FINANCIAL REPORT
2018-2019

NORTHERN MICHIGAN UNIVERSITY

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This section of Northern Michigan University's (the "University") annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2019, 2018 and 2017. This discussion, which includes The Northern Michigan University Foundation, whenever appropriate, has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of management.

Reporting Entity

Northern Michigan University is an institution of higher education and is considered to be a component unit of the State of Michigan because its Board of Trustees is appointed by the Governor of the State of Michigan. Accordingly, the University is included in the State's financial statements as a discretely presented component unit. Transactions with the State of Michigan relate primarily to appropriations for operations, grants from various state agencies, payments to State retirement programs for University employees, and reimbursements for capital outlay projects.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The financial statements presented focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Under the university reporting model, State appropriations and gifts are reported as nonoperating revenues and results in the University showing an operating loss of $59.4 million for the year ended June 30, 2019, and $56.4 million for the year ended June 30, 2018. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

Financial Highlights

The University's net position for the year ended June 30, 2019 of $214.4 million increased by $4.3 million from the prior year balance of $210.1 million. The increase in net position of $4.3 million for fiscal year 2019 changed by $2.5 million from the fiscal year 2018 increase in net position of $1.8 million. The increase of $2.5 million resulted from an $11.9 million increase in operating and non-operating revenues, a $9.1 million increase in operating and non-operating expenses, and a $0.3 million decrease in capital items.

Financial Highlights (continued)

Operating revenues for the year ended June 30, 2019 of $108.9 million increased by $6.7 million from the prior year. Student tuition and fees totaling $65.6 million is the largest component of operating revenue and increased by $4.1 million from the prior year. All other operating revenues of $43.3 million netted to a $2.6 million increase. Nonoperating revenues totaling $67.7 million increased by $5.2 million from the prior year. The largest component of this increase was a $4.0 million increase in investment income and a $0.7 million increase in state appropriations.

Operating revenues for the year ended June 30, 2018 of $102.2 million increased by $2.8 million from the prior year. Student tuition and fees totaling $61.5 million is the largest component of operating revenue and increased by $1.2 million from the prior year. All other operating revenues of $40.7 million netted to a $1.6 million increase. Nonoperating revenues totaling $62.5 million remained level with the prior year.

Operating and nonoperating expenses totaling $172.1 million for the year ended June 30, 2019 increased by $9.1 million from the prior year. Salaries, wages, and benefits of $98.8 million, the largest component of operating and non-operating expenses, increased by $2.7 million. Supplies and support services of $41.5 million increased by $5.3 million from the prior year total of $36.2 million, primarily due to the continuation of the implementation of the Educational Access Network (EAN). All other components of operating and nonoperating expenses increased by $1.8 million which included an increase in scholarships of $1.3 million and depreciation expense of $0.7 million and a decrease in interest on capital asset related debt of $0.6 million and utilities of $0.2 million.

Operating and nonoperating expenses totaling $163.0 million for the year ended June 30, 2018 increased by $6.9 million from the prior year. Salaries, wages, and benefits of $96.2 million, the largest component of operating and non-operating expenses, increased by $2.2 million. Supplies and support services of $36.2 million increased by $2.0 million from the prior year total of $34.2 million, primarily due to start-up costs for the implementation of the Educational Access Network (EAN). All other components of operating and nonoperating expenses increased by $2.8 million which included an increase in scholarships of $1.7 million and an increase in utilities of $0.8 million.

Condensed Financial Information

Condensed Statements of Net Position

	June 30		
	2019	2018	2017
Assets			
Current assets	$48,676,142	$56,445,810	$40,556,837
Noncurrent assets			
Capital	331,245,245	314,299,312	237,894,189
Other	104,926,773	112,134,686	110,983,284
Total noncurrent assets	436,172,018	426,433,998	348,877,473
Total assets	484,848,160	482,879,808	389,444,310
Total deferred outflows of resources	7,818,981	6,944,830	6,160,953
Liabilities			
Current liabilities	33,125,734	35,704,396	27,992,526
Noncurrent liabilities	174,316,723	174,354,501	145,006,727
Total liabilities	207,442,457	210,058,897	172,999,253
Total deferred inflows of resources	70,841,881	69,653,749	875,737
Net position			
Net investment in capital assets	164,757,526	157,373,242	149,682,909
Restricted			
Nonexpendable	911,530	914,379	893,193
Expendable	5,087,313	5,069,640	5,001,462
Unrestricted	43,626,434	46,754,731	66,152,709
Total net position	$214,382,803	$210,111,992	$221,730,273

Current assets totaled $48.7 million at June 30, 2019, $56.4 million at June 30, 2018, and $40.6 million for June 30, 2017. The ratio of current assets to current liabilities was 1.5 for the year ended June 30, 2019, 1.6 for the year ended June 30, 2018, and 1.5 for the year ended June 30, 2017. Cash and cash equivalents, including restricted cash, of $20.9 million decreased by $11.2 million from the prior year due to restricted cash from 2018B bond issue being invested in the Northern Center renovations during the 2019 fiscal year.

Current liabilities of $33.1 million at June 30, 2019 decreased $2.6 million from the prior year. Accounts payable and accrued liabilities decreased by $3.9 million due to the payment of $4.1 million to Education Realty Trust (EdR) for the University's portion of The Woods housing complex construction costs. Accrued payroll and benefits increased by $0.6 million and unearned revenue increased by $0.6 million.

Condensed Financial Information (continued)

Long-term debt including notes and bonds payable, net of unamortized deferred charge on refunding, is the largest liability totaling $88.6 million at June 30, 2019, $93.6 million at June 30, 2018, and $84.2 million at June 30, 2017. Bonds and notes payable at June 30, 2019 included $72.0 million of 2018 General Revenue Fixed Rate Bonds, $11.7 million of 2012 General Revenue Fixed Rate Bonds, and remaining unamortized deferred costs and premiums of $4.9 million. The University reported a net pension liability of $59.8 million at June 30, 2019, $53.9 million at June 30, 2018, and $52.7 million at June 30, 2017 for its proportionate share of the MPSERS net pension liability. The University reported an OPEB liability of $11.1 million at June 30, 2019 and $13.3 million at June 30, 2018 for it proportionate share of the MPSERS net OPEB liability.

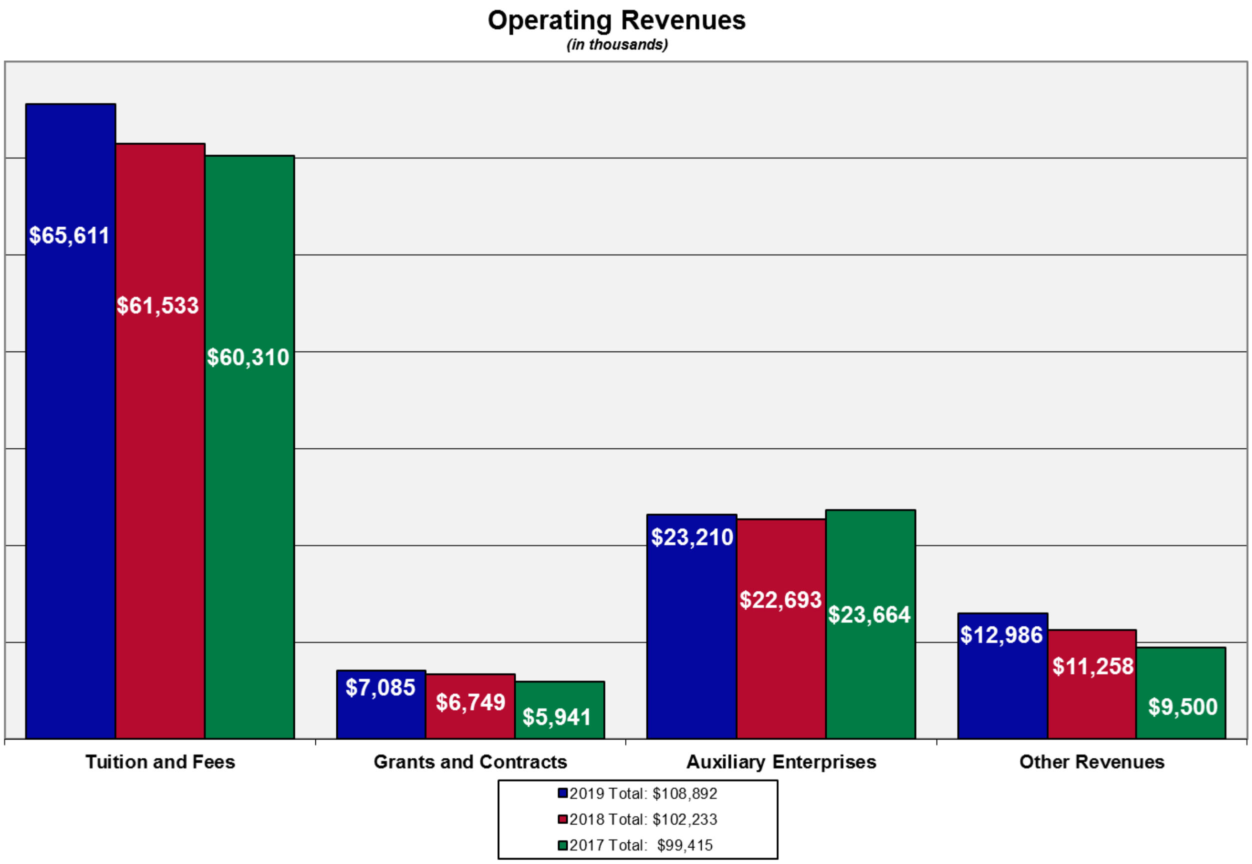
Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30		
	2019	2018	2017
Operating revenues			
Tuition and fees, net	$65,661,246	$61,533,017	$60,310,217
Grants and contracts	7,085,090	6,749,113	5,940,876
Auxiliary enterprises, net	23,209,248	22,692,489	23,663,666
Other operating revenues	12,986,256	11,257,958	9,500,377
Total operating revenues	108,891,840	102,232,577	99,415,136
Operating expenses	168,317,572	158,613,956	151,829,649
Operating loss	(59,425,732)	(56,381,379)	(52,414,513)
Nonoperating revenues (expenses)			
State appropriations	48,270,045	47,603,952	46,741,705
Pell grant revenue	10,923,903	10,815,972	10,209,560
Other nonoperating revenues (expenses)-net	4,770,908	(295,821)	1,272,397
Net nonoperating revenues	63,964,856	58,124,103	58,223,662
Income before other revenues	4,539,124	1,742,724	5,809,149
Capital appropriation grants and gifts		1,089,858	10,482
Loss on asset disposal	(268,313)	(1,065,643)	(498,627)
Total other (expenses) revenues	(268,313)	24,215	(488,145)
Total increase in net position	4,270,811	1,766,939	5,321,004
Net position – beginning of the year	210,111,992	221,730,273	216,409,269
Cumulative effect of change in accounting principle		(13,385,220)	
Adjusted net position – beginning of year	210,111,992	208,345,053	216,409,269
Net position – end of year	$214,382,803	$210,111,992	$221,730,273

The cumulative effect of implementing GASB 75, a change in accounting principle, is recorded to the beginning balance of fiscal year 2018.

Condensed Financial Information (continued)

Total operating revenues were $108.9 million for fiscal year 2019, $102.2 million for fiscal year 2018, and $99.4 for fiscal year 2017. The most significant sources of operating revenue for the University are tuition and fees, auxiliary enterprises, and grants and contracts, as shown below:



Tuition and Fees

The University currently has the second lowest annual tuition and fees out of the 15 state universities in Michigan. As part of tuition and fees, each full-time undergraduate student is provided the use of a notebook computer. A full-time undergraduate student normally takes 15 credit hours per semester and a full-time graduate student 12 credit hours per semester. Beginning with the 2017 fiscal year, the University moved to a lower division-upper division model. Undergraduate students with more than 56 credits are considered upper division students.

Tuition and Fees (continued)

The following table sets forth the average annual student tuition and fees for full-time on-campus students for the academic year indicated.

Average Annual Academic Year Full Time Student Tuition and Fees

	2019	2018	2017
Undergraduate, resident			
Lower division	$10,729	$10,240	$9,766
Upper division	11,245	10,756	10,282
Undergraduate, nonresident			
Lower division	16,225	15,736	15,262
Upper division	16,993	16,504	16,030
Graduate, resident	13,753	13,144	12,550
Graduate, nonresident	18,937	18,328	17,734

Room and Board

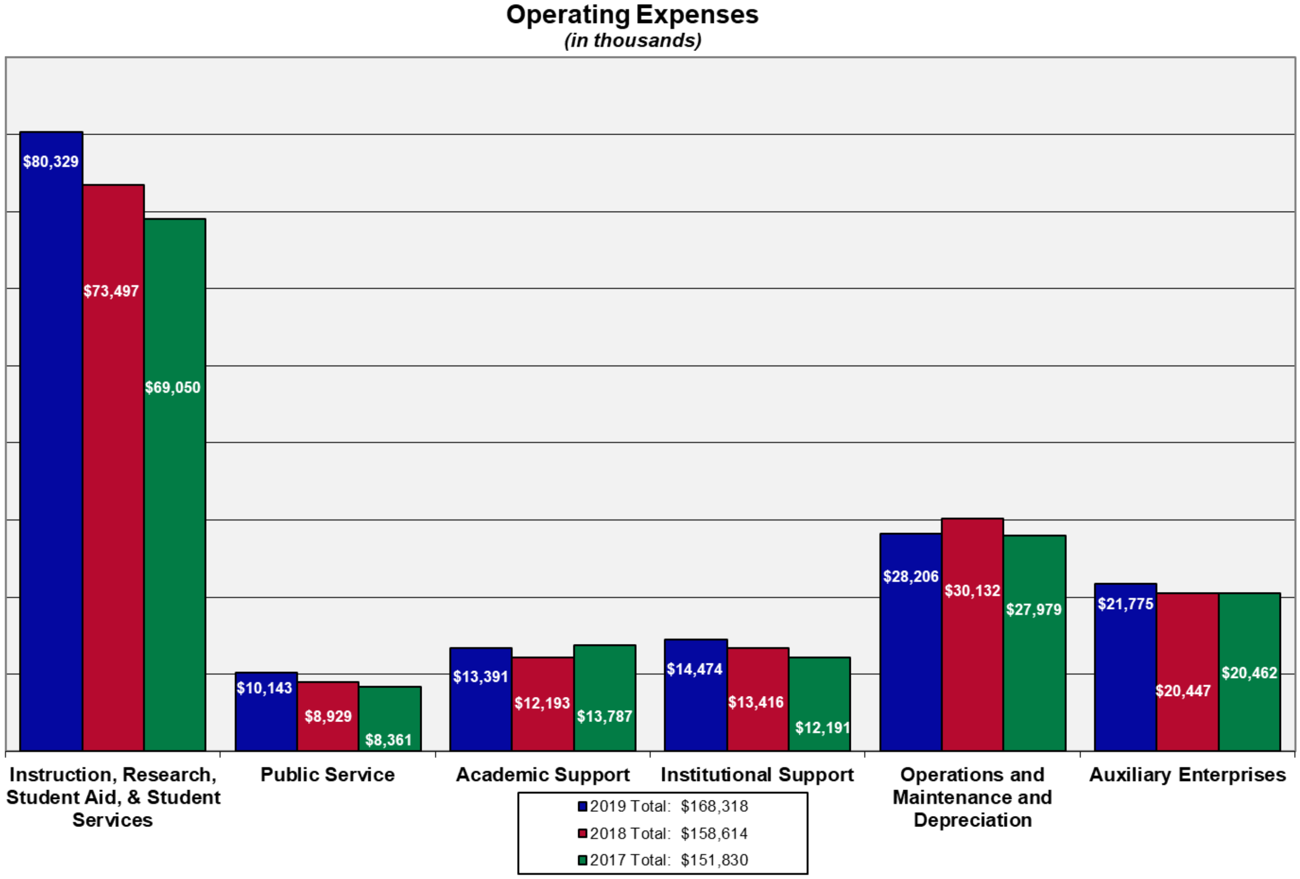
The annual cost of room and board which includes laundry and other miscellaneous residence fees, was $10,666 for fiscal year 2019, $10,328 for fiscal year 2018, and $9,838 for fiscal year 2017. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters. In fiscal year 2019, EdR, a third party developer under contract with the University to construct and manage resident living learning community buildings, finished construction of a 1,229 bed housing project which replaced 1,184 beds in residence halls owned by the University.

Eight residence halls with a rated capacity of 2,626 students have an average occupancy of 2,450 (six residence halls which housed 1,634 in fiscal year 2018) and are at 93.3% capacity (2018 – 81.8%). Campus apartments total 365 units. Most apartments are rented during the academic year with occupancy varying depending on the ratio of single students to student families and the size of the household. All residence hall students are required to be on one of four different meal plans which can be used at two on-campus dining facilities.

Operating Expenses

Operating expenses for June 30, 2019, including depreciation of $12.0 million, totaled $168.3 million. Of this total, $80.3 million, or 47.7%, was used for instruction, research, student aid, and student services, $28.2 million, or 16.8% was used for operation, maintenance, and depreciation, and $21.8 million, or 12.9%, was used for auxiliary enterprises. Operating expenses for June 30, 2018, including depreciation of $11.3 million, totaled $158.6 million. Of this total, $73.5 million, or 46.3%, was used for instruction, research, student aid, and student services, $30.1 million, or 19.0% was used for operation, maintenance, and depreciation, and $20.4 million, or 12.9%, was used for auxiliary enterprises. Operating expenses for June 30, 2017, including depreciation of $11.3 million, totaled $151.8 million. Of this total, $69.1 million, or 45.5%, was used for instruction, research, student aid, and student services, $28.0 million, or 18.4% was used for operation, maintenance, and depreciation, and $20.5 million, or 13.5%, was used for auxiliary enterprises as shown below:

Operating Expenses (continued)



Other

State appropriations of $48.3 million for the year ended June 30, 2019, $47.6 million for the year ended June 30, 2018, and $46.7 million for the year ended June 30, 2017 is the largest source of nonoperating revenues. The appropriation is recognized in the period for which it is appropriated.

Interest expense on outstanding debt and capital leases was $3.8 million for the year ended June 30, 2019, $4.4 million for the year ended June 30, 2018, and $4.2 million for the year ended June 30, 2017.

The Statements of Cash Flows

The Statement of Cash Flows provides relevant information about the cash receipts and cash payments of the University during the year.

Condensed Statements of Cash Flows

	June 30		
	2019	2018	2017
Cash provided (used) by:			
Operating activities	($45,752,718)	($41,683,274)	($39,986,232)
Noncapital financing activities	61,056,556	59,701,235	58,655,751
Capital and related financing activities	(37,935,041)	(1,854,135)	(14,619,107)
Investing activities	11,458,550	1,720,110	(12,445,390)
Net (decrease) increase in cash and cash equivalents	(11,172,653)	17,883,936	(8,394,978)
Cash and cash equivalents – beginning of year	32,046,618	14,162,682	22,557,660
Cash and cash equivalents – end of year	$20,873,965	$32,046,618	$14,162,682

Major sources of funds included in operating activities are student tuition and fees of $65.7 million, grants and contracts of $7.7 million and auxiliary sales of $23.1 million for the year ended June 30, 2019; student tuition and fees of $61.5 million, grants and contracts of $7.6 million and auxiliary sales of $22.7 million for the year ended June 30, 2018; and student tuition and fees of $60.5 million, grants and contracts of $5.5 million and auxiliary sales of $24.0 million for the year ended June 30, 2017. The major source of funds included in noncapital financing activities are State appropriations of $46.9 million and Pell grant revenue of $10.9 million for the year ended June 30, 2019; State appropriations of $46.3 million and Pell grant revenue of $10.8 million for the year ended June 30, 2018; and State appropriations of $46.5 million and Pell grant revenue of $10.2 million for the year ended June 30, 2017. Investment activities for fiscal year 2017 include $8.0 million returned from MPSERS at the end of fiscal year 2016. See additional cash flow information related to capital assets and long-term debt within the footnotes.

Northern Michigan University Foundation

The mission of the Northern Michigan University Foundation (the "Foundation") is to cultivate and promote the private philanthropic support of the University's mission through a comprehensive advancement effort.

Net assets of $42.3 million increased $2.1 million for the year ended June 30, 2019 as compared to an increase in net assets of $3.2 million for the year ended June 30, 2018. The increase in net position of $2.1 million for fiscal year 2019 changed by $1.1 million from the increase in net position of $3.2 million for fiscal year 2018.

Net assets of $40.2 million increased $3.2 million for the year ended June 30, 2018 as compared to an increase in net assets of $3.4 million for the year ended June 30, 2017. The increase in net position of $3.2 million for fiscal year 2018 changed by $0.2 million from the increase in net positon of $3.4 million for fiscal year 2017.

The Foundation continues to engage in activities that increase donor awareness of giving opportunities to support the University by providing scholarships, facilities, and learning opportunities.

Factors Impacting Future Periods

Enrollment Management and Student Services

The Academic and Career Advisement Center (ACAC) is responsible for a variety of services and activities to support student success. In recent years, new initiatives have been designed and implemented to assist in retaining students and to assist students in becoming academically successful.

The Centralized Advising Program wherein ACAC professional advisers advised all new entering freshmen in baccalaureate and associate degree programs was launched in the 2015 fall semester and supplemented existing programs that included the First Year Experience (FYE) Program and a long-standing and successful Freshman Probation Program. The combined effort has led to an increase in both retention and students attaining academic good standing for the fall 2015, 2016, 2017 and 2018 freshman cohorts.

In the fall of 2017, ACAC helped implement the Hobson's Starfish Retention System. This software program helps faculty, academic advisers and students communicate better and to provide services and assistance easily and accurately. Students who are not performing well in course work, their academic advisers and coach, if an NMU athlete, are notified through events such as a flag set by an instructor. The adviser and/or coach may then intercede, offer assistance, contact the tutoring center, etc., to help the student improve their performance. The 2017 freshman cohort, the first to use Starfish, showed 91.08% retained into their second semester (6.78% higher than the 10-year average) and 71.69% retention into their third semester (3.84% higher). The 2018 freshman cohort showed 90.46% retained into their second semester (6.17% higher).

The University is developing a plan to expand its investment in enhancing student success, wellness, retention and career planning guidance. The plan will enable ACAC and other student service areas – financial aid to the counseling center – to more easily connect with students through peer and personal advisers. These advisers will work with undergraduate students of all class status, not only first-year students, as is the case with the current central advising program. This concierge-styled advising will more easily enable the University to identify students at academic risk or in personal crisis, allowing for earlier intervention. This initiative will improve NMU's retention rate, increase student knowledge and use of University resources, and improve student awareness of University processes.

The University is also investing in its recently launched U.P. Cybersecurity Institute, both as a way to attract new students to the programs of this in-demand career field and to support regional economic development. NMU is one of six sites selected in 2019 by the State of Michigan to serve as a cybersecurity hub. The Institute that has developed from the cybersecurity hub designation is expanding training in cybersecurity matters to Upper Peninsula residents, including elementary schoolchildren, college students, businesses, and adult community members. There are an estimated 2.9 million vacant cybersecurity positions globally, and many of these jobs can be performed from anywhere in the world, including the U.P.

The University has also invested in new learning spaces and tools that support academic programs and new ways of teaching and learning. This includes the creation of virtual reality laboratories for students and faculty and the development of VR educational course content, which NMU debuted in fall 2019, making it one of the first universities in the country to create its own VR academic course materials. Over the next several years, NMU will expand the courses for which content materials are developed.

Factors Impacting Future Periods (continued)

Enrollment Data

For the 2018-19 academic year, as of the fall census date, forty percent (40%) of the University's students represent Upper Peninsula Michigan residents, thirty-nine (39%) of the University's students came from Michigan's Lower Peninsula, and the remaining twenty-one percent (21%) came from other states and foreign countries.

The following table indicates the total fall headcount enrollment of undergraduate and graduate students. Also indicated are the fiscal year equated students and total annual credit hours for all students attending the University.

Fall Headcount Enrollment					Annual Total Credit Hours Taken		
Academic Year	Undergraduate Students	Graduate Students	Total	Fiscal Year Equated Students	Undergraduate Students	Graduate Students	Total
2015	8,001	780	8,781	7,717	220,677	8,524	229,201
2016	7,507	796	8,303	7,383	209,325	9,534	218,859
2017	7,168	697	7,865	6,891	196,020	8,411	204,431
2018	7,115	635	7,750	6,713	191,199	7,976	199,175
2019	7,276	578	7,854	6,768	193,665	7,329	200,994

First-year class enrollment for the Fall 2018 semester was up 7.1%. Fall 2018 overall university headcount enrollment of 7,595 was even with Fall 2017 counts (7,612). Based on preliminary enrollment reports for Fall 2019, the University expects that the Fall 2019 semester will be the first year since 2009 to see overall headcount growth coming in approximately 1.0% higher than 2018.

During fiscal year 2019, the admissions staff implemented new strategies (in addition to the standard recruitment activities important to new student enrollment) to support the University's strategic plan's elements of market share and enrollment growth in Michigan (especially in the Upper Peninsula) and out-of-state markets (including pilot outreach in Texas and California). Year two of a new staffing model was implemented, with continued focused transfer recruitment activity included in all territory managers' work. Related to the transfer student work was an increased focus on meeting the needs of prospective new freshmen who have earned college credit while in high school. The University continued with a second year of a term position focused on graduate and post-baccalaureate efforts and increasing availability of service to visitors and callers, and a graduate assistant position also focused on service. Scholarship and aid packaging models were analyzed and stabilized for continuing best impact. Communications tool capabilities were further leveraged with great positive impact. Fall 2019 new first-year applications, admissions and orientation registrations all increased over Fall 2018. Fall 2019 transfer applications, admissions and orientation registrations, while less than those for Fall 2018, still continued at levels higher than 2017. To impact Fall 2020 enrollment in an increasingly competitive higher education environment, the University will continue to leverage the changes made over the past two years, as well as further integrating Short Message Service (SMS), live chat, automated chat, and parent information into the communication mix. Further testing of some new national markets utilizing the momentum of the medicinal plant chemistry program will continue. The University will also continue increased and new activities focused on our Upper Peninsula market. We continue to collaborate with those leading NMU's Global Campus, international, and diversity enrollment efforts.

Factors Impacting Future Periods (continued)

Admissions

The tables below set forth the total number of first year (including associate degree, vocational and one-year certificate students) and transfer applications received and accepted and the number of students enrolled for the fall semesters indicated.

First-Year Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Total New Freshmen Enrolled	Percent Enrolled
2014	6,692	4,932	73.7	1,601	32.5
2015	5,827	4,067	69.8	1,443	35.5
2016	5,346	4,056	75.9	1,355	33.4
2017	6,173	4,591	74.4	1,501	32.7
2018	7,768	5,007	64.5	1,608	32.1

By August 7, 2019, the University had received 7,827 freshman applications (as compared to 7,768 as of August 8, 2018) and had granted 5,045 acceptances (as compared to 5,007 as of August 8, 2018). The applications reported on August 7, 2019 and August 8, 2018 include applications for current and future semesters.

Transfer Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Students Enrolled	Percent Enrolled
2014	1,502	745	49.6	440	59.1
2015	1,135	669	58.9	401	59.9
2016	1,075	634	59.0	396	62.5
2017	1,096	668	60.9	407	60.9
2018	1,547	782	50.5	488	62.4

By August 7, 2019, the University had received 1,337 transfer applications (as compared to 1,547 as of August 8, 2018) and had granted 698 acceptances (as compared to 782 as of August 8, 2018). The applications reported on August 7, 2019 and August 8, 2018 include applications for current and future semesters.

Capital Plan

The University entered an agreement in July 2016 with a national developer, Education Realty Trust (EdR), to develop, finance, construct and manage the premises of six resident living-learning community buildings with connectors, housing 1,229 beds, multipurpose meeting spaces, and classrooms. On September 20, 2018 EdR was acquired by Greystar. The project with an estimated cost of $79.6 million is on land owned by the University and leased to Greystar for a 75-year term. The University paid $4.0 million toward enclosed walkways and classrooms incorporated as part of the project.

Capital Plan (continued)

The project was built in phases that allowed the University to accommodate student bed count needs during construction as older residence halls were demolished as each new building was constructed. Two buildings housing 400 beds were opened in August of 2017, two additional buildings housing 400 beds were opened in January of 2018, and the final two buildings were opened in August of 2018. The new living-learning community features robust internet and Wi-Fi capabilities, classrooms, study rooms, TV lounges, and laundry facilities.

Complementing the new living and learning facilities was the investment of $5.8 million to modernize the dining facility serving the Woods and the campus community in the summer of 2018 known as the Northern Lights Dining. The renovations will allow the facility to match the Woods façade and modernize the dining environment. In addition, a new recreational area called the FitZone and a new mountain bike trailhead near the residential area connecting the University to the Noquemanon trail network was added to enhance the student experience.

Modernization of the Northern Center, a 148,000 square foot facility, will provide a unique dining and entertainment option for the campus community, conference patrons and the public of the Upper Peninsula of Michigan. Improvements will be completed in Fall 2019 and will provide the ability to host larger events of up to 1,000 guests. The south wing was demolished, except for the floor slab and structural support, and reconstructed to create space for new, modern ballrooms, conference rooms, and a new area for the on-campus bookstore, a new restaurant grill, and a new signature exterior façade.

All renovated spaces will be equipped with smart audio visual/sound system technology to meet the conference needs, infrastructure to support performances, and wireless displays in all smaller conference spaces. The revitalized facility is estimated to cost $23.7 million.

A new academic program, Medicinal Plant Chemistry, was introduced in Fall 2018. It is the only 4-year undergraduate degree program of its kind designed to prepare students for success in the emerging industries related to medicinal plant production, analysis, and distribution. To support the new program, 3,800 square feet of existing space in West Science was renovated to create a cutting-edge analytical core laboratory. NMU recently entered into an academic partnership agreement through the Shimadzu Partnership for Academic, Research, and Quality of Life ("SPARQ) Program, which provided an in-kind donation of instrumentation for the laboratory equipment valued at nearly $851,000. The project cost estimates $4.5 million which includes $2.2 million of laboratory equipment. The project was completed for Fall 2019 classes.

In December 2018, the University was granted planning authorization by the State of Michigan for the transformational renovation of the Jacobetti Complex into a Career Tech and Engineering Technology Facility. The $28.6 million project was included in the supplemental appropriations bill signed by former Gov. Rick Snyder in December. It calls for the modernization of existing classrooms, a new educational manufacturing design center and flexible laboratories for skilled trades learning and product/equipment testing and training. The program statement will be submitted to the State for approval in October, 2019. The actual construction schedule is dependent on the timing of State approval.

Capital Plan (continued)

Bonds and notes payable at June 30, 2019 consist of the following:

	Interest Rates		
Maturity Dates	**Coupon**	**Yield**	**Maturity Value**
06/01/2025	3.000%	2.940%	$875,000
06/01/2026	3.000%	3.060%	900,000
12/01/2019	3.080%		1,360,000
12/01/2020	3.180%		1,480,000
06/01/2027-06/01/2029	3.250%	3.350%	2,870,000
12/01/2021	3.350%		1,010,000
06/01/2030-06/01/2032	3.500%	3.650%	3,165,000
12/01/2022	3.510%		1,025,000
12/01/2023	3.630%		1,025,000
12/01/2024	3.730%		895,000
12/01/2025	3.770%		800,000
12/01/2026	3.800%		830,000
12/01/2027	3.900%		865,000
06/01/2022	4.000%	2.610%	775,000
06/01/2023	4.000%	2.770%	805,000
06/01/2024	4.000%	2.870%	840,000
12/01/2028	4.000%		895,000
12/01/2029	4.100%		920,000
12/01/2030	4.150%		950,000
12/01/2031	4.200%		880,000
12/01/2032	4.250%		915,000
12/01/2033	4.300%		955,000
12/01/2034-12/01/2038	4.450%		3,745,000
12/01/2039-12/01/2043	4.500%		4,105,000
12/01/2019	5.000%	1.950%	3,205,000
12/01/2020	5.000%	2.060%	3,210,000
12/01/2021	5.000%	2.150%	3,035,000
06/01/2020	5.000%	2.220%	705,000
12/01/2022	5.000%	2.280%	3,115,000
12/01/2023	5.000%	2.400%	3,310,000
06/01/2021	5.000%	2.410%	740,000
12/01/2024	5.000%	2.560%	3,545,000
12/01/2025	5.000%	2.700%	3,240,000
12/01/2026	5.000%	2.820%	2,970,000
12/01/2027	5.000%	2.910%	3,095,000
12/01/2028	5.000%	2.990%	3,290,000
12/01/2029	5.000%	3.060%	3,475,000
12/01/2030	5.000%	3.110%	3,615,000
12/01/2031	5.000%	3.170%	1,775,000
12/01/2032	5.000%	3.210%	1,850,000
12/01/2033	5.000%	3.240%	1,930,000
12/01/2034	5.000%	3.290%	2,015,000
12/01/2035	5.000%	3.340%	2,450,000
12/01/2036	5.000%	3.400%	65,000
12/01/2037	5.000%	3.430%	65,000
12/01/2038	5.000%	3.450%	70,000
Total			$83,655,000

Teaching, Learning, and Communication (TLC) Initiative

Access to Global Campus academic programs and online personal and professional development offerings has increased significantly due to the rapid buildout of NMU's unique wireless LTE network. More than 6,300 students and an additional 4,500 Educational Access Network customers use the network to manage course related activities and research, including bandwidth intensive applications such as streaming media, video conferencing, and large data file transfers. NMU began building the network in fall 2017 with a goal of serving 64 communities over a two-year period, putting a priority on bringing high-speed educational broadband to students – pre-school through lifelong learner – in the most unserved and underserved rural Upper Peninsula communities. Today, the University has 61 of the 64 communities live on the system with a plan of reaching a new goal of more than 100 communities. NMU's success with LTE in Marquette County has spread throughout Michigan's Upper Peninsula and northeastern Wisconsin, and is positively changing the lives of many citizens and erasing the "homework gap" for K-12 schoolchildren who previously did not have anyone willing to help them bridge the digital divide in this rural part of the United States.

The system runs on spectrum that is licensed to NMU by the Federal Communications Commission (FCC) to serve six General Service Areas (GSAs). The network covers 21,000 square miles and crosses a geographic service area roughly the size of four New England states. To accelerate the buildout, the University received financial assistance from the Michigan Economic Development Corporation (MEDC) and partners with area K-12 schools, colleges and universities to deliver educational broadband to rural communities in an effort to engage learners of all ages in credit and no-credit educational experiences. As a result, learners of all ages are able to successfully earn high school and college credentials, receive continuing education needed in workforce development programs across the region, and engage in online personal enrichment learning modules.

The University continues its Teaching, Learning and Communication (TLC) initiative of providing all full-time students, faculty and staff with a laptop computer and a comprehensive technology package. To provide even greater access to education for the citizens of the region, NMU continues its use of instructional career pathway and 'virtual field trip" experiences for K-12 schools in response to high graduation requirements and shrinking school budgets. Programs are conducted using internet-based TV (ITV) technology, along with streaming media. Content experts from within the University and surrounding areas provide "real world" information to students interested in career pathway information. In addition, NMU offers continuing education for teacher re-certification and enrichment using interactive TV and works with local Regional Education Services Agencies (RESA) to support the technology needs of area schools.

As part of the Federal Communication Commission's (FCC) 2016 spectrum auction and reallocation project, WNMU-TV received notification in early 2017 that the station must construct new transmission facilities and migrate from its current channel 13 allocation to channel 8. As part of this federally mandated change, WNMU will receive funding from the FCC spectrum auctions proceeds for this estimated $1.25 million upgrade to its transmission facilities located in Ely Township. WNMU has been assigned to phase 9 of the repack transition which requires that the station complete its facility and construction transition by April, 2020. FCC data predicts that WNMU-TV will replicate broadcast coverage in switching from channel 13 to channel 8. As of June 30, 2019, orders were placed for two new antennas, transmission line, transmitter and work associated with equipment installation. WNMU-TV is now scheduled for its transmitter and antenna work to be completed in October, 2019 and will operate on a temporary antenna until the April 2020 transition date.

State Appropriations

The University does not have a set funding level for State Appropriations for the upcoming fiscal year as the State of Michigan does not have an approved budget in place for the State's fiscal year beginning October 1, 2019. Based on the original executive, senate and house proposed fiscal year 2020 budgets, the University does expect to receive appropriation funding at or slightly above the fiscal year 2019 level.

Rehmann

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INDEPENDENT AUDITORS' REPORT

September 11, 2019

Board of Trustees
Northern Michigan University
Marquette, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of *Northern Michigan University* (the "University"), a component unit of the State of Michigan, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Northern Michigan University Foundation discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Northern Michigan University Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Northern Michigan University Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Northern Michigan University as of June 30, 2019 and 2018, and the respective changes in net position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 75

As described in Notes A and K, the University implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* in the prior year. Accordingly, beginning net position of business-type activities as of July 1, 2017 was restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules for the pension and OPEB plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated September 11, 2019, on our consideration of Northern Michigan University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Rehmann Robson LLC

NORTHERN MICHIGAN UNIVERSITY
Statements of Net Position

	Northern Michigan University June 30		Component Unit NMU Foundation June 30	
	2019	**2018**	**2019**	**2018**
Assets				
Current assets				
Cash and cash equivalents	$ 20,873,965	$ 17,775,100	$ 706,895	$ 606,635
Restricted cash		14,271,518		
Short-term investments			1,145,554	
State appropriation receivable	8,726,980	8,570,434		
Accounts receivable (less allowance 2019--$3,439,398; 2018--$3,094,415)	14,455,193	10,768,363		
Student notes receivable (less allowance 2019--$794,425; 2018--$659,996)	1,350,469	1,421,807		
Pledges receivable (less allowance 2019--$71,747; 2018--$121,887)			412,076	400,423
Inventories	1,144,382	1,415,690		
Other assets	2,125,153	2,222,898	306,960	322,794
Total current assets	48,676,142	56,445,810	2,571,485	1,329,852
Noncurrent assets				
Long-term investments	99,983,010	105,805,676	36,695,233	35,731,610
Student notes receivable (less allowance 2019--$2,793,763; 2018--$2,846,889)	4,748,801	6,134,048		
Other long-term investments	194,962	194,962	1,343,470	1,366,225
Pledges receivable			786,439	860,280
Capital assets, net	331,245,245	314,299,312	1,464,614	1,490,923
Total noncurrent assets	436,172,018	426,433,998	40,289,756	39,449,038
Total assets	484,848,160	482,879,808	42,861,241	40,778,890
Deferred outflows of resources				
Deferred charge on refunding	2,063,837	2,175,654		
Deferred pension and OPEB amounts	5,755,144	4,769,176		
Total deferred outflows of resources	7,818,981	6,944,830		
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	14,425,301	18,301,983	365,619	386,086
Accrued payroll and benefits	6,073,370	5,473,907		
Unearned revenue (unearned student fees & deposits)	5,340,362	4,696,394		
Long-term liabilities-current portion	7,286,701	7,232,112		
Total current liabilities	33,125,734	35,704,396	365,619	386,086
Noncurrent liabilities				
Annuities payable			181,758	190,593
Net pension and OPEB liability	70,910,257	67,191,208		
Long-term liabilities-net of current portion	103,406,466	107,163,293		
Total noncurrent liabilities	174,316,723	174,354,501	181,758	190,593
Total liabilities	207,442,457	210,058,897	547,377	576,679
Deferred inflows of resources				
Deferred pension and OPEB amounts	4,782,432	2,701,605		
Concessionaires arrangement	66,059,449	66,952,144		
Total deferred inflows of resources	70,841,881	69,653,749		
Net position				
Net investment in capital assets	164,757,526	157,373,242	1,464,614	1,490,923
Restricted for:				
Nonexpendable				
Scholarships and fellowships	63,757	63,757		3,984,857
Loans	60,038	60,038		
Instruction	787,735	790,584		
Expendable				
Instruction	1,002,856	1,006,483	8,908,301	6,066,338
Scholarships and fellowships	526,544	512,921	25,605,965	20,670,554
Loans	3,277,990	3,214,353		
Research	191,329	246,968		
Academic, student and public service	88,594	88,915	2,887,924	2,406,789
Unrestricted	43,626,434	46,754,731	3,447,060	5,582,750
Total net position	$ 214,382,803	$ 210,111,992	$ 42,313,864	$ 40,202,211

The accompanying notes are an integral part of these financial statements.

NORTHERN MICHIGAN UNIVERSITY
Statements of Revenues, Expenses, and Changes in Net Position

	Northern Michigan University Year Ended June 30		Component Unit NMU Foundation Year Ended June 30	
	2019	**2018**	**2019**	**2018**
Operating revenues				
Student tuition and fees (less allowance 2019--$20,524,000; 2018--$20,443,000)	$ 65,611,246	$ 61,533,017		
Gifts and contributions			$ 5,395,892	$ 5,209,202
Federal grants and contracts	4,911,007	5,001,289		
State and local grants and contracts	683,071	349,610		
Nongovernmental grants and contracts	1,491,012	1,398,214		
Sales and services of educational activities	12,986,256	11,257,958		
Auxiliary enterprise				
Residential life (less allowance 2019--$5,280,000; 2018--$5,667,000)	20,702,207	19,947,094		
Other auxiliary	2,507,041	2,745,395		
Other operating revenues			2,068	37,406
Total operating revenues	108,891,840	102,232,577	5,397,960	5,246,608
Operating expenses				
Educational and general				
Instruction	50,230,274	45,305,403		
Research	1,484,711	1,682,498		
Public service	10,142,872	8,929,331		
Academic support	13,390,587	12,192,861		
Student services	19,940,768	19,104,194		
Institutional support	14,474,255	13,416,325	1,949,470	1,921,169
Operations and maintenance of plant	16,189,903	18,793,149		
Student aid	8,673,476	7,404,438		
Depreciation	12,015,931	11,339,041		
Auxiliary enterprise				
Residential life	18,042,043	16,760,291		
Other	3,732,752	3,686,425		
Total operating expenses	168,317,572	158,613,956	1,949,470	1,921,169
Operating (loss) income	(59,425,732)	(56,381,379)	3,448,490	3,325,439
Nonoperating revenues (expenses)				
State appropriations	48,270,045	47,603,952		
Pell grant revenue	10,923,903	10,815,972		
Gifts (including 2019--$2,893,000 and 2018--$2,478,000 from the NMU Foundation)	2,893,470	2,477,772		
Payments to and on behalf of the University			(2,976,833)	(2,477,993)
Investment income [net of investment expense for the University 2019--$120,767 and 2018--$173,755; and for the NMU Foundation 2019--$67,813 and 2018--$68,000]	5,635,876	1,618,430	1,639,996	2,389,068
Interest on capital asset-related debt	(3,758,438)	(4,392,023)		
Net nonoperating revenues (expenses)	63,964,856	58,124,103	(1,336,837)	(88,925)
Income before other revenues (expenses)	4,539,124	1,742,724	2,111,653	3,236,514
Capital grants and gifts		1,089,858		
(Loss) on asset disposal	(268,313)	(1,065,643)		
Total other revenues (expenses)	(268,313)	24,215		
Increase in net position	4,270,811	1,766,939	2,111,653	3,236,514
Net position - beginning of year	210,111,992	221,730,273	40,202,211	36,965,697
Cumulative effect of change in accounting principle - (Note A)		(13,385,220)		
Adjusted net position - beginning of year	210,111,992	208,345,053	40,202,211	36,965,697
Net position - end of year	$214,382,803	$210,111,992	$42,313,864	$40,202,211

The accompanying notes are an integral part of these financial statements.

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	Year Ended June 30	
	2019	**2018**
Cash Flows from Operating Activities		
Tuition and fees	$ 65,731,109	$ 61,505,688
Grants and contracts	7,723,989	7,585,716
Payments to suppliers	(52,380,169)	(44,097,750)
Payments to employees	(92,183,680)	(93,660,757)
Payments for scholarships and fellowships	(8,673,476)	(7,404,438)
Loans issued to students and employees		(1,591,148)
Collection of loans to students and employees	1,456,585	1,418,436
Auxiliary enterprise		
Residential life	20,573,843	19,895,654
Other	2,569,787	2,849,961
Other receipts	9,429,294	11,815,364
Net cash used by operating activities	(45,752,718)	(41,683,274)
Cash Flows from Noncapital Financing Activities		
State appropriations	46,866,077	46,269,068
Pell grant revenue	10,923,903	10,815,972
William D. Ford direct lending receipts	34,905,202	34,594,172
William D. Ford direct lending disbursements	(34,905,202)	(34,594,172)
Gifts and grants received for other than capital purposes	2,875,095	2,493,425
Other	391,481	122,770
Net cash provided by noncapital financing activities	61,056,556	59,701,235
Cash Flows from Capital and Related Financing Activities		
Capital financing	3,110,254	3,719,660
Net proceeds from sale of revenue bonds		78,704,218
Purchases of capital assets	(29,882,315)	(9,517,891)
Principal paid on capital debt	(6,605,924)	(70,446,664)
Interest paid on capital debt	(4,557,056)	(4,313,458)
Net cash used by capital and related financing activities	(37,935,041)	(1,854,135)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	33,975,190	17,247,776
Interest on investments	2,648,701	2,851,192
Purchase of investments	(25,165,341)	(18,378,858)
Net cash provided by investing activities	11,458,550	1,720,110
Net increase (decrease) in cash and cash equivalents	(11,172,653)	17,883,936
Cash and cash equivalents - beginning of the year	32,046,618	14,162,682
Cash and cash equivalents - end of year	$ 20,873,965	$ 32,046,618
Reconciliation of Cash to Statement of Net Position		
Cash and cash equivalents	$ 20,873,965	$ 17,775,100
Restricted cash		14,271,518
Cash and cash equivalents - end of year	$ 20,873,965	$ 32,046,618
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	($59,425,732)	($56,381,379)
Depreciation expense	12,015,931	11,339,041
Amortization of bond insurance		49,100
Change in assets and liabilities:		
Receivables, net	(2,032,371)	926,338
Inventories	271,306	(626,819)
Other assets	129,984	(282,313)
Accounts payable and accrued liabilities	(3,999,016)	583,028
Unearned revenue	629,443	220,757
Accrued payroll and benefits	596,407	(212,753)
Net pension and OPEB liabilities	6,061,330	2,701,726
Net cash used by operating activities	($45,752,718)	($41,683,274)

The accompanying notes are an integral part of these financial statements.

NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of Northern Michigan University (University) have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The University follows the "business-type" activities requirements of GASB Statement No. 35, rather than issuing fund-type financial statements and has the following components in the financial statements:

- Management's discussion and analysis
- Basic financial statements including statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows for the University as a whole
- Notes to the financial statements
- Other required supplementary information

<u>GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*</u>

This standard was effective for the University's fiscal year 2018 and established new requirements for universities to report a "net OPEB (other postemployment benefits) liability" for the unfunded portion of postemployment benefits provided to University employees. Universities that maintain their own other postemployment benefit plans (either single employer or agent multiple-employer) report a liability for the difference between the total post employment liability calculated in accordance with GASB 75 and the amount held in the OPEB trust fund. Universities that participate in a cost sharing plan report a liability for their "proportionate share" of the "net OPEB liability" of the entire system.

Historically, universities have only been required to report a net OPEB obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, universities were required to report a net OPEB liability based on the current funded status of their OPEB plans. Changes in this liability from year to year will largely be reflected on the statement of revenues, expenses and changes in net position, though certain amounts will be deferred and amortized over varying periods. As a result of this change, the University recognized a net OPEB liability of $14,691,576 and deferred outflows of resources of $1,306,356, which resulted in a decrease in net position of $13,385,220 as of July 1, 2017. More detailed information can be found in Note K.

REPORTING ENTITY

Northern Michigan University is an institution of higher education and is considered to be a component unit of the State of Michigan because its Board of Trustees is appointed by the Governor of the State of Michigan. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State of Michigan relate primarily to appropriations for operations, grants from various state agencies, payments to State retirement programs for University employees, and reimbursements for capital outlay projects.

The Northern Michigan University Foundation (Foundation) is a legally separate, tax-exempt organization supporting Northern Michigan University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. There are currently eighteen members of the Board of Trustees of the Foundation.

Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is

NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REPORTING ENTITY (continued)

discretely presented in the University's financial statements. The Foundation's financial statements are reported in a separate column to emphasize that a) it is legally separate from the University and b) its assets are not necessarily available to satisfy all liabilities of the University.

During the years ended June 30, 2019 and 2018, the Foundation made distributions of $3.0 and $2.5 million, respectively, to or on behalf of, the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from their office at 603 Cohodas Administrative Center, Marquette, MI 49855.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—Northern Michigan University

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting.

Operating revenues of the University consist of tuition and fees, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. These revenues represent revenue earned from exchange transactions and are reported net of discounts. Transactions related to capital and related financing activities, investing activities, State appropriations, and Federal Pell Grants are components of nonoperating and other revenues. Restricted and unrestricted resources are spent and tracked at the University level within the guidelines of donor restrictions.

Basis of Accounting—Component Unit

The Foundation is a nonprofit organization that reports under the provisions of Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's financial information in the University's financial report for these differences.

Cash Equivalents

Cash equivalents include all highly liquid investments with original maturity dates of 90 days or less.

Restricted Cash

Restricted cash includes bond proceeds to pay the costs of the demolition and reconstruction of the Don H. Bottom University Center.

Investments (including component unit)

All investments are stated at fair value. Investments in publicly traded securities are stated at fair value as established by major securities markets. Non-publicly traded investments are valued based on estimates considering market prices of similar investments. Investment income includes realized and unrealized gains and losses on investments, interest, and dividends, and is presented net of external investment expenses.

NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For further discussion of fair value measurement, refer to Notes B and C to the financial statements.

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out method, or market.

Capital Assets

Capital assets are stated at cost when purchased and at appraised value for other acquisitions. At the time of disposal, capital assets are removed from the records and any gain or loss is recognized in the statement of revenues, expenses, and changes in net position.

Depreciation is provided for physical properties on a straight line basis over the estimated useful lives, 50 years for buildings, 5 to 50 years for building and land improvements, 10 to 30 years for infrastructure, 5 years for books, and 5 to 20 years for equipment. Depreciation expense for 2019 and 2018 was approximately $12,016,000 and $11,339,000, respectively. The University capitalizes assets with a cost of $5,000 and greater, and an estimated useful life in excess of one year.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The University reports deferred outflows of resources for certain pension and OPEB related amounts, such as change in expected and actual experience, change in assumptions and certain contributions made to the plan subsequent to the measurement date, as well as for the deferred loss on refunding. A deferred refunding loss results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. More detailed information for the pension and OPEB related amounts can be found in Note K.

NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The University reports deferred inflows of resources related to The Woods concessionaire's arrangement with Greystar. More detailed information related to The Woods concessionaire's arrangement can be found in Note N. The University also reports deferred inflows of resources for changes between expected and actual investment earnings provided in its pension and OPEB plans and state appropriations for pensions received subsequent to the measurement dates. More detailed information for the pension and OPEB related amounts can be found in Note K.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) pension plan and additions to/deductions from the MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) OPEB plan and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

State Appropriations

State appropriation revenue is recognized in the period for which it is appropriated.

Non-Exchange Transactions

In accordance with generally accepted accounting principles, gifts and grants are recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

Compensated Absences

University employees earn vacation benefits based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation. Certain limitations have been placed on the hours of vacation that employees may accumulate. Unused hours exceeding these limitations are forfeited.

NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unearned Revenue

Unearned revenue consists primarily of advance payment for sports camps, laptop sales, sales for athletic events, summer school tuition not earned during the current year, and contract and sponsored program advances.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the accounts receivable allowance for bad debts, the useful lives of depreciable capital assets, the assumptions used to estimate accrued employee compensated absences, the assumptions based on historical trends and industry standards used in the actuarial valuations of the MPSERS pension and OPEB plans, and the present value calculations for trash removal and insurance liabilities on the Greystar owned buildings.

Income Taxes

The University is classified as a political subdivision of the State of Michigan under Internal Revenue Code Section 115 (A) and is therefore exempt from Federal Income Taxes. Certain activities of the University, to the extent profitable, may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The Foundation is exempt from Federal Income Taxes under Internal Revenue Code Section 501 (c) (3).

Reclassifications

Certain 2018 balances have been reclassified to conform to the 2019 presentation.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY

Investment of Operating Funds

The operating portfolio is invested in accordance with the Statement of Investment Policy for Operating Cash as established by the Board of Trustees. The Finance Committee, acting on behalf of the Board of Trustees, selects investments to provide maximum financial resources while balancing investment risk and investment rate of return.

Short-term investment pool accounts will provide funds for current expenditures and have maturities of one year or less. Intermediate term investment pool accounts will include funds with maturities between one to three years. Long-term investment pool accounts will include funds with maturities greater than three years. Target asset allocation guidelines include: $10 to $40 million for the short term pool, $10 to $40 million for the intermediate pool, and $10 to $50 million for the long term pool.

NOTE B— DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

Investment of Endowed Funds

The Finance Committee, acting on behalf of the Board of Trustees, oversees the management of endowment investments. The performance objective is long-term growth without undue exposure to risk over a 5-year moving period. Asset allocation guidelines have been established to maintain a diversified portfolio and include equity, emerging markets, fixed income, and public real estate. The University, through this long-term investment strategy, seeks to provide resources to support the University in providing quality service.

The University's cash and investments are included in the Statements of Net Position under the following classifications:

	2019	2018
Cash and cash equivalents	$20,873,965	$17,775,100
Restricted cash		14,271,518
Long-term investments	99,983,010	105,805,676
Other long-term investments	194,962	194,962
Total	$121,051,937	$138,047,256

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the University's investment policy limits the average weighted maturities and the maximum maturities of its investments. For investments expected to be expended within one year, the average weighted maturity cannot exceed one year. For investments expected to be liquidated between one and three years, the average weighted maturity must be between one and three years; and, for investments held longer than three years, the duration shall be no greater than +/- 20% that of the Barclays Aggregate Bond Index.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. At June 30, 2019 and 2018, the carrying amounts of the University's deposits were $8,859,604 and $17,627,874, respectively. The bank balance of the University's deposits at June 30, 2019 and 2018 was $10,320,244 and $19,033,115, respectively. Of that amount, $1,000,000 and $1,250,000 was insured in 2019 and 2018, respectively. The remaining $9,320,244 and $17,783,115 at June 30, 2019 and 2018, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized. It is precluded by state law from collateralizing its deposits. To limit its exposure to custodial credit risk for investments, the University intends to select and retain only pooled/mutual funds that will meet the requirements set forth in the investment policy.

Credit Risk – Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. To limit its exposure to credit risk, the University's investment policy limits the average credit rating of its portfolios, as well as the minimum acceptable credit rating of individual investments. For investments expected to be expended within one year, the weighted average credit quality must be AAA (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be AA. For intermediate pooled investments, the weighted average credit quality must be AA (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be BBB. For long term pooled investments, the weighted average credit quality shall be no less than A (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be no less than B. At June 30, 2019 and 2018, the University's bond mutual funds, and money market mutual funds are not rated. Investments in the endowment portfolio shall have a weighted average credit rating of A or better, and the minimum acceptable credit rating is Baa/BBB.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the investment. Under the University's Investment Policy for Operating Cash, all investments will be dollar denominated. The University holds investments of endowed funds in various international mutual funds. These funds are invested in various countries and therefore expose the University to foreign currency risk. Investments in these funds were $3,916,631 and $4,029,772 for the years ended June 30, 2019 and 2018, respectively.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. For short term funds, the maximum investment with any one organization is limited to no more than $20 million. For intermediate and long term funds, the maximum investment with any one organization is limited to no more than $15 million. No more than eight percent of the endowment portfolio may be invested in one issuer or company for equities and no more than five percent for fixed income, except investment in U.S. government securities which is not limited.

At June 30, 2019, the University had the following investments and maturities:

		Years			
	Fair Market Value	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Money Market Mutual Funds	$12,014,361	$12,014,361			
Bond Mutual Funds	88,920,879		$60,000,682	$26,962,605	$1,957,592
Equity Mutual Funds	6,579,715				6,579,715
Stock & ETFs	4,482,416				4,482,416
Real Estate	194,962				194,962
Total	112,192,333	$12,014,361	$60,000,682	$26,962,605	$13,214,685
Less Investments Reported as “Cash Equivalents” on Statement of Net Position	(12,014,361)				
Total Investments	$100,177,972				

At June 30, 2018, the University had the following investments and maturities:

		Years			
	Fair Market Value	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Money Market Mutual Funds	$14,418,744	$14,418,744			
Bond Mutual Funds	93,255,809		$40,967,857	$50,499,356	$1,788,596
Equity Mutual Funds	6,720,232				6,720,232
Stock & ETFs	5,829,635				5,829,635
Real Estate	194,962				194,962
Total	120,419,382	$14,418,744	$40,967,857	$50,499,356	$14,533,425
Less Investments Reported as “Cash Equivalents” on Statement of Net Position	(14,418,744)				
Total Investments	$106,000,638				

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

Fair Value Measurements

Statement No. 72 of the Governmental Accounting Standards Board ("GASB") *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the University's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the University's own data.

The following is a description of the valuation methodology used for assets recorded at fair value. The description includes an indication of the level of the fair value hierarchy in which the assets are classified. There have been no changes in the methodologies used at June 30, 2019 or 2018.

Mutual funds: Shares held in mutual funds are valued at quoted market prices that represent the net asset value (NAV) of shares held by the University at year end and are classified as Level 1. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities then divided by the number of shares outstanding.

Stocks & ETFs: Level 1 fair value measurement is based upon the closing price reported on the active market in which the individual securities are traded.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

Real estate: Real estate investments includes a property that was purchased by the University and is carried at cost which approximates fair value and as a result is classified as Level 3 as the University has not obtained a recent appraisal.

The following tables set forth by level, within the fair value hierarchy, the University's investments measured at fair value on a recurring basis as of June 30:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total 2019
Money Market Mutual Funds	$12,014,361			$12,014,361
Bond Mutual Funds	88,920,879			88,920,879
Equity Mutual Funds	6,579,715			6,579,715
Stock & ETFs	4,482,416			4,482,416
Real Estate			$194,962	194,962
Leveled investment total	$111,997,371		$194,962	$112,192,333

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total 2018
Money Market Mutual Funds	$14,418,744			$14,418,744
Bond Mutual Funds	93,255,809			93,255,809
Equity Mutual Funds	6,720,232			6,720,232
Stock & ETFs	5,829,635			5,829,635
Real Estate			$194,962	194,962
Leveled investment total	$120,224,420		$194,962	$120,419,382

NOTE C—INVESTMENTS—FOUNDATION

The Foundation, a legally separate, tax exempt organization, manages its investments under an investment policy separate from the University. The primary objective of the Foundation investments for endowed funds is to provide for long-term growth of principal without undue exposure risk, through capital appreciation, income, donor development and gifts.

The purpose of this policy is to provide a disciplined approach to moving money from the endowment to fulfill donor intentions on a timely, predictable, and consistent basis while preserving intergenerational equity.

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at quoted fair value. Both realized and unrealized gains and losses are included in net increase (decrease) in fair value of investments in the statement of revenues, expenses, and changes in net position. Investments acquired by gift or bequest are recorded at the market value on the date of donation and thereafter carried in accordance with the above provision.

NOTE C—INVESTMENTS--FOUNDATION (continued)

Investments are not insured by the Federal Deposit Insurance Corporation (FDIC).

Resources from the net position with and without donor restrictions have been pooled and invested through a national financial institution. Investment guidelines are established for each manager, consistent with their investment style, and Foundation return/risk/liquidity objectives. Performance standards are developed as a means of independently determining whether or not investment objectives are being achieved. Each manager has specific performance standards based on their investment style, which incorporate return, risk and time horizon. Conformance to these standards and policies is closely monitored and evaluated in an unbiased analysis each quarter.

The primary objective of the investments for the Unendowment Fund will be to provide stability of principal along with a total return that maintains the purchasing power of the assets. The funds need to be available on demand while focusing on a total return that keeps pace with inflation.

The primary objective of the investments for the Endowment Fund will be to provide for long-term growth of principal without undue exposure risk, through capital appreciation, income, donor development and gifts.

The purpose of this policy is to provide a disciplined approach to moving money from the endowment to fulfill donor intentions on a timely, predictable, and consistent basis while preserving intergenerational equity.

The Foundation is committed to administering and investing endowed funds in compliance with all relevant Foundation bylaws, organizational concerns, industry standards, and federal and state laws and regulations, including the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Gains and losses, as well as investment interest earned on endowed funds, have been allocated based on the net asset balance percentage participation less an operating fee. The net asset balance percentage participation is recalculated on a monthly basis with investment earnings, gains and losses allocated to the respective endowed funds.

The Foundation will calculate funds available for spending on funds that reach endowed status as of June 30 of the previous year. Endowed status is defined as $25,000 for discretionary accounts and $50,000 for scholarship accounts.

The annual distribution will be 4 percent of a 20 quarter rolling average of the endowment’s market value (MV), but only to the extent that such distribution does not cause the value of the endowment fund to fall below 95 percent of the historic gift value (HGV) of the fund on the annual valuation date. No distributions will be made from an endowment whose value of the fund on the annual valuation date is less than 85 percent of the HGV.

NOTE C—INVESTMENTS—FOUNDATION (continued)

Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Foundation investment policy does not limit exposure to credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit exposure to fair value loss by limiting investments by maturity.

Fair Value Hierarchy

Under FASB ASC 820, *Fair Value Measurements and Disclosures,* the Foundation groups its investments, contributions receivable from remainder trusts, annuity payment liabilities and split interest agreements at fair value into three levels, based on the markets in which the investments are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1:

Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets, and money market funds.

Level 2:

Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3:

Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability.

NOTE C—INVESTMENTS—FOUNDATION (continued)

Fair Value Hierarchy (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value as of June 30, 2019:

	Balance at June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Mutual funds:				
Index funds	$10,884,350	$10,884,350		
Balanced funds	6,134,430	6,134,430		
Growth funds	10,003,203	10,003,203		
Fixed income funds	8,749,480	8,749,480		
Total Mutual Funds	35,771,463	35,771,463		
Cash and equivalents	1,777,601	1,777,601		
Held by third party	1,343,470			$1,343,470
Alternative investments measured at net asset value - Private equity funds (a)	291,723			
Total assets	$39,184,257	$37,549,064		$1,343,470
Liabilities				
Liabilities on annuity contracts and trusts	$181,758			$181,758

(a) Private equity funds - The purpose is to provide endowment funds and nonprofit organizations the opportunity to invest in private limited partnerships, which, in turn, make investments in equity securities, warrants, or other options that are generally not actively traded at the time of investment. The partnerships may also invest in operating companies as direct investments or co-investment opportunities.

NOTE C—INVESTMENTS—FOUNDATION (continued)

Fair Value Hierarchy (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value as of June 30, 2018:

	Balance at June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Mutual funds:				
Index funds	$11,853,570	$11,853,570		
Balanced funds	7,445,100	7,445,100		
Growth funds	9,644,950	9,644,950		
Fixed income funds	6,374,347	6,374,347		
Total Mutual Funds	35,317,967	35,317,967		
Cash and equivalents	105,219	105,219		
Held by third party	1,366,225			$1,366,225
Alternative investments measured at net asset value - Private equity funds (a)	308,424			
Total assets	$37,097,835	$35,423,186		$1,366,225
Liabilities				
Liabilities on annuity contracts and trusts	$190,593			$190,593

(a) Private equity funds - The purpose is to provide endowment funds and nonprofit organizations the opportunity to invest in private limited partnerships, which, in turn, make investments in equity securities, warrants, or other options that are generally not actively traded at the time of investment. The partnerships may also invest in operating companies as direct investments or co-investment opportunities.

Held by third party assets categorized as Level 3 consists of a perpetual trust, in which the Foundation is the 100 percent beneficiary of future distributions and an irrevocable charitable remainder trust in which the Foundation is a 2.82 percent beneficiary of future distributions. As of June 30, 2019, the Foundation estimates the value of the perpetual trust to be $1,289,799, and the irrevocable charitable remainder trust to be $53,671.

Liabilities on annuity contracts and trusts characterized as Level 3 liabilities consist primarily of charitable gift annuity agreements. The agreements require payments during the life of the annuitant at various rates up to 9.5 percent of the principal amounts. The Foundation estimates the fair value of these contributions based on estimated rate of return, anticipated future payments to be made to donors during the donors' lives, donors' life expectancies and an assumed discount rate between 2 percent and 7.8 percent. Changes in the value of annuity obligations payable are reported in the statement of revenues, expenses, and changes in net position.

The Foundation's policy is to recognize transfers in and transfers out of level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer.

NOTE C—INVESTMENTS—FOUNDATION (continued)

Investments in Entities that Calculate Net Asset Value Per Share

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

At year end, the fair value and unfunded commitments totaled $291,723 and $500,000, respectively. The funds are ineligible for redemption resulting in no redemption notice period being required.

The following table sets forth a summary of the changes in the fair value of the Foundation's Level 3 investment assets and liabilities for the year ended June 30, 2019:

	Balance at June 30, 2018	Total realized gains (losses) included in change in net position	Gross additions, deletions, and purchases	Gross sales and maturities	Balance at June 30, 2019
Assets					
Investments:					
Irrevocable trust receivable	$1,366,225	($22,755)			$1,343,470
Liabilities					
Liabilities on annuity contracts and trusts	$190,593		($8,835)		$181,758

The following table sets forth a summary of the changes in the fair value of the Foundation's Level 3 investment assets and liabilities for the year ended June 30, 2018:

	Balance at June 30, 2017	Total realized gains (losses) included in change in net position	Gross additions and purchases	Gross sales and maturities	Balance at June 30, 2018
Assets					
Investments:					
Irrevocable trust receivable	$1,371,727	($5,502)			$1,366,225
Liabilities					
Liabilities on annuity contracts and trusts	$221,182		($30,589)		$190,593

NOTE C—INVESTMENTS—FOUNDATION (continued)

Concentration of Credit Risk

The current asset allocation policy began in January 2017. This policy was established to meet the Foundation's financial needs and overall investment objectives. Asset classes are selected based on their expected long-term returns, individual reward/risk characteristics, correlation with other asset classes, manager roles, and fulfillment of the Foundation's long-term financial needs. Conformance with statutory investment guidelines is also considered.

The NMU Foundation Finance Committee (the "Committee) established an allocation range for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The Committee selected the target allocation for each asset class based on the Foundation's current investments and present market conditions.

The Committee intends to review these allocation targets at least annually, focusing on changes in the Foundation's financial needs, investment objectives and asset class performance.

Short Term Unendowed Pool Asset Allocation Targets

Asset Class	Manager Role	Allocation Range	Target
U.S. Equities	All Cap	+/- 20%	12%
Non-U.S. Equities	All Cap Developed and Emerging Markets	+/- 15%	10%
Equity Sub-total		0-50%	22%
U.S. Income	U.S. Income	+/-5%	54%
Non-U.S. Income	Developed and Emerging Markets	+/-3%	3%
Income Sub-total		50-100%	57%
Alternative Investments	Various*	0-30%	7%
Cash Equivalents		0-50%	14%
Total Fund			100%

NOTE C—INVESTMENTS—FOUNDATION (continued)

Intermediate Term Unendowed Pool Asset Allocation Targets

Asset Class	Manager Role	Allocation Range	Target
U.S. Equities	All Cap	+/- 20%	34%
Non-U.S. Equities	All Cap Developed and Emerging Markets	+/- 15%	30%
Equity Sub-total		40-80%	64%
U.S. Income	U.S. Income	+/-5%	18%
Non-U.S. Income	Developed and Emerging Markets	+/-3%	1%
Income Sub-total		5-35%	19%
Alternative Investments	Various*	10-40%	16%
Cash Equivalents		0-10%	1%
Total Fund			100%

Endowment Pool Asset Allocation Targets

Asset Class	Manager Role	Allocation Range	Target
U.S. Equities	All Cap	+/- 20%	40%
Non-U.S. Equities	All Cap Developed and Emerging Markets	+/- 15%	25%
Equity Sub-total		40-80%	65%
U.S. Income	U.S. Income	+/-5%	7%
Non-U.S. Income	Developed and Emerging Markets	+/-3%	3%
Income Sub-total		5-30%	10%
Alternative Investments	Various*	10-40%	25%
Cash Equivalents		0-10%	0%
Total Fund			100%

* Includes but not limited to: Hedge Funds, Global/Flexible Managers, Real Estate, Commodities, Managed Futures, Private Equity, etc. The Committee acknowledges that other alternative asset classes are available and is not limited to just these investment opportunities. It intends to periodically evaluate the merits of adding new asset classes. The Committee also recognizes the benefits of diversifying manager roles within a given asset class, and intends to periodically evaluate this decision as well as the active versus passive manager decision.

The investments shall be reviewed quarterly to ensure the endowment assets are within these ranges. The manager may not invest in more than 5 percent of the outstanding securities of one issuer nor invest more than 5 percent of the portfolio in the outstanding securities of one issuer.

NOTE C—INVESTMENTS—FOUNDATION (continued)

Custodial Credit Risk

The Foundation has engaged Morgan Stanley to serve as custodian of the endowment investments. The custodian maintains physical possession of securities owned by the Foundation, collects dividend and interest payments, redeems maturing securities, and affects receipt and delivery following purchases and sales. The custodian also performs regular accounting of all assets owned, purchased or sold.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At June 30, 2019, the Foundation's assets are held in combination of mutual funds along with one private equity program.

Foreign Currency Risk

The Foundation's investment policy also allows up to ten percent of its portfolio to be invested in foreign-denominated securities; all other investments must be denominated in U.S. dollars. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at quoted fair value. Both realized and unrealized gains and losses are included in net increase (decrease) in fair value of investments in the statement of revenues, expenses, and changes in net position. Investments acquired by gift or bequest are recorded at the market value on the date of donation and thereafter carried in accordance with the above provision.

NOTE D—RECEIVABLES

Receivables of the University include the following at June 30:

	2019	2018
State appropriations - net	$8,726,980	$8,570,434
Student notes receivable – net	6,099,270	7,555,855
Charter schools	6,850,135	6,622,808
NMU Foundation	578,413	70,724
State, federal and private grants	824,958	955,215
Students, employees, and vendors - net	6,201,687	3,119,616
Total	$29,281,443	$26,894,652

For the years ended June 30, 2019 and 2018, the University received approximately $37,864,000 and $36,791,000, respectively, for charter schools which was forwarded, net of an administrative fee, to nine charter schools.

NOTE E—CAPITAL ASSETS

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2019:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Depreciable assets:				
Land improvements	$9,943,307	$646,411		$10,589,718
Buildings and improvements	312,761,124	19,630,752	$51,314	332,340,562
Infrastructure	19,110,857	367,776		19,478,633
Equipment	78,140,371	7,125,923	926,301	84,339,993
Books	7,412,513	127,484	647,249	6,892,748
Subtotal depreciable assets	427,368,172	27,898,346	1,624,864	453,641,654
Nondepreciable assets:				
Land	6,059,290	25,964		6,085,254
Buildings	75,748,937			75,748,937
Construction in progress	6,615,957	1,305,867		7,921,824
Subtotal nondepreciable assets	88,424,184	1,331,831		89,756,015
Total depreciable and nondepreciable assets	515,792,356	29,230,177	1,624,864	543,397,669
Less accumulated depreciation for:				
Land improvements	7,745,712	362,326		8,108,038
Buildings and improvements	131,121,456	6,412,349	35,793	137,498,012
Infrastructure	14,839,414	465,224		15,304,638
Equipment	41,423,974	4,595,594	746,953	45,272,615
Books	6,362,488	180,438	573,805	5,969,121
Total accumulated depreciation	201,493,044	12,015,931	1,356,551	212,152,424
Capital assets, net	$314,299,312	$17,214,246	$268,313	$331,245,245

NOTE E—CAPITAL ASSETS (continued)

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2018:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Depreciable assets:				
Land improvements	$9,943,307			$9,943,307
Buildings and improvements	313,871,444	$1,134,642	$2,244,962	312,761,124
Infrastructure	18,975,832	151,344	16,319	19,110,857
Equipment	73,466,500	5,072,429	398,558	78,140,371
Books	9,052,627	169,073	1,809,187	7,412,513
Subtotal depreciable assets	425,309,710	6,527,488	4,469,026	427,368,172
Nondepreciable assets:				
Land	5,966,790	92,500		6,059,290
Buildings		75,748,937		75,748,937
Construction in progress	175,075	6,440,882		6,615,957
Subtotal nondepreciable assets	6,141,865	82,282,319		88,424,184
Total depreciable and nondepreciable assets	431,451,575	88,809,807	4,469,026	515,792,356
Less accumulated depreciation for:				
Land improvements	7,379,900	365,812		7,745,712
Buildings and improvements	126,611,389	6,207,958	1,697,891	131,121,456
Infrastructure	14,361,034	483,765	5,385	14,839,414
Equipment	37,497,111	4,109,992	183,129	41,423,974
Books	7,707,952	171,514	1,516,978	6,362,488
Total accumulated depreciation	193,557,386	11,339,041	3,403,383	201,493,044
Capital assets, net	$237,894,189	$77,470,766	$1,065,643	$314,299,312

Capital assets are capitalized at cost including ancillary charges necessary to place the asset into use. Interest expense on debt incurred for construction is included in the asset cost for the period of construction. The University is in the process of renovating various campus buildings. Contractual commitments relating to renovations were approximately $3,623,000 and $9,006,000 at June 30, 2019 and 2018, respectively. The commitments of $3,623,000 for fiscal 2020 are expected to be paid from University resources. The University signed a contract on July 22, 2018 for $18.7 million with The Boldt Company for the modernization of the Don H. Bottom University Center. As of June 30, 2019 approximately $5 million is still outstanding.

Facilities financed in whole or in part by the SBA are the John X. Jamrich Hall, the Seaborg Center Complex, the Art and Design addition, the Hedgcock Building, and the Thomas Fine Arts Building. At the expirations of the individual leases, the SBA has agreed to sell each building to the University for one dollar. The cost and accumulated depreciation for these facilities are recorded in the Statements of Net Position.

NOTE F—COLLECTIONS

The University has the Moses Coit Tyler Collection that has not been capitalized. This collection is maintained for public exhibition and education.

NOTE G—PAYABLES

Payables of the University include the following at June 30:

	2019	2018
Accrued payroll and benefits	$6,073,370	$5,473,907
Construction contractors	4,458,659	4,548,265
Charter schools	6,644,631	6,424,123
Vendors	2,956,423	7,051,102
Interest payable	365,588	278,493
Total	$20,498,671	$23,775,890

NOTE H—NON-CANCELABLE LEASES

The University has entered into non-cancelable leases for computers to be used by students and employees. Beginning in fiscal year 2016, the University began using exempt financing to purchase laptops. The following table is a summary of the future non-cancelable operating lease payments and capital lease payments:

		Capital Leases		
Year ending June 30	**Operating Leases Commitments**	**Principal**	**Interest**	**Total**
2020	$32,776	$1,398,564	$28,017	$1,459,357
2021	24,582	376,344	7,199	408,125
2022		75,795	407	76,202
Total	$57,358	$1,850,703	$35,623	$1,943,684

Equipment held under capitalized leases for laptops are summarized as follows at June 30:

	2019	2018
Laptops	$7,027,699	$7,106,835
Less:		
accumulated depreciation	4,031,421	2,701,636
Net book value	$2,996,278	$4,405,199

Lease expense for 2019 and 2018 was approximately $37,000 and $131,000, respectively.

NOTE I—LONG-TERM LIABILITIES

In June 2018, the University issued fixed rate General Revenue Bonds, tax-exempt Series 2018A Bonds in the amount of $49,325,000 and taxable Series 2018B Bonds in the amount of $22,655,000. The proceeds of the Series 2018A Bonds, together with a portion of the proceeds from the 2018B Bonds were used to defease in substance $64,325,000 of the 2008A outstanding bonds by depositing funds in an irrevocable trust with an escrow agent. The balance of the 2008A defeased bonds at June 30 was $64,325,000. A portion of the proceeds of the Series 2018B bonds were used to pay the costs of the demolition, reconstruction, furnishing, and equipping of the south and east wings of the Don H. Bottom University Center located on the main campus of the University (the "Project"). The estimated cost of the Project was approximately $22.0 million. Approximately $14 million of the cost of the Project was paid from the proceeds of the Series 2018B Bonds, and the balance of the cost of the Project was paid from available reserves of the Board. The University received a reoffering premium of $6.7 million in the issuance of the 2018A Bonds that bear interest at 5% and mature in varying amounts through 2038. The series 2018B Bonds bear interest rates from 3.08% to 4.5% and mature in varying amounts through 2044.

The refunding was undertaken to reduce future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $2.2 million. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued.

In October 2017, the University entered into an investment agreement with the Michigan Strategic Fund (the "MSF") that will provide $6.5 million to reimburse the University for fees, costs and expenses incurred to build out the NMU Educational Access Network ("EAN"), a high-speed broadband service, across Michigan's Upper Peninsula. The University will provide matching cost-share funds of thirty-three percent of total project costs, or approximately $9.8 million. The EAN project is expected to be a self-liquidating operation. Revenue is generated from subscription fees, equipment sales and rentals, tower rental, and other sources. Internet coverage will be extended to an additional 60 school districts. As of June 30, 2019, there are 20 new sites operational with 12 sites scheduled to go online in the next nine months. As of June 30, 2019, the University has received $5.4 million in reimbursements from the MSF.

Structured repayment of the investment award will be made in annual installments equal to thirty-five percent (35%) of positive net revenue of the EAN project in each fiscal year, beginning with operations for fiscal year 2020, and continuing each year thereafter until the MSF has been repaid in full plus interest at the rate of two percent (2%) per annum. Any amount remaining outstanding, together with accrued and unpaid interest, is required to be paid by the University in full no later than December 31, 2037.

In February 2012, the University issued fixed rate General Revenue Bonds, Series 2012, in the amount of $18,190,000 for construction of a new solid biomass fuel combined heat and power plant as an addition to the existing Ripley Heating Plant to generate steam and electricity for the University's campus, an energy efficiency steam optimization project, steam tunnel improvements, and various building and renovation projects. Bonds issued for the heating plant addition totaled $15,750,000 and mature in varying amounts through 2032. Bonds issued for the remaining projects totaled $2,440,000 and matured in varying amounts through 2017. The University received a reoffering premium of $1.3 million in the issuance of the 2012 Revenue Bonds and coupon rates range from 3.25% to 5.0%.

In March 2008, the University issued fixed rate General Revenue Bonds, Series 2008, in the amount of $100,935,000 to currently refund $91,230,000 in outstanding variable rate General Revenue Bonds, Series 2001, 2005, and 2006 including termination of interest rate swaps associated with each of these issues, and to provide $9,705,000 in new monies for residence hall renovation. The 2008 Revenue Bonds bear interest rates from 3.25% to 5.125% and mature in varying amounts through 2039.

NOTE I—LONG-TERM LIABILITIES (continued)

The refunding was undertaken to reduce future debt service payments and lock in fixed interest rates. The reacquisition price exceeded the net carrying amount of the old debt by $5.0 million. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

As of June 30, 2019, debt service requirements of the bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2020	$5,270,000	$3,697,557	$8,967,557
2021	5,430,000	3,457,456	8,887,456
2022	4,820,000	3,223,881	8,043,881
2023	4,945,000	3,004,225	7,949,225
2024	5,175,000	2,774,807	7,949,807
Total Five Years	25,640,000	16,157,926	41,797,926
Thereafter			
2025-2029	25,070,000	10,468,717	35,538,717
2030-2034	20,430,000	4,976,309	25,406,309
2035-2039	8,410,000	1,584,711	9,994,711
2040-2044	4,105,000	478,013	4,583,013
	83,655,000	$33,665,676	$117,320,676
Total			
Deferred charge on refunding, net	(2,063,837)		
Deferred re-offering premium	7,025,635		
Total	$88,616,798		

Long-term liability activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable:					
Bonds payable	$88,395,000		$4,740,000	$83,655,000	$5,270,000
Premium on bond issuance	7,413,564		387,929	7,025,635	386,716
Total bonds payable	95,808,564		5,127,929	90,680,635	5,656,716
Other liabilities:					
Michigan Strategic Fund loan (direct borrowing)	2,250,000	$3,110,254		5,360,254	
The Woods commitments (Note N)	4,645,907		45,395	4,600,512	45,760
Capital lease (direct borrowing)	3,716,627		1,865,924	1,850,703	1,398,564
Compensated absences	2,489,922	2,407,294	2,269,363	2,627,853	185,661
Federal capital contribution of Perkins Loan Program	5,484,385	88,825		5,573,210	
Total other liabilities	18,586,841	5,606,373	4,180,682	20,012,532	1,629,985
Total long-term liabilities	$114,395,405	$5,606,373	$9,308,611	$110,693,167	$7,286,701

NOTE I—LONG-TERM LIABILITIES (continued)

Long-term liability activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable:					
Bonds payable	$85,180,000	$71,980,000	$68,765,000	$88,395,000	$4,740,000
Premium on bond issuance	1,817,764	6,724,218	1,128,418	7,413,564	387,929
Total bonds payable	86,997,764	78,704,218	69,893,418	95,808,564	5,127,929
Other liabilities:					
Michigan Strategic Fund loan (direct borrowing)		2,250,000		2,250,000	
The Woods commitments (Note N)		4,645,907		4,645,907	45,395
Capital lease (direct borrowing)	4,017,741	1,469,660	1,770,774	3,716,627	1,865,924
Severance benefits	290,700		290,700		
Compensated absences	2,253,240	2,207,318	1,970,636	2,489,922	192,864
Federal capital contribution of Perkins Loan Program	5,381,920	102,465		5,484,385	
Total other liabilities	11,943,601	10,675,350	4,032,110	18,586,841	2,104,183
Total long-term liabilities	$98,941,365	$89,379,568	$73,925,528	$114,395,405	$7,232,112

NOTE J—OPERATING EXPENSES

Operating expenses by natural classification for the years ended June 30 were as follows:

	2019	2018
Salaries, wages and benefits	$98,841,417	$96,149,729
Supplies and support services	41,487,099	36,227,185
Utilities	7,299,649	7,493,563
Depreciation expense	12,015,931	11,339,041
Scholarships	8,673,476	7,404,438
Total	$168,317,572	$158,613,956

NOTE K—RETIREMENT PLANS

The University has two retirement plans: Teachers Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF) and the Michigan Public School Employees' Retirement System (MPSERS). New University employees hired after January 1, 1996 can only participate in TIAA-CREF based on changes in state legislation during 1995.

The University does not provide health care benefits to retirees under the TIAA-CREF plan. Group medical, prescription, drug, dental and vision are provided to retirees as part of the University’s participation in MPSERS.

NOTE K—RETIREMENT PLANS (continued)

Teachers Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF)

The TIAA-CREF plan is a defined contribution retirement plan. Substantially all full-time employees of the University are eligible to participate in the TIAA-CREF plan. Employee benefits vest immediately. The University contributes a specified percentage of employee wages, as defined by the appropriate labor contract, and has no liability beyond its own contribution. As of June 30, 2019, 2018, and 2017 the plan had 747, 732 and 728 participants, respectively.

The University's contributions to the TIAA-CREF plans are as follows for the years ended June 30:

	2019	2018	2017
University Contributions	$7,310,361	$6,940,487	$6,891,438
Covered Payroll	$53,660,531	$50,752,178	$48,790,066

Michigan Public School Employees' Retirement System (MPSERS)

Plan Description

The University contributes to the MPSERS, a cost-sharing multi-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the system.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the options of receiving health, prescription drug, dental and vision coverage under the Michigan Public Schools Employees Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

The *Member Investment Plan* (MIP) includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through June 30, 2008. The *MIP Plus* plan includes members first hired from July 1, 2008 through June 30, 2010. Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7%* plan.

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Plan Description (continued)

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as well as a savings component. Member contributions to the savings component are matched at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the *defined contribution* plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the Pension Plus plan as described above.

Pension Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.5%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System provides disability and survivor benefits to DB plan member.

A DB plan member who leaves Michigan public school employment may request a refund of his or her membership contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate the service through repayment of the refund upon satisfaction of certain requirements.

Other Postemployment Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Other Postemployment Benefits Provided (continued)

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the system are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year 2018.

Pension Contribution Rates		
Benefit Structure	**Member**	**Employer**
Basic	0.0 – 4.0%	24.47%
Member Investment Plan	3.0 – 7.0	24.47
Pension Plus	3.0 – 6.4	N/A
Defined Contribution	0.0	19.60

The University’s contributions to MPSERS under all pension plans as described above for the years ended June 30, 2019, 2018, and 2017 were $4,731,455, $4,391,052, and $4,085,736 respectively.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2018.

OPEB Contribution Rates		
Benefit Structure	**Member**	**Employer**
Premium Subsidy	3.00%	7.67%
Personal Healthcare Fund (PHF)	0.00	7.42

The University required contributions to the OPEB plan for the years ended June 30, 2019, 2018, and 2017 were $1,215,813, $1,558,414, and $1,542,200, respectively.

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

The University reported a liability of $59,796,196 and $53,856,163 as of June 30, 2019 and 2018 respectively, for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018 and 2017 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2017 and 2016 respectively. The University's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2018, the University's proportion (as calculated by MPSERS) was 9.35723%, which was a decrease of .0048% from its proportion measured as of September 30, 2017 of 9.36203%.

For the year ended June 30, 2019, the University recognized pension expense of $11,700,198 from changes in MPSERS related net pension liability, deferred inflows, and deferred outflows. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows)of Resources
Difference between expected and actual earnings on pension plan investments		$46,377	($46,377)
Changes in assumptions	$479,625		479,625
Net difference between projected and actual earnings on pension plan investments		1,977,988	(1,977,988)
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,930	1,471	16,459
	497,555	2,025,836	(1,528,281)
State appropriations for MPSERS		1,045,942	(1,045,942)
University contributions subsequent to the measurement date	3,804,214		3,804,214
Total	$4,301,769	$3,071,778	$1,229,991

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension -- Continued

The amount of deferred outflows of resources related to University contributions, subsequent to the measurement date, of $3,804,214 will be recognized as a reduction in net pension liability for the year ending June 30, 2020. Deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to UAAL stabilization payments of $1,045,942 will be recognized as State appropriations revenue for the year ending June 30, 2020. Other amounts reported as deferred outflows/inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30	Amount
2020	$366,331
2021	(753,261)
2022	(799,722)
2023	(341,629)
Total	($1,528,281)

For the year ended June 30, 2018, the University recognized pension expense of $6,293,888 from changes in MPSERS related net pension liability, deferred inflows, and deferred outflows. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows)of Resources
Difference between expected and actual earnings on pension plan investments		$57,911	($57,911)
Changes in assumptions	$454,578		454,578
Net difference between projected and actual earnings on pension plan investments		1,197,460	(1,197,460)
Changes in proportion and differences between employer contributions and proportionate share of contributions		43,587	(43,587)
	454,578	1,298,958	(844,380)
State appropriations for MPSERS		847,231	(847,231)
University contributions subsequent to the measurement date	3,528,368		3,528,368
Total	$3,982,946	$2,146,189	$1,836,757

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The University reported a liability of $11,114,061 and $13,335,045 as of June 30, 2019 and 2018 respectively for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018 and 2017, respectively and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2017 and 2016, respectively. The University's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the University's proportion (as calculated by MPSERS) was 9.36784% which was a decrease of .00315% from its proportion measured as of September 30, 2017 of 9.37099%.

For the year ended June 30, 2019, the University recognized a reduction in OPEB expense of $526,181. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows)of Resources
Difference between actual and expected experience		$874,431	($874,431)
Changes in assumptions	$474,768		474,768
Net difference between projected and actual earnings on OPEB plan investments		633,233	(633,233)
Changes in proportion and differences between employer contributions and proportionate share of contributions		1,510	(1,510)
	474,768	1,509,174	(1,034,406)
State appropriations for MPSERS		201,480	(201,480)
University contributions subsequent to the measurement date	978,607		978,607
Total	$1,453,375	$1,710,654	($257,279)

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB -- Continued

The amount of deferred outflows of resources related to University contributions, subsequent to the measurement date, of $978,607 will be recognized as a reduction in net OPEB liability for the year ending June 30, 2020. Deferred inflows of resources resulting from the OPEB portion of state aid payments received pursuant to UAAL stabilization payments of $201,480 will be recognized as State appropriations revenue for the year ending June 30, 2020. Other amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Amount
2020	($586,510)
2021	(185,337)
2022	(185,337)
2023	(77,222)
Total	($1,034,406)

For the year ended June 30, 2018, the University recognized OPEB expense of $691,947. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows)of Resources
Difference between actual and expected experience		$100,410	($100,410)
Net difference between projected and actual earnings on OPEB plan investments		432,606	(432,606)
Changes in proportion and differences between employer contributions and proportionate share of contributions		22,400	(22,400)
		555,416	(555,416)
University contributions subsequent to the measurement date	$786,230		786,230
Total	$786,230	$555,416	$230,814

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liability in the September 30, 2017 and 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Actuarial Assumptions (continued)

Additional information as of the latest actuarial valuation follows:

Valuation Date	September 30, 2017 and 2016
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate	2.75% for 2017 and (3.5% for 2016)
Investment Rate of Return Pension	
MIP and Basic Plans (Non-Hybrid	7.05% for 2017 and (7.5% for 2016)
Pension Plus Plan (Hybrid)	7.0%
Projected Salary Increases	2.75 – 11.55% for 2017 and (3.5 – 12.3% for 2016), including wage inflation at 2.75% for 2017 and (3.5% for 2016)
Investment Rate of Return OPEB	7.15% for 2017 and (7.5% for 2016)
Cost-of-living Pension adjustments	3% annual Non-Compounded for MIP Members
Healthcare cost trend rate	7.5% Year 1 graded to 3.0% and (3.5% for 2016) Year 2012
Mortality	2017 – RP-2014 Male and Female Healthy Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females. 2016 – RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.
Other OPEB assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Actuarial Assumptions (continued)

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 1.0554 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 1.3472 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 1.1222 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 1.4186 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years. Full actuarial assumptions are available in the 2018 and 2017 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/orsschools).

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018 are summarized in the following table:

Pension
As of September 30, 2018

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*	Expected Money-weighted Rate of Return
Domestic equity pools	28.0%	5.70%	1.60%
Alternative investment pools	18.0	9.20	1.66
International equity pools	16.0	7.20	1.15
Fixed income pools	10.5	0.50	0.05
Real estate and infrastructure pools	10.0	3.90	0.39
Absolute return pools	15.5	5.20	0.81
Short-term investment pools	2.0	0.00	0.00
Total	100.0%		5.66
Inflation			2.30
Risk adjustment			-0.91
Investment rate of return			7.05%

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Long-term Expected Return on Plan Assets (continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2018 are summarized in the following table:

OPEB
As of September 30, 2018

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-weighted Rate of Return
Domestic equity pools	28.0%	5.70%	1.60%
Alternative investment pools	18.0	9.20	1.66
International equity pools	16.0	7.20	1.15
Fixed income pools	10.5	0.50	0.05
Real estate and infrastructure pools	10.0	3.90	0.39
Absolute return pools	15.5	5.20	0.81
Short-term investment pools	2.0	0.00	0.00
Total	100.0%		5.66
Inflation			2.30
Risk adjustment			-0.81
Investment rate of return			7.15%

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Long-term Expected Return on Plan Assets (continued)

The long-term expected rate of return on pension and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of September 30, 2017 are summarized in the following table:

Pension and OPEB
As of September 30, 2017

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-weighted Rate of Return
Domestic equity pools	28.0%	5.60%	1.56%
Alternative investment pools	18.0	8.70	1.57
International equity pools	16.0	7.20	1.15
Fixed income pools	10.5	-0.10	-0.01
Real estate and infrastructure pools	10.0	4.20	0.42
Absolute return pools	15.5	5.00	0.78
Short-term investment pools	2.0	-0.90	-0.02
Total	100.0%		5.45
Inflation			2.05
Investment rate of return			7.50%

Discount Rate

A discount rate of 7.05% (7.5% for 2018) was used to measure the total pension liability (7.0% for the Pension Plus Plan, a hybrid plan provided through non-university employers only). A discount rate of 7.15% (7.5% for 2018) was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension plan investments of 7.05% (7.5% for the 2018) and 7.15% (7.5% for 2018) on OPEB plan investments. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Sensitivity of the University's Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportional share of net pension liability calculated using the discount rate of 7.05%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.05%) or 1% higher (8.05%) than the current rate as of June 30, 2019:

	1% Decrease (6.05%)	Current Single Discount Rate Assumption (7.05%)	1% Increase (8.05%)
University's proportionate share of net pension liability (2019)	$70,689,749	$59,796,196	$50,503,203

The following presents the University's proportional share of net pension liability calculated using the discount rate of 7.5%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate as of June 30, 2018:

	1% Decrease (6.5%)	Current Single Discount Rate Assumption (7.5%)	1% Increase (8.5%)
University's proportionate share of net pension liability (2018)	$63,188,454	$53,856,163	$45,801,125

The following presents the University's proportional share of net OPEB liability calculated using the discount rate of 7.15%, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (6.15%) or 1% higher (8.15%) than the current rate as of June 30, 2019:

	1% Decrease (6.15%)	Current Single Discount Rate Assumption (7.15%)	1% Increase (8.15%)
University's proportionate share of net OPEB liability	$13,370,356	$11,114,061	$9,187,457

The following presents the University's proportional share of net OPEB liability calculated using the discount rate of 7.5%, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate as of June 30, 2018:

	1% Decrease (6.5%)	Current Single Discount Rate Assumption (7.5%)	1% Increase (8.5%)
University's proportionate share of net OPEB liability (2018)	$15,546,354	$13,335,045	$11,430,427

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Sensitivity of the University's Proportional Share of Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the University's proportional share of net OPEB liability calculated using assumed trend rate of 7.15%, as well as what the University's net OPEB liability would be if it were calculated using a trend rate that is 1% lower (6.15%) or 1% higher (8.15%) than the current rate as of June 30,2019:

	1% Decrease (6.15%)	Current Healthcare Cost Trend (7.15%)	1% Increase (8.15%)
University's proportionate share of net OPEB liability	$9,046,076	$11,114,061	$13,480,119

The following presents the University's proportional share of net OPEB liability calculated using assumed trend rate of 7.5%, as well as what the University's net OPEB liability would be if it were calculated using a trend rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate as of June 30,2018:

	1% Decrease (6.5%)	Current Healthcare Cost Trend (7.5%)	1% Increase (8.5%)
University's proportionate share of net OPEB liability	$11,287,911	$13,335,045	$15,654,109

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2019 and 2018, the University reported a payable of $165,331 and $187,026, respectively, for the outstanding amount of pension contributions to the Plan.

Payable to the OPEB Plan

At June 30, 2019 and 2018, the University reported a payable of $40,984 and $42,290, respectively, for the outstanding amount of OPEB contributions to the Plan.

NOTE L—LIABILITY INSURANCE

The University participates in the Michigan Universities Self-Insurance Corporation (M.U.S.I.C.), which provides indemnity to members against comprehensive general liability, property and casualty, and errors and omissions losses, commonly covered by insurance and provides risk management and loss control services and programs. M.U.S.I.C. provides coverage for claims in excess of agreed upon deductibles.

Loss coverages are structured on a three layer basis with each member retaining a portion of its losses; M.U.S.I.C. covering the second layer and commercial carriers covering the third layer. Comprehensive general liability coverage is provided on an occurrence basis; errors and omissions coverage is provided on a claims made basis.

NOTE L—LIABILITY INSURANCE (continued)

M.U.S.I.C. was established on May 28, 1987 pursuant to the State of Michigan Constitution of 1963, Article 8, Sections 5 and 6, and subsequently they incorporated as a Michigan nonprofit corporation pursuant to the provisions of Act 162 Public Acts of 1982. Eleven Michigan Public universities participate in M.U.S.I.C. All members have signed a participation agreement. Participant contributions are assessed on an annual basis to cover insurance risks retained as a group, costs related to excess coverage, and general and administrative expenses. Members' equity totaled $17,324,247 at June 30, 2018, based on the last published financial statements.

Self-insurance

The University is self-insured for health, dental, vision, workers' compensation, and short-term disability for all employees. Liabilities for estimates of losses retained by the University under self-insurance programs have been established.

Stop-loss coverage has been purchased by the University for the self-funded hospital/medical benefits, including prescription drugs, and workers' compensation claims. The stop-loss insurance limits the claims for hospital/medical benefits to $12.4 million and $11.7 million in aggregate for fiscal years ended June 30, 2019 and 2018, respectively. The workers' compensation stop-loss insurance limits the University's liability for claims paid per individual to $450,000 for fiscal years ended June 30, 2019 and 2018, the aggregate excess insured maximum liability is $5,000,000. Changes in the estimated liability for the fiscal years ended June 30, 2019 for health benefits, including dental and vision, were as follows:

Claims activity for the year ended June 30, 2019:

	Liability – Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability – End of Year
Medical claims	$2,535,778	$10,210,093	($9,941,801)	$2,804,070
Workers' compensation	32,106	193,774	(195,218)	30,662
Total	$2,567,884	$10,403,867	($10,137,019)	$2,834,732

Claims activity for the year ended June 30, 2018:

	Liability – Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability – End of Year
Medical claims	$2,593,174	$9,738,631	($9,796,027)	$2,535,778
Workers' compensation	104,544	176,512	(248,950)	32,106
Total	$2,697,718	$9,915,143	($10,044,977)	$2,567,884

NOTE M—CONTINGENCIES

In the normal course of its activities, the University is a party in various legal actions. The University and its legal counsel are of the opinion that the outcome of asserted and unasserted claims outstanding will not have a material effect on the financial statements.

NOTE N—STUDENT HOUSING PARTNERSHIP

The University entered an agreement on July 22, 2016 with a third party developer, Education Realty Trust (EdR), to construct and manage the premises of six resident living-learning community buildings with connectors, housing 1,229 beds, multipurpose meeting spaces, tutoring center, and classrooms. On September 20, 2018, EdR was acquired by Greystar. The project, known as the Woods, has a cost of $79.6 million and is built on land owned by the University and leased to Greystar for a 75-year term. Under the terms of the Lease Agreement and the Operating Agreement, Greystar will control, manage, maintain and operate the project and will receive the Gross Revenue of the project, which consists of substantially all of the revenues and other income received from the operation of the project. Greystar is currently making rental payments to the University for the duration of the lease term based on a percentage of the Gross Revenue of the project. The University accounts for the Lease Agreement as a concession arrangement in accordance with GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.

Under the phase-in approach, Phase I consisted of two buildings that opened in August 2017 and two buildings that opened in January 2018. Phase II consisted of two buildings that opened in August 2018. The residence halls are reported as a capital asset with a carrying value of $75.9 million at June 30, 2019 and 2018, and deferred inflows of resources in the amount of $66.1 million and $67.0 million at June 30, 2019 and 2018, respectively, pursuant to the service concession agreement. The University is responsible for the trash removal and insurance coverage for the term of the contract. As such, the University recorded a liability at present value at June 30, 2019 and 2018 for trash removal and insurance in the amount of $4.60 million and $4.65 million, respectively. The 75-year term lease with Greystar includes maintenance standards for the facilities and parameters for the room rental rates for the contract duration. The University will receive a percentage of the total revenues and a share of the net income, after Greystar achieves a minimum internal rate of return.

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

Schedule of Northern Michigan University's Proportionate Share of the Net Pension Liability as of June 30 of each Fiscal Year

	2019	2018	2017	2016	2015
A. University's proportion of net pension liability as a percentage	9.35723%	9.36203%	9.40606%	9.91719%	9.80724%
B. University's proportionate share of net pension liability	$59,796,196	$53,856,163	$52,696,531	$54,405,703	$36,787,546
C. University's covered-employee payroll	$6,024,443	$6,310,967	$7,004,463	$7,585,630	$8,338,570
D. University's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	992.56%	853.37%	752.33%	717.22%	441.17%
E. Plan fiduciary net position as a percentage of total pension liability	45.87%	47.42%	46.77%	47.45%	63.00%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

GASB 68 was implemented in fiscal year 2015. This schedule will be built prospectively until a full 10-year trend is presented.

Schedule of Northern Michigan University's Pension Contributions as of June 30 of each Fiscal Year

	2019	2018	2017	2016	2015
Statutorily required contribution	$4,731,455	$4,391,052	$4,085,736	$3,402,937	$3,315,213
Contributions in relation to the statutorily required contribution	(4,731,455)	(4,391,052)	(4,085,736)	(3,402,937)	(3,315,213)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
University's covered-employee payroll	$5,714,430	$6,036,760	$6,484,390	$7,382,355	$7,750,117
Contributions as a percentage of covered employee payroll	82.80%	72.74%	63.01%	46.10%	42.78%

GASB 68 was implemented in fiscal year 2015. This schedule will be built prospectively until a full 10-year trend is presented.

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN (continued)

Schedule of Northern Michigan University's Proportionate Share of the Net OPEB Liability as of June 30 of each Fiscal Year

		2019	2018
A.	University's proportion of net OPEB liability as a percentage	9.36784%	9.37099%
B.	University's proportionate share of net OPEB liability	$11,114,061	$13,335,045
C.	University's covered-employee payroll	$6,024,443	$6,310,967
D.	University's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	184.48%	211.30%
E.	Plan fiduciary net position as a percentage of total OPEB liability	51.90%	44.11%

The amounts presented for the fiscal year were determined as of September 30 of the preceding year.

GASB 75 was implemented in fiscal year 2018. This schedule will be built prospectively until a full 10-year trend is presented.

Schedule of Northern Michigan University's OPEB Contributions as of June 30 of each Fiscal Year

	2019	2018
Statutorily required contribution	$1,215,813	$1,558,414
Contributions in relation to the statutorily required contribution	(1,215,813)	(1,558,414)
Contribution deficiency (excess)	$ -	$ -
University's covered-employee payroll	$5,714,430	$6,036,760
Contributions as a percentage of covered employee payroll	21.28%	25.82%

GASB 75 was implemented in fiscal year 2018. This schedule will be built prospectively until a full 10-year trend is presented.

Changes of benefit terms: There were no changes of benefit terms in FY 2019.

Changes of assumptions: Actuarial assumptions related to the pension plan's investment rate of return changed from 7.5% in fiscal year 2018 to 7.05% in fiscal year 2019. Actuarial assumptions related to the OPEB plan's investment rate of return changed from 7.5% in fiscal year 2018 to 7.15% in fiscal year 2019.