FINANCIAL REPORT

2019-2020

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, 2020, 2019 and 2018. 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 $55.2 million for the year ended June 30, 2020, and $59.4 million for the year ended June 30, 2019. 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, 2020 of $221.7 million increased by $7.3 million from the prior year balance of $214.4 million. The increase in net position of $7.3 million for fiscal year 2020 changed by $3.0 million from the fiscal year 2019 increase in net position of $4.3 million. The increase of $3.0 million resulted from a $4.7 million increase in operating and non-operating revenues, a $0.2 million increase in operating and non-operating expenses, and a $1.5 million increase in loss on asset disposal.

Financial Highlights (continued)

Operating revenues for the year ended June 30, 2020 of $113.6 million increased by $4.7 million from the prior year. Student tuition and fees totaling $71.3 million is the largest component of operating revenue and increased by $5.6 million from the prior year. All other operating revenues of $42.3 million netted to a $1.0 million decrease. Nonoperating revenues totaling $67.8 million increased by $0.1 million from the prior year. The largest components of this increase was a $4.2 million decrease in State appropriations, a $3.5 million increase related to funds from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a $0.8 million increase in investment income.

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 and nonoperating expenses (including CARES Act related expenses) totaling $172.3 million for the year ended June 30, 2020 increased by $0.2 million from the prior year. Salaries, wages, and benefits of $103.1 million, the largest component of operating and non-operating expenses, increased by $4.3 million, primarily due to the implementation of an Early Retirement Incentive Plan. Supplies and support services of $35.6 million decreased by $5.9 million from the prior year total of $41.5 million, primarily due to the decrease in operations from the Coronavirus Pandemic. All other components of operating and nonoperating expenses increased by $2.0 million which included an increase in scholarships of $2.4 million and depreciation expense of $0.8 million and decreases in interest on capital asset related debt of $0.2 million and utilities of $1.0 million.

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 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 decreases in interest on capital asset related debt of $0.6 million and utilities of $0.2 million.

Condensed Financial Information

Condensed Statements of Net Position

	June 30		
	2020	2019	2018
Assets			
Current assets	$53,058,529	$48,676,142	$56,445,810
Noncurrent assets			
Capital	333,027,401	331,245,245	314,299,312
Other	101,301,492	104,926,773	112,134,686
Total noncurrent assets	434,328,893	436,172,018	426,433,998
Total assets	487,387,422	484,848,160	482,879,808
Total deferred outflows of resources	6,726,973	7,818,981	6,944,830
Liabilities			
Current liabilities	31,196,497	33,125,734	35,704,396
Noncurrent liabilities	172,844,678	174,316,723	174,354,501
Total liabilities	204,041,175	207,442,457	210,058,897
Total deferred inflows of resources	68,423,332	70,841,881	69,653,749
Net position			
Net investment in capital assets	173,285,048	164,757,526	157,373,242
Restricted			
Nonexpendable	925,363	911,530	914,379
Expendable	5,203,384	5,087,313	5,069,640
Unrestricted	42,236,093	43,626,434	46,754,731
Total net position	$221,649,888	$214,382,803	$210,111,992

Current assets totaled $53.1 million at June 30, 2020, $48.7 million at June 30, 2019, and $56.4 million for June 30, 2018. The ratio of current assets to current liabilities was 1.7 for the year ended June 30, 2020, 1.5 for the year ended June 30, 2019, and 1.6 for the year ended June 30, 2018. Cash and cash equivalents increased by $8.6 million from the prior year due to maintaining additional funds more liquid for operational needs.

Current liabilities of $31.2 million at June 30, 2020 decreased $1.9 million from the prior year. Accounts payable and accrued liabilities decreased by $2.4 million due mostly in part to the payment of $2.1 million to a contractor for construction costs related to the University Center renovation project.

Condensed Financial Information (continued)

Long-term debt including notes and bonds payable, net of unamortized deferred charge on refunding, is the largest liability totaling $83.1 million at June 30, 2020, $88.6 million at June 30, 2019, and $93.6 million at June 30, 2018. Bonds and notes payable at June 30, 2020 included $67.4 million of 2018 General Revenue Fixed Rate Bonds, $11.0 million of 2012 General Revenue Fixed Rate Bonds, and remaining unamortized deferred costs and premiums of $4.7 million. The University reported a net pension liability of $63.1 million at June 30, 2020, $59.8 million at June 30, 2019, and $53.9 million at June 30, 2018 for its proportionate share of the MPSERS net pension liability. The University reported an OPEB liability of $8.6 million at June 30, 2020, $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.

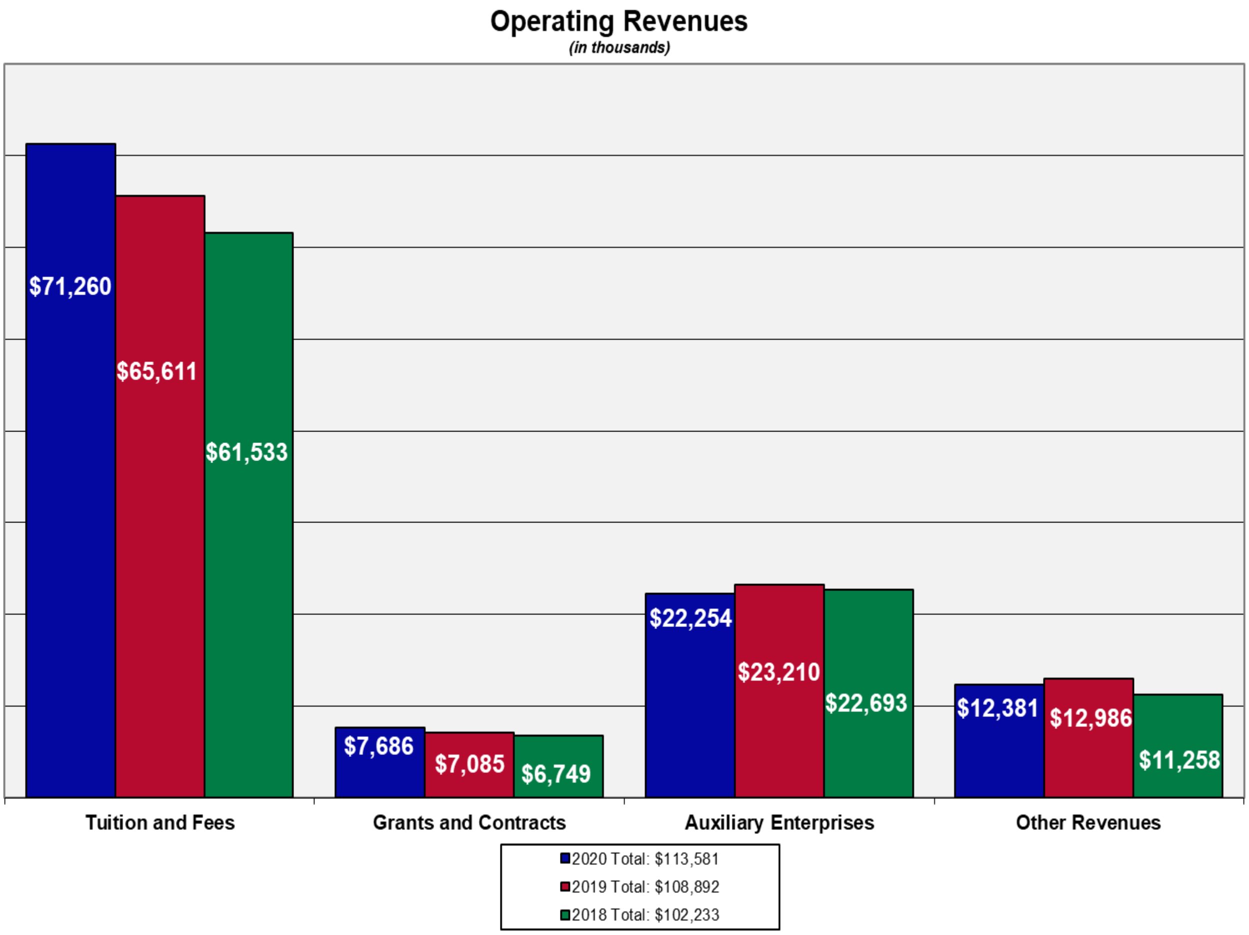
Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30		
	2020	2019	2018
Operating revenues			
Tuition and fees, net	$71,259,616	$65,611,246	$61,533,017
Grants and contracts	7,686,258	7,085,090	6,749,113
Auxiliary enterprises, net	22,253,995	23,209,248	22,692,489
Other operating revenues	12,381,116	12,986,256	11,257,958
Total operating revenues	113,580,985	108,891,840	102,232,577
Operating expenses	168,777,665	168,317,572	158,613,956
Operating loss	(55,196,680)	(59,425,732)	(56,381,379)
Nonoperating revenues (expenses)			
State appropriations	44,079,546	48,270,045	47,603,952
Pell grant revenue	10,793,567	10,923,903	10,815,972
Other nonoperating revenues (expenses)-net	9,402,896	4,770,908	(295,821)
Net nonoperating revenues	64,276,009	63,964,856	58,124,103
Income before other revenues	9,079,329	4,539,124	1,742,724
Capital appropriation grants and gifts			1,089,858
Loss on asset disposal	(1,812,244)	(268,313)	(1,065,643)
Total other (expenses) revenues	(1,812,244)	(268,313)	24,215
Total increase in net position	7,267,085	4,270,811	1,766,939
Net position – beginning of the year	214,382,803	210,111,992	221,730,273
Cumulative effect of change in accounting principle			(13,385,220)
Adjusted net position – beginning of year	214,382,803	210,111,992	208,345,053
Net position – end of year	$221,649,888	$214,382,803	$210,111,992

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 $113.6 million for fiscal year 2020, $108.9 million for fiscal year 2019, and $102.2 for fiscal year 2018. 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

	2020	2019	2018
Undergraduate, resident			
Lower division	$11,255	$10,729	$10,240
Upper division	11,795	11,245	10,756
Undergraduate, nonresident			
Lower division	16,751	16,225	15,736
Upper division	17,543	16,993	16,504
Graduate, resident	14,375	13,753	13,144
Graduate, nonresident	19,559	18,937	18,328

Room and Board

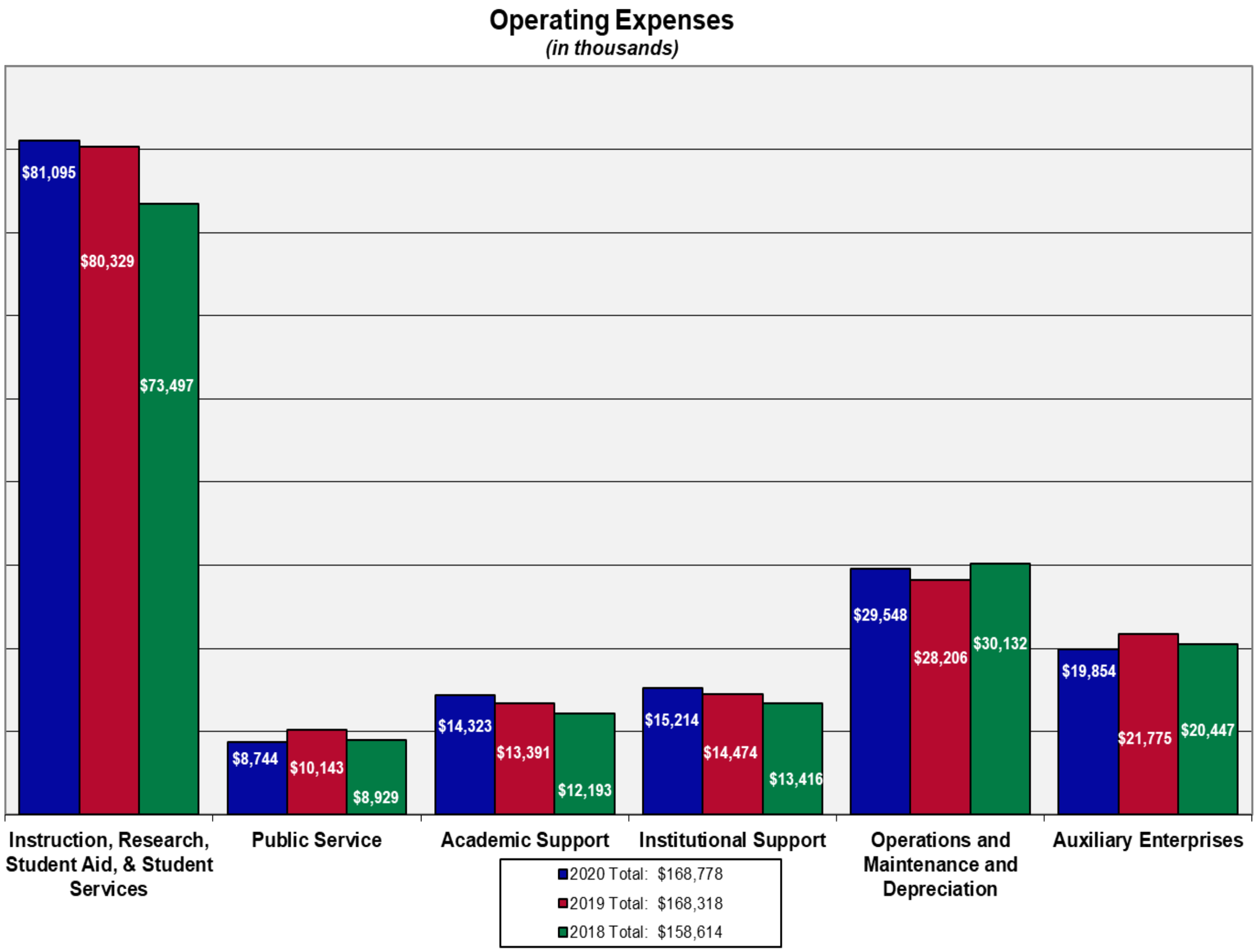
The annual cost of room and board which includes laundry and other miscellaneous residence fees, was $10,774 for fiscal year 2020, $10,666 for fiscal year 2019, and $10,328 for fiscal year 2018. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters.

Eight residence halls with a rated capacity of 2,396 students have an average occupancy of 2,252 (eight residence halls which housed 2,450 in fiscal year 2019) and are at 93.9% capacity (2019 – 93.3%). 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, 2020, including depreciation of $12.8 million, totaled $168.8 million. Of this total, $81.1 million, or 48.0%, was used for instruction, research, student aid, and student services, $29.5 million, or 17.5% was used for operation, maintenance, and depreciation, and $19.9 million, or 11.8%, was used for auxiliary enterprises. 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 as shown below:

Operating Expenses (continued)



Other

State appropriations of $44.1 million for the year ended June 30, 2020, $48.3 million for the year ended June 30, 2019, and $47.6 million for the year ended June 30, 2018 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 $3.5 million for the year ended June 30, 2020, $3.8 million for the year ended June 30, 2019, and $4.4 million for the year ended June 30, 2018.

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 2020	2019	2018
Cash provided (used) by:			
Operating activities	($39,479,083)	($45,752,718)	($41,683,274)
Noncapital financing activities	67,932,774	61,056,556	59,701,235
Capital and related financing activities	(28,864,788)	(37,935,041)	(1,854,135)
Investing activities	8,988,805	11,458,550	1,720,110
Net (decrease) increase in cash and cash equivalents	8,577,708	(11,172,653)	17,883,936
Cash and cash equivalents – beginning of year	20,873,965	32,046,618	14,162,682
Cash and cash equivalents – end of year	$29,451,673	$20,873,965	$32,046,618

Major sources of funds included in operating activities are student tuition and fees of $71.3 million, grants and contracts of $7.3 million and auxiliary sales of $22.6 million for the year ended June 30, 2020; 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; and 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. The major source of funds included in noncapital financing activities are State appropriations of $48.0 million, Pell grant revenue of $10.8 million, and Coronavirus Aid, Relief, and Economic Security Act (CARES) revenue of $2.3 million for the year ended June 30, 2020; State appropriations of $46.9 million and Pell grant revenue of $10.9 million for the year ended June 30, 2019; and State appropriations of $46.3 million and Pell grant revenue of $10.8 million for the year ended June 30, 2018. 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 $43.9 million increased $1.6 million for the year ended June 30, 2020 as compared to an increase in net assets of $2.1 million for the year ended June 30, 2019. The increase in net position of $1.6 million for fiscal year 2020 changed by $0.5 million from the increase in net position of $2.1 million for fiscal year 2019.

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 positon of $3.2 million for fiscal year 2018.

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

Economic Factors

The COVID-19 global pandemic brought unprecedented challenges to the world's economy. Operations at Northern Michigan University were impacted as the University had to quickly shift to remote learning on March 16, 2020. Remote learning continued throughout the summer semesters while a plan was developed to safely return to campus for Fall 2020. The University's quickly adapted operations were necessary to respond to lost revenue due to the pandemic.

The University expended considerable effort to provide a safe environment for students, faculty, staff, and campus visitors. These efforts included: COVID-19 testing for all students, faculty, and staff; expanded options for remote learning; changing the physical spacing in classrooms to provide for proper social distancing; requiring masks indoors and outdoors when near others; installing hand sanitizing stations throughout campus; limiting occupancy in gathering spaces; and many other changes to keep the University community and campus safe.

The University's ability to adapt and move forward were paramount in fiscal year 2020 ending in a positive financial position. This same effort and ability to adapt is important going forward as the pandemic continues along with its subsequent challenges to the University, which are expected to continue well into the next fiscal year.

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 every fall cohort since its inception.

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). NMU is developing less expensive proprietary software to replace Starfish after the 2020-21 academic year, and its functions will not only mirror, but enhance what is currently being utilized.

The University is implementing 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 (embedded) 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 assist with improving NMU's retention rate, increase student knowledge and use of University resources, and improve student awareness of University processes.

Factors Impacting Future Periods (continued)

Enrollment Management and Student Services - continued

The University is also investing in its recently launched U.P. Cybersecurity Institute as a way to attract new students to the programs of this in-demand career field, provide opportunities for adult career changers, and produce the talent necessary to support regional economic development. In 2019, NMU was selected by the State of Michigan to serve as the State's sixth cybersecurity hub, the only one of its kind in the Upper or Northern Lower Peninsula. The Institute that has developed from the cybersecurity hub designation is expanding training in cybersecurity to a wide range of Upper Peninsula residents, including K-12 students, college students, businesses, and adult community members, many of whom are seeking to change careers. This effort is rapidly contributing to the buildout of the local digital economy. 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 Upper Peninsula.

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/augmented 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 skill-based interactive virtual environments for just-in-time skill-based learning from anywhere in the world. Over the next several years, NMU will expand the courses for which virtual environments and course content materials are developed.

Enrollment Data

For the 2019-20 academic year, as of the fall census date, thirty-nine percent (39%) of the University's students represent Upper Peninsula Michigan residents, thirty-eight (38%) of the University's students came from Michigan's Lower Peninsula, and the remaining twenty-three percent (23%) came from other states and foreign countries.

The following table indicates the total end-of-semester (EOS) 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 EOS Headcount Enrollment					Annual Total Credit Hours Taken		
Academic Year	Undergraduate Students	Graduate Students	Total	Fiscal Year Equated Students	Undergraduate Students	Graduate Students	Total
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
2020	7,231	611	7,842	6,816	194,656	7,705	202,361

Factors Impacting Future Periods (continued)

Admissions

In alignment with the University's *Implementing the Strategic Plan – February 2017*, the Admissions staff conducted strategic activities designed to positively impact growth in Michigan and in out-of-state enrollment. The Admissions staff completed over 1,535 events including visits to high schools, community colleges, early middle colleges and other entities; college and career fairs; Wildcat Weekend, Presidential Scholars Competition, counselor summer visit college planning and academic major-focused outreach, and sponsored bus trips. The department hosted 1,793 prospective students through the Campus Visit Program (1,144 with family plus 349 on group bus visits). These numbers are lower than in 2018-19 due to the halt in activity after mid-March as the Coronavirus COVID 19 pandemic cancelled events and visits. Within one week of stay at home orders, the Admissions staff flipped to virtual campus visits, and of those 1,144 visitors, 153 visited campus virtually from late March through the end of June. To impact Fall 2020 enrollment in an increasingly competitive higher education environment, we continued 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. Additional recruitment in some new national markets was supported by the addition of a position later in the cycle, with expectations that we will more fully build on that dedicated work during the next few cycles. Scholarship adjustments targeted at increasing yield of a non-Michigan cohort were successful.

This work was accomplished with the support of many academic and support departments on campus. The cycle was challenging, from demographics and completion influencing the application flow, to COVID pandemic cancelling the best-laid plans. This resulted in declines in both freshman and transfer enrollments compared to the prior year. Admissions staff continues to collaborate with those leading NMU's Global Campus, international, and diversity enrollment efforts. The University increased staffing that has allowed us to reconfigure recruitment territories and are heading into this next cycle with two admissions counselors focused on U.P. new freshmen. The counselors will be strategically focusing on pipe-line building, being resources for the U.P. schools, and on yield.

They will work in conjunction with our transfer counselor who focuses on the U.P and developing transfer-friendly tools, communicating the benefits of the NMU experience. Admissions staff had many points in this recruitment cycle where our U.P. freshman numbers were ahead of last year, and our U.P. transfer enrollments were within 8 of last year. Throughout NMU's recruitment regions, staff are participating in, and offering, a variety of virtual recruitment activities designed to engage prospective students. One of the most significant changes to potentially having a positive impact is the proposal to change NMU's freshman admission policy to "test-blind" meaning standardized test scores would not be required or used in admissions decisions. The University approved a pilot year for 2021 terms and the proposal to make the policy permanent is moving through the formal process this fall. While many institutions nationally implemented temporary test-optional policies due to the pandemic, NMU's policy research on this topic had begun months prior with a goal of inclusiveness and using the best predictors of success at NMU. 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
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
2019	7,827	5,045	64.5	1,601	31.7

Factors Impacting Future Periods (continued)

Admissions - continued

By August 5, 2020, the University had received 6,372 freshman applications (as compared to 7,827 as of August 7, 2019) and had granted 4,178 acceptances (as compared to 5,045 as of August 7, 2019). The applications reported include a small number of applicants who applied for the fall semester initially but who later updated to a future semester.

Transfer Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Students Enrolled	Percent Enrolled
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
2019	1,337	698	52.2	419	60.0

By August 5, 2020, the University had received 1,201 transfer applications (as compared to 1,337 as of August 7, 2019) and had granted 687 acceptances (as compared to 698 as of August 7, 2019). The applications reported include a small number of applicants who applied for the fall semester initially but who later updated to a future semester.

Capital Plan

The University has recently focused on modernizing the campus as part of the strategic plan of investing in innovation. Major projects totaling $113 million that have been completed include The Woods ($79.6), Northern Center ($23.3), Dining facility ($5.8), and Medicinal Plant Chemistry program ($3.9). Further information regarding these and upcoming projects follow:

Modernization of the Northern Center, a 148,000 square foot facility, was completed in the fall of 2019 and provides a unique dining and entertainment option for the campus community, conference patrons and the public of the Upper Peninsula of Michigan. Improvements 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 are 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 cost $23.3 million.

A new academic program, Medicinal Plant Chemistry, was introduced in the fall of 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 approximated $3.9 million which included $2.2 million of laboratory equipment. The project was completed for fall 2019 classes.

Capital Plan (continued)

In December 2018, the Career Tech and Engineering Technology Facility project for $28.6 million was authorized for planning per Public Act 618. The project will provide new modern classrooms and flexible laboratories for skilled trades learning and product/equipment testing and training. A professionally prepared program statement and schematic plans were submitted for consideration of construction funding in the Fiscal Year 2022 Executive Budget. Construction authorization for the NMU Career Tech and Engineering Technology Project was among the line-item vetoes issued by the Governor on March 31, 2020 in an effort to direct additional financial resources to the COVID-19 pandemic in the State of Michigan. This project is on hold until construction authorization is received.

In 2019, the University completed a comprehensive update of their existing Campus Master Plan. The 2019 Campus Master Plan represents a new vision that aligns the University's academic mission, strategic plan, and physical planning goals into a single document which will help guide the future development of the campus. The Campus Master Plan builds upon many of the bold initiatives of the 2015 Strategic Plan, creating a new vision that is achievable yet flexible to accommodate future challenges. The master plan provides a 10-15 year framework for campus facilities and infrastructure that includes recommendations for building opportunities and additions, building demolition candidates, pedestrian and open space enhancements, roadway realignments, and new or reconfigured parking facilities. Campus Master Plan projects will be pursued dependent upon available funding from a combination of donors, state funding, and University resources.

Capital Plan (continued)

Bonds and notes payable at June 30, 2020 consist of the following:

Maturity Dates	Interest Rates		Maturity Value
	Coupon	Yield	
06/01/2025	3.000%	2.940%	$875,000
06/01/2026	3.000%	3.060%	900,000
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
12/01/2020	5.000%	2.060%	3,210,000
12/01/2021	5.000%	2.150%	3,035,000
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			$78,385,000

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 7,300 students and an additional 7,000 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 network serves 113 Upper Peninsula 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 more than 16,000 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 videoconferencing 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.

In 2020 and as part of the Federal Communication Commission's (FCC) 2016 spectrum repack project, WNMU-TV completed its construction of new transmission facilities, migrating from channel 13 to channel 8. As part of this federally mandated change, WNMU received nearly $1.25 million in funding from the FCC's spectrum auctions proceeds for this upgrade to its transmission facilities located in Ely Township. The channel change preserved 100% of WNMU-TV's prior geographic broadcast coverage area and includes new equipment that will allow the station to upgrade to the pending ATSC 3.0 broadcast standard.

In addition to this change, WNMU-TV (as part of a consortium of five other Michigan Public Broadcasting stations), will be adding a fourth broadcast channel to its station that provide 24 x 7 educational content under the State's Michigan Learning Channel (MLC) banner in early 2021. This project provides new encoding equipment for the station and will permit WNMU-TV to increase to a total of six, its maximum channel capacity paving the way for more channels beyond the MLC currently under construction. As part of its long-range plan, WNMU-TV is looking at using a portion of that added channel capacity to offer programs specifically geared towards the region's Native American populations.

State Appropriations

The University expects to receive $48.8 million in State Appropriations for the upcoming fiscal year. This is a decrease of $0.1 million from the FY 2020 original State approved funding level of $48.9 million. The University has set student tuition and fees at 3.7% above last fiscal year and has met the State tuition restraint requirements.

Rehmann

INDEPENDENT AUDITORS' REPORT

December 1, 2020

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, 2020 and 2019, 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, 2020 and 2019, 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.

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 other postemployment benefit plans and the related notes to the schedules, 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 December 1, 2020, 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	
	2020	**2019**	**2020**	**2019**
Assets				
Current assets				
Cash and cash equivalents	$ 29,451,673	$ 20,873,965	$ 672,912	$ 706,895
Short-term investments			507,620	1,145,554
State appropriation receivable	3,534,362	8,726,980		
Accounts receivable (less allowance 2020--$3,172,956; 2019--$3,439,398)	15,376,445	14,455,193		
Student notes receivable (less allowance 2020--$894,726; 2019--$794,425)	1,397,551	1,350,469		
Pledges receivable (less allowance 2020--$34,634; 2019--$71,747)			528,841	412,076
Inventories	842,795	1,144,382		
Other assets	2,455,703	2,125,153	310,325	306,960
Total current assets	53,058,529	48,676,142	2,019,698	2,571,485
Noncurrent assets				
Long-term investments	97,531,928	99,983,010	39,335,804	36,695,233
Student notes receivable (less allowance 2020--$2,288,219; 2019--$2,793,763)	3,574,602	4,748,801		
Other long-term investments	194,962	194,962	1,323,553	1,343,470
Pledges receivable			485,011	786,439
Capital assets, net	333,027,401	331,245,245	1,439,480	1,464,614
Total noncurrent assets	434,328,893	436,172,018	42,583,848	40,289,756
Total assets	487,387,422	484,848,160	44,603,546	42,861,241
Deferred outflows of resources				
Deferred charge on refunding	1,955,211	2,063,837		
Deferred pension and OPEB amounts	4,771,762	5,755,144		
Total deferred outflows of resources	6,726,973	7,818,981		
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	12,337,914	14,425,301	314,237	365,619
Accrued payroll and benefits	5,797,650	6,073,370		
Unearned revenue (unearned student fees & deposits)	5,572,190	5,340,362		
Long-term liabilities-current portion	7,488,743	7,286,701	41,896	
Total current liabilities	31,196,497	33,125,734	356,133	365,619
Noncurrent liabilities				
Annuities payable			310,090	181,758
Net pension and OPEB liability	71,734,742	70,910,257		
Long-term liabilities-net of current portion	101,109,936	103,406,466	68,104	
Total noncurrent liabilities	172,844,678	174,316,723	378,194	181,758
Total liabilities	204,041,175	207,442,457	734,327	547,377
Deferred inflows of resources				
Deferred pension and OPEB amounts	3,256,578	4,782,432		
Concessionaires arrangement	65,166,754	66,059,449		
Total deferred inflows of resources	68,423,332	70,841,881		
Net position				
Net investment in capital assets	173,285,048	164,757,526	1,439,480	1,464,614
Restricted for:				
Nonexpendable				
Scholarships and fellowships	63,757	63,757		
Loans	60,038	60,038		
Instruction	801,568	787,735		
Expendable				
Instruction	1,020,467	1,002,856	9,349,533	8,908,301
Scholarships and fellowships	556,604	526,544	26,656,592	25,605,965
Loans	3,341,627	3,277,990		
Research	194,536	191,329		
Academic, student and public service	90,150	88,594	3,310,355	2,887,924
Unrestricted	42,236,093	43,626,434	3,113,259	3,447,060
Total net position	$ 221,649,888	$ 214,382,803	$ 43,869,219	$ 42,313,864

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	
	2020	2019	2020	2019
Operating revenues				
Student tuition and fees (less allowance 2020--$21,085,000; 2019--$20,524,000)	$ 71,259,616	$ 65,611,246		
Gifts and contributions			$ 6,462,061	$ 5,395,892
Federal grants and contracts	5,077,491	4,911,007		
State and local grants and contracts	1,223,438	683,071		
Nongovernmental grants and contracts	1,385,329	1,491,012		
Sales and services of educational activities	12,364,719	12,986,256		
Auxiliary enterprise				
Residential life (less allowance 2020--$5,297,000; 2019--$5,280,000)	19,588,227	20,702,207		
Other auxiliary	2,665,768	2,507,041		
Other operating revenues	16,397		1,474	2,068
Total operating revenues	113,580,985	108,891,840	6,463,535	5,397,960
Operating expenses				
Educational and general				
Instruction	49,568,682	50,230,274		
Research	1,467,196	1,484,711		
Public service	8,743,981	10,142,872		
Academic support	14,322,783	13,390,587		
Student services	19,027,790	19,940,768		
Institutional support	15,214,403	14,474,255	1,944,604	1,949,470
Operations and maintenance of plant	16,777,742	16,189,903		
Student aid	11,030,764	8,673,476		
Depreciation	12,770,600	12,015,931		
Auxiliary enterprise				
Residential life	16,271,627	18,042,043		
Other	3,582,097	3,732,752		
Total operating expenses	168,777,665	168,317,572	1,944,604	1,949,470
Operating (loss) income	(55,196,680)	(59,425,732)	4,518,931	3,448,490
Nonoperating revenues (expenses)				
State appropriations	44,079,546	48,270,045		
Pell grant revenue	10,793,567	10,923,903		
Higher Education Emergency Relief Funds	3,458,415			
Gifts (including 2020--$2,940,000 and 2019--$2,893,000 from the NMU Foundation)	2,939,778	2,893,470		
Payments to and on behalf of the University			(3,052,305)	(2,976,833)
Investment income (net of investment expense for the University 2020--$98,101 and 2019--$120,767; and for the NMU Foundation 2020--$70,412 and 2019--$67,813	6,517,725	5,635,876	88,729	1,639,996
Interest on capital asset-related debt	(3,513,022)	(3,758,438)		
Net nonoperating revenues (expenses)	64,276,009	63,964,856	(2,963,576)	(1,336,837)
Income before other revenues (expenses)	9,079,329	4,539,124	1,555,355	2,111,653
(Loss) on asset disposal	(1,812,244)	(268,313)		
Total other revenues (expenses)	(1,812,244)	(268,313)		
Increase in net position	7,267,085	4,270,811	1,555,355	2,111,653
Net position - beginning of year	214,382,803	210,111,992	42,313,864	40,202,211
Net position - end of year	$221,649,888	$214,382,803	$43,869,219	$42,313,864

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

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	Year Ended June 30	
	2020	**2019**
Cash Flows from Operating Activities		
Tuition and fees	$ 71,276,876	$ 65,731,109
Grants and contracts	7,332,855	7,723,989
Payments to suppliers	(42,242,508)	(52,380,169)
Payments to employees	(101,866,202)	(92,183,680)
Payments for scholarships and fellowships	(11,030,764)	(8,673,476)
Collection of loans to students and employees	1,127,117	1,456,585
Auxiliary enterprise		
Residential life	19,901,977	20,573,843
Other	2,737,135	2,569,787
Other receipts	13,284,431	9,429,294
Net cash used by operating activities	(39,479,083)	(45,752,718)
Cash Flows from Noncapital Financing Activities		
State appropriations	47,954,796	46,866,077
Pell grant revenue	10,793,567	10,923,903
Higher Education Emergency Relief Funds	2,339,460	
William D. Ford direct lending receipts	35,570,008	34,905,202
William D. Ford direct lending disbursements	(35,570,008)	(34,905,202)
Gifts and grants received for other than capital purposes	2,954,577	2,875,095
Other	3,890,374	391,481
Net cash provided by noncapital financing activities	67,932,774	61,056,556
Cash Flows from Capital and Related Financing Activities		
Capital financing	1,139,746	3,110,254
Purchases of capital assets	(19,610,397)	(29,882,315)
Principal paid on capital debt	(6,668,564)	(6,605,924)
Interest paid on capital debt	(3,725,573)	(4,557,056)
Net cash used by capital and related financing activities	(28,864,788)	(37,935,041)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	110,041,764	33,975,190
Interest on investments	3,343,492	2,648,701
Purchase of investments	(104,396,451)	(25,165,341)
Net cash provided by investing activities	8,988,805	11,458,550
Net increase (decrease) in cash and cash equivalents	8,577,708	(11,172,653)
Cash and cash equivalents - beginning of the year	20,873,965	32,046,618
Cash and cash equivalents - end of year	$ 29,451,673	$ 20,873,965
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	($55,196,680)	($59,425,732)
Depreciation expense	12,770,600	12,015,931
Change in assets and liabilities:		
Receivables, net	1,776,425	(2,032,371)
Inventories	301,588	271,306
Other assets	(317,627)	129,984
Accounts payable and accrued liabilities	(312,467)	(3,999,016)
Unearned revenue	228,736	629,443
Accrued payroll and benefits	(329,039)	596,407
Net pension and OPEB liabilities	1,599,381	6,061,330
Net cash used by operating activities	($39,479,083)	($45,752,718)

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 and related notes

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 nineteen 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 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, 2020 and 2019, the Foundation made distributions of $3.1 and $3.0 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

<u>Basis of Accounting—Northern Michigan University</u>

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, Federal Pell Grants, and Federal Higher Education Emergency Relief Fund grant (HEERF) related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) 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.

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.

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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statements 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 2020 and 2019 was approximately $12,771,000 and $12,016,000, 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 statements 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 other postemployment benefit ("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 charge on refunding. A deferred refunding charge 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.

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 O. 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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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).

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Risks and Uncertainties

In March 2020, the World Health Organization declared the global novel coronavirus disease (COVID-19) outbreak a pandemic. In response, governments and organizations have taken preventative or protective actions, such as temporary closures of nonessential businesses and “shelter-at-home” guidelines for individuals. As a result, the global economy has been negatively affected. To date, the University’s financial condition, results of operations, and cash flows have not been significantly impacted by the COVID-19 outbreak. As a result, the University was allocated funding of approximately $5,995,000 from the Education Stabilization Fund through the Federal CARES Act for the Higher Education Emergency Relief Fund (HEERF), which was enacted into law on March 28, 2020. The University additionally recognized a reduction in State appropriation revenue in fiscal 2020 of approximately $5,358,000 as a result of the State of Michigan's 11% cut in appropriations. Subsequent to year end these funds were replaced through CARES Act replacement funding, however, the replacement funding has certain restrictions for what the funds can be used for. Additionally, the University transitioned their in-person instruction to an online format and closed its facilities in March 2020. The facilities were reopened in August 2020 and in-person instruction resumed. However, the University cannot predict the full impact of the COVID-19 outbreak. The impact on the University will depend on future developments, including the duration and severity of the outbreak and the effectiveness of related governmental advisories and restrictions. These developments are highly uncertain. The University is unable to predict with certainty the impact of COVID-19 on its financial condition, results of operations, or cash flows.

Subsequent Events

Subsequent to June 30, 2020, the University settled litigation in the amount of $1.46 million for which the University is receiving insurance proceeds in the amount of $800,000. As of June 30, 2020, the litigation was uncertain as to the timing and the amount of a settlement and as such no liability was recorded as of such date.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY

Investment of Operating Funds

The operating portfolio is invested in accordance with the Investment Policy Statement for Operating Cash as established by the Board of Trustees. The Finance Committee, acting on behalf of the Board of Trustees, is responsible for implementing the Investment Policy Statement and has delegated the administration of the investment portfolio to the Vice President of Finance & Administration in consultation with the Committee/Board.

Investment pool accounts and objectives have been established to provide maximum financial resources for the University while balancing risk and return. The Short-Term investment Pool’s assets are intended to cover the investment of University funds that are required for daily liquidity and expenditures of one year or less. They are invested in Government Money Market Fixed Income. The Intermediate Term Investment Pool’s assets are intended for use in the next one to three years. They are invested in Short Term and Intermediate Term Fixed Income. The Long-Term Investment Pool’s assets are those needed in three years or greater. These are invested in capital appreciation and capital preservation funds.

Investment of Endowed Funds

The endowment portfolio is invested in accordance with the Investment Policy Statement for Endowments as established by the Board of Trustees. The Finance Committee, acting on behalf of the Board of Trustees, is responsible for implementing the Investment Policy Statement and has delegated the administration of the endowment portfolio to the Vice President of Finance & Administration in consultation with the Committee/Board.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

Investment of Endowed Funds - continued

The performance objective is to maintain the purchasing power of the Endowment while minimizing, to the greatest extent possible, the possibility of a significant loss of principal. Asset allocation guidelines have been established to maintain a diversified portfolio and include equity, fixed income, and public real estate.

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

	2020	2019
Cash and cash equivalents	$29,451,673	$20,873,965
Long-term investments	97,531,928	99,983,010
Other long-term investments	194,962	194,962
Total	$127,178,563	$121,051,937

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 in the short-term pool, the average weighted maturity generally will not exceed one year. For investments in the Intermediate pool, the average weighted duration of the portfolio is expected to be less than six years. For investments in the Long-term pool, the average weighted duration of fixed income holdings 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, 2020 and 2019, the carrying amounts of the University's deposits were $7,444,754 and $8,859,604, respectively. The bank balance of the University's deposits at June 30, 2020 and 2019 was $8,596,431 and $10,320,244, respectively. Of that amount, $1,000,000 and $1,000,000 was insured in 2020 and 2019, respectively. The remaining $7,596,431 and $9,320,244 at June 30, 2020 and 2019, 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. For investments within the Short-term pool, 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-Term investments, the weighted average credit quality must be BBB (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 investments, the weighted average credit quality in fixed income investments shall be no less than BBB (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, 2020 and 2019, the University's bond mutual funds, and money market mutual funds are not rated.

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 Statement for Operating Cash, the majority of investments will be dollar denominated. The University holds investments in various global equity mutual funds. These funds are invested in various countries and therefore expose the University to foreign currency risk. Investments in these funds were $7,311,204 and $3,916,631 for the years ended June 30, 2020 and 2019, respectively.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's general policy shall be to diversity investments within both equity and fixed income securities to provide a balance between return and undue risk concentrations in any single issuer. As of June 30, 2020 and 2019, the University did not have investments in any one issuer that was greater than 5% of total investments.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

At June 30, 2020, the University had the following investments and maturities:

		Years			
	Fair Market Value	**Less Then 1**	**1 - 5**	**6 - 10**	**More Then 10**
Money Market Mutual Funds	$22,006,919	$22,006,919			
Bond Mutual Funds	80,099,812		$41,477,981	$37,616,717	$ 1,005,114
Equity Mutual Funds	16,775,850				16,775,850
Stock & ETFs	656,266				656,266
Real Estate	194,962				194,962
Total	119,733,809	$22,006,919	$41,477,981	$37,616,717	$18,632,192
Less Investments Reported as "Cash Equivalents" on Statement of Net Position	(22,006,919)				
Total Investments	$97,726,890				

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

		Years			
	Fair Market Value	**Less Then 1**	**1 - 5**	**6 - 10**	**More Then 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				

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, 2020 or 2019.

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.

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 table sets forth by level, within the fair value hierarchy, the University's investments measured at fair value on a recurring basis as of June 30, 2020:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total 2020
Money Market Mutual Funds	$22,006,919			$22,006,919
Bond Mutual Funds	80,099,812			80,099,812
Equity Mutual Funds	16,775,850			16,775,850
Stock & ETFs	656,266			656,266
Real Estate			$194,962	194,962
Leveled investment total	$119,538,847		$194,962	$119,733,809

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

The following table sets forth by level, within the fair value hierarchy, the University's investments measured at fair value on a recurring basis as of June 30, 2019:

	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

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 in fair value of investments in the statement of activities. 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.

Investment income for the Foundation for the years ended June 30 consists of:

	2020	2019
Realized (loss) gain on sale of investments	($287,286)	$654,308
Unrealized (loss) gain on investments	(1,025,196)	(492,983)
Interest and Dividends	1,471,623	1,546,484
Investment fee	(70,412)	(67,813)
Total	$88,729	$1,639,996

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

Resources from the net assets 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's return, risk, and 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.

NOTE C—INVESTMENTS—FOUNDATION (continued)

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 endowment 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 endowment 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 endowment 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 MV on the annual valuation date is less than 85 percent of the HGV.

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.

NOTE C—INVESTMENTS—FOUNDATION (continued)

Fair Value Hierarchy (continued)

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.

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, 2020:

	Balance at June 30, 2020 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Mutual and ETF funds:				
Index funds	$12,134,002	$12,134,002		
Balanced funds	5,172,024	5,172,024		
Growth funds	10,572,329	10,572,329		
Fixed income funds	6,956,012	6,956,012		
Total mutual and ETF funds	34,834,367	34,834,367		
Alternative investments measured at net asset value:				
Private equity funds (a)	261,225			
Hedge funds (b)	2,150,928			
Total alternative investments measured at net asset value	2,412,153			
Cash equivalents	2,596,904	2,596,904		
Held by third party	1,323,553			$1,323,553
Total assets	$41,166,977	$37,431,271		$1,323,553
Liabilities				
Liabilities on annuity contracts and trusts	$310,090			$310,090

(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.

(b) Hedge funds - This category includes investments in hedge funds that invest primarily in other hedge funds, limited partnerships, and investment companies. Management of these funds employs a variety of strategies and has the ability to shift investments based on market, economic, political, and government-driven events. The fair values of the investments in this category have been estimated using net asset value per share of the investments. These investments can be redeemed, and currently, there are no restrictions.

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 Total	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.

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, 2020, the Foundation estimates the value of the perpetual trust to be $1,270,130 and the irrevocable charitable remainder trust to be $53,423.

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 8.8 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, the 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 Activities.

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 $2,412,153 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, 2020:

	Balance at June 30, 2019	Total realized gains (losses) included in change in net position	Gross additions, deletions, and purchases	Gross sales and maturities	Balance at June 30, 2020
Assets					
Investments:					
Irrevocable trust receivable	$1,343,470	($19,917)			$1,323,553
Liabilities					
Liabilities on annuity contracts and trusts	$181,758		$128,332		$310,090

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

NOTE C—INVESTMENTS—FOUNDATION (continued)

Concentration of Credit Risk

The current asset allocation 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 and 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 Fund'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, 2020, the Foundation's assets are held in combination of mutual funds and exchange traded funds (ETF's), hedge funds, and 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:

	2020	**2019**
State appropriations - net	$3,534,362	$8,726,980
Student notes receivable – net	4,972,153	6,099,270
Charter schools	7,301,271	6,850,135
NMU Foundation	50,737	578,413
State, federal and private grants	2,715,459	824,958
Students, employees, and vendors - net	5,308,978	6,201,687
Total	$23,882,960	$29,281,443

For the years ended June 30, 2020 and 2019, the University received approximately $40,174,000 and $37,864,000, 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, 2020:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Depreciable assets:				
Land improvements	$10,589,718	$772,903	$451,197	$10,911,424
Buildings and improvements	332,340,562	10,589,176	2,410,176	340,519,562
Infrastructure	19,478,633	175,686	2,798,739	16,855,580
Equipment	84,339,993	10,565,345	4,362,936	90,542,402
Books	6,892,748	61,377	164,515	6,789,610
Subtotal depreciable assets	453,641,654	22,164,487	10,187,563	465,618,578
Nondepreciable assets:				
Land	6,085,254	77,014		6,162,268
Buildings	75,748,937			75,748,937
Construction in progress	7,921,824	(5,543,266)		2,378,558
Subtotal nondepreciable assets	89,756,015	(5,466,252)		84,289,763
Total depreciable and nondepreciable assets	543,397,669	16,698,235	10,187,563	549,908,341
Less accumulated depreciation for:				
Land improvements	8,108,038	377,650	403,664	8,082,024
Buildings and improvements	137,498,012	6,869,995	1,919,952	142,448,055
Infrastructure	15,304,638	445,073	2,561,563	13,188,148
Equipment	45,272,615	5,005,456	3,040,537	47,237,534
Books	5,969,121	72,426	116,368	5,925,179
Total accumulated depreciation	212,152,424	12,770,600	8,042,084	216,880,940
Capital assets, net	$331,245,245	$3,927,635	$2,145,479	$333,027,401

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, 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

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 $1,493,000 and $3,623,000 at June 30, 2020 and 2019, respectively. The commitments of $1,493,000 for fiscal 2020 are expected to be paid from University resources.

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:

	2020	2019
Accrued payroll and benefits	$5,797,650	$6,073,370
Construction contractors	1,650,359	4,458,659
Charter schools	7,082,233	6,644,631
Vendors	3,174,192	2,956,423
Interest payable	431,130	365,588
Total	$18,135,564	$20,498,671

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
2021	$24,582	$376,344	$7,199	$408,125
2022		75,795	407	76,202
Total	$24,582	$452,139	$7,606	$484,327

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

	2020	2019
Laptops	$4,384,353	$7,027,699
Less:		
accumulated depreciation	3,070,416	4,031,421
Net book value	$1,313,937	$2,996,278

Lease expense for 2020 and 2019 was approximately $33,000 and $37,000, 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. As of June 30, 2020, there are 14 new sites operational with 5 sites scheduled to go online in the next three months. As of June 30, 2020, the University has received $6.5 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 2030, 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, 2047.

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%.

NOTE I—LONG-TERM LIABILITIES (continued)

As of June 30, 2020, debt service requirements of the bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2021	$5,430,000	$3,457,455	$8,887,455
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
2025	5,315,000	2,534,537	7,849,537
Total Five Years	25,685,000	14,994,905	40,679,905
Thereafter			
2026-2030	25,170,000	9,350,155	34,520,155
2031-2035	18,020,000	4,072,559	22,092,559
2036-2040	6,155,000	1,240,336	7,395,336
2041-2044	3,355,000	310,163	3,665,163
Total	78,385,000	$29,968,118	$108,353,118
Deferred charge on refunding, net	(1,955,211)		
Deferred re-offering premium	6,638,919		
Total	$83,068,708		

Long-term liability activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable:					
Bonds payable	$83,655,000		$5,270,000	$78,385,000	$5,430,000
Premium on bond issuance	7,025,635		386,716	6,638,919	386,716
Total bonds payable	90,680,635		5,656,716	85,023,919	5,816,716
Other liabilities:					
Severance benefits (Note L)		$4,362,338		4,362,338	1,071,940
Michigan Strategic Fund loan (direct borrowing)	5,360,254	1,139,746		6,500,000	
The Woods commitments (Note O)	4,600,512		45,760	4,554,752	46,127
Capital lease (direct borrowing)	1,850,703		1,398,564	452,139	376,344
Compensated absences	2,627,853	2,207,821	1,866,491	2,969,183	177,616
Federal capital contribution of Perkins Loan Program	5,573,210		836,862	4,736,348	
Total other liabilities	20,012,532	7,709,905	4,147,677	23,574,760	1,672,027
Total long-term liabilities	$110,693,167	$7,709,905	$9,804,393	$108,598,679	$7,488,743

NOTE I—LONG-TERM LIABILITIES (continued)

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 J—OPERATING EXPENSES

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

	2020	2019
Salaries, wages and benefits	$103,136,544	$98,841,417
Supplies and support services	35,561,512	41,487,099
Utilities	6,278,244	7,299,649
Depreciation expense	12,770,600	12,015,931
Scholarships	11,030,765	8,673,476
Total	$168,777,665	$168,317,572

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, 2020, 2019, and 2018 the plan had 677, 747, and 732 participants, respectively.

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

	2020	2019	2018
University Contributions	$7,603,777	$7,390,361	$7,000,487
Covered Payroll	55,240,627	53,660,531	50,752,178

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, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year 2020, which includes supplemental MPSERS UAAL employer stabilization contributions that are passed through the University to MPSERS:.

Pension Contribution Rates		
Benefit Structure	**Member**	**Employer**
Basic	0.0 – 4.0%	25.03%
Member Investment Plan	3.0 – 7.0	25.03
Pension Plus	3.0 – 6.4	N/A
Defined Contribution	0.0	19.74

The University’s contributions to MPSERS under all pension plans as described above for the years ended June 30, 2020, 2019, and 2018 were $4,712,064, $4,731,455, and $4,391,052 respectively.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2020, which includes supplemental MPSERS UAAL employer stabilization contributions that are passed through the University to MPSERS:.

OPEB Contribution Rates		
Benefit Structure	**Member**	**Employer**
Premium Subsidy	3.00%	7.93%
Personal Healthcare Fund (PHF)	0.00	7.57

The University required contributions to the OPEB plan for the years ended June 30, 2020, 2019, and 2018 were $1,216,972, $1,215,813, and $1,558,414, 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 $63,128,769 and $59,796,196 as of June 30, 2020 and 2019 respectively, for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019 and 2018 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2018 and 2017 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, 2019, the University's proportion (as calculated by MPSERS) was 9.42796%, which was an increase of .07% points from its proportion measured as of September 30, 2018 of 9.35723%.

For the year ended June 30, 2020, the University recognized pension expense of $7,658,867 from changes in MPSERS related net pension liability, deferred inflows, and deferred outflows. At June 30, 2020, 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
Net difference between projected and actual earnings on pension plan investments		$1,142,510	($1,142,510)
		1,142,510	(1,142,510)
State appropriations for MPSERS		1,100,151	(1,100,151)
University contributions subsequent to the measurement date	$3,625,502		3,625,502
Total	$3,625,502	$2,242,661	$1,382,841

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 $3,625,502 will be recognized as a reduction in net pension liability for the year ending June 30, 2021. Deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to UAAL stabilization payments of $1,100,151 will be recognized as State appropriations revenue for the year ending June 30, 2021. 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
2021	($567,349)
2022	(614,161)
2023	(152,606)
2024	191,606
Total	($1,142,510)

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)

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

The University reported a liability of $8,605,973 and $11,114,061 as of June 30, 2020 and 2019 respectively for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019 and 2018, respectively and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2018 and 2017, respectively. The University's proportion of the net OPEB liability was determined by dividing each employers 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, 2019, the University's proportion (as calculated by MPSERS) was 9.37673% which was an increase of .0089% points from its proportion measured as of September 30, 2018 of 9.36784%.

For the year ended June 30, 2020, the University recognized a reduction in OPEB expense of $1,744,096. At June 30, 2020, 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		$531,485	($531,485)
Changes in assumptions	$213,648		213,648
Net difference between projected and actual earnings on OPEB plan investments		265,161	(265,161)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,625	54	1,571
	215,273	796,700	(581,427)
State appropriations for MPSERS		217,217	(217,217)
University contributions subsequent to the measurement date	930,987		930,987
Total	$1,146,260	$1,013,917	$132,343

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 $930,987 will be recognized as a reduction in net OPEB liability for the year ending June 30, 2021. Deferred inflows of resources resulting from the OPEB portion of state aid payments received pursuant to UAAL stabilization payments of $217,217 will be recognized as State appropriations revenue for the year ending June 30, 2021. 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
2021	($455,989)
2022	(139,723)
2023	(31,505)
2024	45,790
Total	($581,427)

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)

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

NOTE K—RETIREMENT PLANS (continued)

<u>Michigan Public School Employees' Retirement System (MPSERS) (continued)</u>

Actuarial Assumptions (continued)

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, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Additional information as of the latest actuarial valuation follows:

Valuation Date	September 30, 2018 and 2017
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate	2.75%
Investment Rate of Return Pension	
MIP and Basic Plans (Non-Hybrid	6.80% for 2018 and (7.05% for 2017)
Pension Plus Plan (Hybrid)	6.80% for 2018 and (7.0% for 2017)
Projected Salary Increases	2.75 – 11.55%, including wage inflation at 2.75%
Investment Rate of Return OPEB	6.95% for 2018 and (7.15% for 2017)
Cost-of-living Pension adjustments	3% annual Non-Compounded for MIP Members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% and (3.0% for 2017) Year 12
Mortality	2018-RP-2014 Male and Female Employee 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. 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.
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, 2019, is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 1.0000 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 1.1641 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 2019 and 2018 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/orsschools).

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.

Long-term Expected Return on Pension 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, 2019 are summarized in the following table:

Pension
As of September 30, 2019

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-weighted Rate of Return
Domestic equity pools	28.0%	5.50%	1.54%
Alternative investment pools	18.0	8.60	1.55
International equity pools	16.0	7.30	1.17
Fixed income pools	10.5	1.20	0.13
Real estate and infrastructure pools	10.0	4.20	0.42
Absolute return pools	15.5	5.40	0.84
Short-term investment pools	2.0	0.80	0.02
Total	100.0%		5.67
Inflation			2.30
Risk adjustment			-1.17
Investment rate of return			6.80%

NOTE K—RETIREMENT PLANS (continued)

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

Long-term Expected Return on Pension 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 OPEB 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, 2019 are summarized in the following table:

OPEB
As of September 30, 2019

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-weighted Rate of Return
Domestic equity pools	28.0%	5.50%	1.54%
Alternative investment pools	18.0	8.60	1.55
International equity pools	16.0	7.30	1.17
Fixed income pools	10.5	1.20	0.13
Real estate and infrastructure pools	10.0	4.20	0.42
Absolute return pools	15.5	5.40	0.84
Short-term investment pools	2.0	0.80	0.02
Total	100.0%		5.67
Inflation			2.30
Risk adjustment			-1.02
Investment rate of return			6.95%

NOTE K—RETIREMENT PLANS (continued)

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

Long-term Expected Return on OPEB 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%

Discount Rate

A discount rate of 6.80% (7.05% for 2019) was used to measure the total pension liability (6.80% for the Pension Plus Plan, a hybrid plan provided through non-university employers only). A discount rate of 6.95% (7.15% for 2019) 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 6.80% (7.05% for the 2019) and 6.95% (7.15% for 2019) 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 6.80%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1% lower (5.80%) or 1% higher (7.80%) than the current rate as of June 30, 2020:

	1% Decrease (5.80%)	Current Single Discount Rate Assumption (6.80%)	1% Increase (7.80%)
University's proportionate share of net pension liability (2020)	$74,330,339	$63,128,769	$53,585,624

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 OPEB liability calculated using the discount rate of 6.95%, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (5.95%) or 1% higher (7.95%) than the current rate as of June 30, 2020:

	1% Decrease (5.95%)	Current Single Discount Rate Assumption (6.95%)	1% Increase (7.95%)
University's proportionate share of net OPEB liability	$10,814,511	$8,605,973	$6,725,935

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

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 7.50%, as well as what the University's net OPEB liability would be if it were calculated using a trend rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate as of June 30, 2020:

	1% Decrease (6.50%)	Current Healthcare Cost Trend (7.50%)	1% Increase (8.50%)
University's proportionate share of net OPEB liability	$6,599,170	$8,605,973	$10,905,501

The following presents the University's proportional share of net OPEB liability calculated using assumed trend rate of 7.50%, as well as what the University's net OPEB liability would be if it were calculated using a trend rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate as of June 30,2019:

	1% Decrease (6.50%)	Current Healthcare Cost Trend (7.50%)	1% Increase (8.50%)
University's proportionate share of net OPEB liability	$9,046,076	$11,114,061	$13,480,119

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, the University reported a payable of $165,331, for the outstanding amount of pension contributions to the Plan. There was no amount reported as a payable at June 30, 2020.

Payable to the OPEB Plan

At June 30, 2019, the University reported a payable of $40,984, for the outstanding amount of OPEB contributions to the Plan. There was no amount reported as a payable at June 30, 2020.

NOTE L—EARLY RETIREMENT INCENTIVE PLAN

During fiscal year 2020, the University established an Early Retirement Incentive Plan (ERIP) available to all current full-time employees who completed ten years of service by August 31, 2020. Employees had to apply for the ERIP no later than June 19, 2020. Approved employees were eligible for post-separation cash severance benefits. Employees could elect Cobra health coverage benefits at the employee's expense for a period not to exceed 36 months. The ERIP is expected to be paid over a three-year period beginning in fiscal year 2021. The ERIP liability as of June 30, 2020 was approximately $4,362,000, of which approximately $1,072,000 is payable in fiscal year 2021.

NOTE M—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 are provided on a claim made basis.

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 $11,599,768 at June 30, 2019, 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 in aggregate for both fiscal years ended June 30, 2020 and 2019. 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, 2020 and 2019, the aggregate excess insured maximum liability is $5,000,000. Changes in the estimated liability for the fiscal years ended June 30, 2020 for health benefits, including dental and vision, were as follows:

Claims activity for the year ended June 30, 2020:

	Liability – Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability – End of Year
Medical claims	$2,804,070	$7,354,578	($8,439,101)	$1,719,547
Workers' compensation	30,662	166,300	(155,929)	41,033
Total	$2,834,732	$7,520,878	($8,595,030)	$1,760,580

NOTE M—LIABILITY INSURANCE (continued)

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

NOTE N—CONTINGENCIES

The University receives significant financial assistance from State and Federal agencies in the form of grants and awards. The use of these funds generally requires compliance with grantor terms and conditions and is subject to audit by the grantor agency.

Disallowed expenditures resulting from grantor audits could become a liability of the University, however, management believes that any future disallowances, if any, would not have a material effect on the University's financial statements.

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 O—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, 2020 and 2019, and deferred inflows of resources in the amount of $65.2 million and $66.1 million at June 30, 2020 and 2019, 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, 2020 and 2019 for trash removal and insurance in the amount of $4.55 million and $4.60 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.

REQUIRED SUPPLEMENTARY INFORMATION
Northern Michigan University

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

	2020	2019	2018	2017	2016	2015
A. University's proportion of net pension liability as a percentage	9.42796%	9.35723%	9.36203%	9.40606%	9.91719%	9.80724%
B. University's proportionate share of net pension liability	$63,128,769	$59,796,196	$53,856,163	$52,696,531	$54,405,703	$36,787,546
C. University's covered payroll	$5,579,565	$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 payroll (%)	1,131.43%	992.56%	853.37%	752.33%	717.22%	441.17%
E. Plan fiduciary net position as a percentage of total pension liability	44.24%	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

	2020	2019	2018	2017	2016	2015
Statutorily required contribution	$4,712,064	$4,731,455	$4,391,052	$4,085,736	$3,402,937	$3,315,213
Contributions in relation to the statutorily required contribution	(4,712,064)	(4,731,455)	(4,391,052)	(4,085,736)	(3,402,937)	(3,315,213)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
University's covered payroll	$4,960,158	$5,714,430	$6,036,760	$6,484,390	$7,382,355	$7,750,117
Contributions as a percentage of covered payroll	95.00%	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.

See notes to required supplementary information.

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

	2020	2019	2018
A. University's proportion of net OPEB liability as a percentage	9.37673%	9.36784%	9.37099%
B. University's proportionate share of net OPEB liability	$8,605,973	$11,114,061	$13,335,045
C. University's covered payroll	$5,579,565	$6,024,443	$6,310,967
D. University's proportionate share of net OPEB liability as a percentage of its covered payroll (%)	154.24%	184.48%	211.30%
E. Plan fiduciary net position as a percentage of total OPEB liability	61.07%	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

	2020	2019	2018
Statutorily required contribution	$1,216,972	$1,215,813	$1,558,414
Contributions in relation to the statutorily required contribution	(1,216,972)	(1,215,813)	(1,558,414)
Contribution deficiency (excess)	$ -	$ -	$ -
University's covered payroll	$4,960,158	$5,714,430	$6,036,760
Contributions as a percentage of covered payroll	24.53%	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.

See notes to required supplementary information.

Changes of benefit terms: There were no changes of benefit terms in FY 2020.

Changes of assumptions: Actuarial assumptions related to the pension plan's investment rate of return changed from 7.05% in fiscal year 2019 to 6.80% in fiscal year 2020. Actuarial assumptions related to the OPEB plan's investment rate of return changed from 7.15% in fiscal year 2019 to 6.95% in fiscal year 2020.

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.