State University Foundation, the University provides day-to-day management and accounting services, which also include additional services such as: security, operational support, utilities, telecommunications and shared dining facilities. The exchange of such services results in affiliate transactions, which are reported on the Project's statements of financial position.

6. Assets Held in Trust

Assets held in trust are under the control of outside bond trustees and represent reserves for the payment of principal and interest due on the bonds. These funds are invested, and investment return and realized and unrealized gains or losses are recorded in the accompanying statements of activities.

7. Capital Assets

Buildings, furniture, fixtures and equipment are recorded at cost or, if received by gift at fair value on the date of donation and, are depreciated over the estimated useful life of the respective asset. Depreciation is computed using the straight-line method. Estimated useful lives used for depreciation purposes are forty years for buildings, the lesser of estimated useful life or 40 years for improvements, and seven years for equipment.

8. Bond Issuance Costs

Costs incurred with the issuance of the Project's bond were amortized over the life of the bond. Accumulated amortization for such issuance costs at February 29, 2012 and June 30, 2011 was $141,950 and $135,286, respectively.

9. Deferred Income

Deferred income consists primarily of funds that are received prior to the beginning of the rental term. As such, it is the Project's policy to recognize these balances over the course of the period that the corresponding service is provided.

10. Unrestricted Net Assets

None of the Project's net asset is subject to donor-imposed restrictions. Accordingly, all resources are accounted for as unrestricted, in accordance with accounting principles generally accepted in the United States of America.

11. Tenant Revenue

Tenant revenue is primarily derived from on-campus students who are generally contracted under annual dormitory lease arrangements. Tenant revenue is recognized ratably, in accordance with the University's operating cycle. Certain tenant revenue was pledged as collateral for the 2004B Bonds (Note D).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Income Taxes

The Project follows the provisions of Accounting Standards Codification ("ASC") 740. ASC 740-10 clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Project is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (the "Code") and the applicable income tax regulations of Delaware. Nevertheless, the Project may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The tax years ended June 30, 2009, 2010, 2011 and 2012 are still open to audit for both federal and state purposes. Management has determined that there are no uncertain tax positions within the accompanying financial statements

13. Concentration of Credit Risk

The Project's financial instruments, which are exposed to concentrations of credit risk, consist primarily of cash and cash equivalents and assets held in trust. These funds are held in various high-quality financial institutions. Additionally, the Project maintains its cash and cash equivalents in financial institutions, which at times exceed federally insured limits, however, the Project believes that concentrations of credit risk are limited.

14. Measure of Operations

The accompanying statements of activities distinguish between operating and nonoperating activities. Operating activities primarily include all revenues and expenses that are an integral part of the Project's direct activities. Amounts not included in the measure of operations consist of investment return unrealized and realized gains/losses, and non-core other activities, if any, considered by management to be of a nonoperating nature.

15. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful accounts, and useful lives of fixed assets. Actual results could differ from these estimates.

NOTE B - ASSETS HELD IN TRUST

Assets held in trust represent funds held by the Bond Trustee and consisted of cash, money market investments, and securities that are primarily issued by the U.S. Government. These investments are stated at fair value. Under the terms of the Trust Indenture, various funds such as Construction, Bond, Capitalized Interest, and Debt Service must be established and maintained by the Foundation on behalf of the Project.

The bond indentures contained significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum bond coverages.

At February 29, 2012 and June 30, 2011, funds held by the Bond Trustee on behalf of the project consisted of:

	February 29, 2012	June 30, 2011
Construction	$ 223,138	$ 223,138
Bond fund interest	572	572
Capitalized fees	120	120
Debt service reserve	2,814,637	2,765,329
Capitalized interest	844	844
Qualified exchange	509,887	509,887
Reimbursement account	1,295,378	1,631,749
Issuing exchange account	16,655	16,655
Rebate account	258	258
Bond replacement	478,878	478,874
	5,340,367	5,627,426
Less current portion	(5,340,367)	(3,174,544)
Total non-current portion	$ -	$ 2,452,882

Fair values and cost consisted of the following at February 29, 2012 and June 30, 2011:

	February 29, 2012		
	Fair value	Cost	Unrealized loss
Cash and cash equivalents	$ 4,086,411	$ 4,086,411	$ -
Government and agencies	1,253,956	1,269,242	(15,286)
Total	$ 5,340,367	$ 5,358,653	$ (15,286)

NOTE B - ASSETS HELD IN TRUST - Continued

	June 30, 2011		
	Fair value	Cost	Unrealized loss
Cash and cash equivalents	$ 3,174,544	$ 3,174,544	$ -
Government and agencies	2,452,882	2,475,836	(22,954)
Total	$ 5,627,426	$ 5,650,380	$ (22,954)

Maturities of long-term investments held in trust are as follows:

	February 29, 2012	
	Fair value	Cost
Less than 1 year	$ 1,253,956	$ 1,269,242

The Project defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. Fair value measurements are applied based on the unit of account from the reporting entity's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Project uses a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The only financial assets carried at fair value as of February 29, 2012 and June 30, 2011 were the above assets held in trust, which were comprised of cash and cash equivalents and government and agency securities, which were valued using Level 1 inputs.

NOTE C - CAPITAL ASSETS, NET

Capital asset activity of the Project at February 29, 2012 and June 30, 2011, follows:

	February 29, 2012	June 30, 2011
Capital assets		
Buildings and improvements (Note D)	$ 30,868,676	$ 30,868,676
Equipment	1,945,907	1,945,907
Land improvements	329,701	329,701
Total capital assets	33,144,284	33,144,284
Less accumulated depreciation		
Buildings and improvements	5,589,967	5,023,894
Equipment	2,229,601	2,220,730
Total accumulated depreciation	7,819,568	7,244,624
Total capital assets, net	$ 25,324,716	$ 25,899,660

NOTE D - BONDS PAYABLE, NET

Bonds payable at February 29, 2012 and June 30, 2011, consisted of the following:

	February 29, 2012	June 30, 2011
Tax-exempt Series 2004B term bonds dated January 21, 2004; in January 2012 variable rate bonds became bank bonds paying fixed rate of 4%; variable rate was 1% at June 30, 2011. 2004B Bonds were secured by deed and assignment of rents.	$ 33,170,000	$ 33,870,000
Less current portion	(32,939,758)	(33,633,326)
Less bond discount (net of accumulated amortization of $78,308 and $71,876 as of February 29, 2012 and June 30, 2011, respectively)	(230,242)	(236,674)
Total long-term bonds payable, net	$ -	$ -

Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004 Bonds were restricted to financing the construction, furnishing, and equipping the Project, to defease in advance of their maturities, the Series 2000B and 2002B Bonds, to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the Series 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

NOTE D - BONDS PAYABLE, NET - Continued

In January 2012, the liquidity facility expired and the 2004B Bonds became bank bonds in accordance with the Foundation's Reimbursement Agreement. As a result, the variable rate 2004B Bonds were converted to a fixed rate of interest (4% per annum). On March 1, 2012 in accordance with the Foundation's and University's approved refinancing plan, the bank bonds were repaid with debt issued by the University and, as such, the Foundation was no longer responsible for repayment of the 2004B bonds nor the converted bank bonds.

Through January 2012, the 2004B Bonds bore interest at a variable rate per annum as determined weekly by the remarketing agent. If the 2004B Bonds were submitted to the Project for tender, they were remarketed by the remarketing agent on a best-efforts basis. If the tendered 2004B Bonds were not remarketed, a liquidity facility was in place to secure the payment of the 2004B Bonds.

Under the terms of its various debt agreements, the Project was required to comply with various financial covenants and was required to maintain an interest rate swap agreement with respect to the 2004B Bonds through January 2011.

Fair Value

The fair value of the 2004B bonds was estimated based on currently published rates for debt obligations with similar characteristics. At February 29, 2012 and June 30, 2011, the estimated fair values of bonds outstanding and subordinated debt were $33,170,000 and $33,870,000, respectively.

NOTE E - RELATED PARTY TRANSACTIONS

On November, 23, 2003, the Project (lessee) and the University (lessor), entered into a ground lease for the construction of the student housing facility. The term commenced on November 25, 2003, with an expiration date on July 31, 2036. The liability of the lessee, with respect to its obligations under the ground lease, was affirmed as non-recourse, and the satisfaction of any of the lessee's obligations was limited to the lessee interest in the property. The Project's ground lease agreement also required the utilization of the Project by students and faculty of the University for a minimum of 35 years. At the end of the lease date, the property reverts to the ownership of the University. There are no payments due under this lease for the next five years. In connection with the transfer of all of the assets, liabilities, net assets and related operations of the Project to the University, the ground lease was terminated and the property reverted to the ownership of the University.

NOTE F - COMMITMENTS AND CONTINGENCIES

1. Operating Leases

The Project maintained operating leases for washers, dryers and copying equipment. For the period from July 1, 2011 through February 29, 2012 and the year ended June 30, 2011, related rental expense amounted to $22,500 and $53,280 respectively. The operating leases are set to expire in 2013 and the expected operating lease costs for the next year is $53,280. These operating leases were assigned to the University as part of the transfers of assets and liabilities to the University.

NOTE F - COMMITMENTS AND CONTINGENCIES - Continued

2. Contingencies

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

NOTE G - PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS

The Project's employees are covered under the State Employees' Pension Plan. The State Employees' Pension Plan is a cost-sharing, multiple-employer-defined benefit plan. The State and Project each made a contribution of 17.2% of the employees' salary for 2011. Employees hired prior to January 1, 2012 contribute 3% of salary in excess of $6,000 and employees hired after that date contributes 5% of salary in excess of $6,000. Pension expense of $31,045 in 2012 and $42,706 in 2011 for the Project's contribution was included in the accompanying financial statements. An employee vests pension rights after five consecutive years of service. Certain significant plan provisions are as follows:

- Early retirement:
  - 15 years of service - age 55 (benefits are reduced by 0.2% each month under age 60)
  - 25 years of service - any age (reduce by 0.02% each month short of 30 years)

- Service Retirement:
  - 15 years of service - age 60
  - 30 years of service - any age
  - 5 years of service - age 62

- Disability retirement:
  - 5 years of service and proof of disability

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

NOTE H - SUBSEQUENT EVENTS

The Project evaluated its February 29, 2012 financial statements for subsequent events through December 3, 2012, the date the financial statements were available to be issued. Based upon the Project's evaluation, management determined that there were no subsequent events that met the criteria for disclosure.