University of Detroit Mercy

Financial Report

June 30, 2015

Contents

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Independent Auditor's Report

To the Board of Trustees
University of Detroit Mercy

Report on the Financial Statements

We have audited the accompanying financial statements of University of Detroit Mercy (the "University"), which comprise the balance sheet as of June 30, 2015 and 2014 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 opinion.

To the Board of Trustees
University of Detroit Mercy

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Detroit Mercy as of June 30, 2015 and 2014 and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015 on our consideration of the University of Detroit Mercy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 University of Detroit Mercy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 23, 2015

University of Detroit Mercy

Balance Sheet

	June 30 2015	June 30 2014
Assets		
Cash and cash equivalents	$ 19,980,178	$ 25,480,749
Accounts receivable - Less allowance of $2,433,000 in 2015 and $2,825,000 in 2014:		
Student	5,707,612	6,219,558
Government	1,472,386	4,508,505
Dental clinic	219,710	183,056
Other	532,284	794,565
Total accounts receivable - Net of allowance	7,931,992	11,705,684
Contributions receivable - Net	2,801,034	2,060,616
Notes receivable - Less allowance of $4,426,000 in 2015 and $4,252,000 in 2014 (Note 2)	16,389,803	16,523,625
Prepaids, deposits, and other assets	1,539,811	1,072,067
Investments	64,050,919	46,097,996
Properties - Net (Note 5)	119,616,424	121,199,658
Total assets	**$ 232,310,161**	**$ 224,140,395**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 6,328,367	$ 6,232,681
Other accrued expenses	6,011,180	6,561,332
Fair value of interest rate swap agreement (Note 6)	5,382,229	4,944,274
Unearned revenue	8,580,674	8,758,749
Federal student loans	16,300,325	16,264,167
Notes and bonds payable (Note 6)	42,310,000	43,310,000
Accrued postretirement benefits (Note 7)	7,299,889	7,650,325
Total liabilities	92,212,664	93,721,528
Net Assets		
Unrestricted	99,273,261	93,379,343
Temporarily restricted	15,501,614	14,254,146
Permanently restricted	25,322,622	22,785,378
Total net assets	140,097,497	130,418,867
Total liabilities and net assets	**$ 232,310,161**	**$ 224,140,395**

University of Detroit Mercy

Statement of Activities and Changes in Net Assets

	Year Ended June 30	
	2015	2014
Unrestricted Net Assets		
Revenue:		
Student tuition and fees	$ 169,706,181	$ 163,596,510
Less university-sponsored student financial aid	(52,956,350)	(52,883,263)
Less student financial aid funded from gifts and grants	(6,229,400)	(5,335,170)
Net student tuition and fees	110,520,431	105,378,077
Government appropriations, grants, and contracts	10,576,369	10,438,469
Private gifts, grants, and contracts	6,579,839	4,870,476
Investment income	385,659	225,698
Realized and unrealized (loss) gain on investments - Net	(441,503)	905,907
Departmental activities and other revenue	8,989,476	10,365,582
Auxiliary enterprises	8,572,752	8,875,260
Net assets released from restrictions	2,272,198	2,264,818
Total revenue	147,455,221	143,324,287
Expenses:		
Instruction	56,997,897	56,311,752
Research	1,148,880	1,088,653
Public service	1,128,842	1,360,010
Academic support	26,865,083	24,828,389
Student services	9,609,922	9,059,926
Institutional support	16,879,536	17,967,565
Operations and maintenance of plant	9,049,127	9,137,445
Depreciation	7,823,923	7,764,810
Interest on long-term debt	1,551,231	1,683,944
Adjustment of value of interest rate swap agreement (Note 6)	437,955	41,943
Auxiliary enterprises	10,573,263	10,479,797
Other	180,243	197,444
Total expenses	142,245,902	139,921,678
Increase in Unrestricted Net Assets from Operations - Before other adjustments	5,209,319	3,402,609
Nonoperating Activities - Adjustment to pension and postretirement benefits (Note 7)	684,599	(300,753)
Increase in Unrestricted Net Assets	5,893,918	3,101,856
Temporarily Restricted Net Assets		
Gifts - Net of write-off of $130,547 in 2015 and recovery of $47,479 in 2014	3,142,800	2,210,849
Investment income	836,302	581,642
Realized and unrealized (loss) gain on investments - Net	(459,436)	4,025,787
Net assets released from restrictions	(2,272,198)	(2,264,818)
Increase in Temporarily Restricted Net Assets	1,247,468	4,553,460
Increase in Permanently Restricted Net Assets - Gifts	2,537,244	2,600,337
Increase in Net Assets	9,678,630	10,255,653
Net Assets - Beginning of year	130,418,867	120,163,214
Net Assets - End of year	**$ 140,097,497**	**$ 130,418,867**

University of Detroit Mercy

Statement of Cash Flows

	Year Ended June 30 2015	2014
Cash Flows from Operating Activities		
Increase in net assets	$ 9,678,630	$ 10,255,653
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Realized and unrealized loss (gain) on investments - Net	900,939	(4,931,694)
Depreciation	7,823,923	7,764,810
Provision for bad debt	1,601,575	2,058,564
Write-off of restricted gifts	130,547	47,479
Accrued postretirement benefits	(350,436)	364,371
Decrease in fair value of interest rate swap agreement	437,955	41,943
Gifts restricted for long-term investments	(2,537,244)	(2,600,337)
Decrease (increase) in assets:		
Accounts receivable	2,345,944	163,034
Contributions receivable	(870,965)	(562,615)
Prepaids and deposits	(467,744)	332,278
Increase (decrease) in liabilities:		
Accounts payable	239,417	(548,210)
Accrued other expenses	(550,152)	346,929
Unearned revenue	(178,075)	1,621,435
Net cash provided by operating activities	18,204,314	14,353,640
Cash Flows from Investing Activities		
Purchases of investments	(46,373,412)	(91,596,731)
Proceeds from sales and maturities of investments	27,519,550	79,312,188
Disbursements of loans to students	(3,468,862)	(2,790,062)
Repayments of loans from students	3,428,858	2,843,287
Increase in federal student loans payable	36,158	105,608
Acquisition of properties	(6,384,421)	(6,331,706)
Net cash used in investing activities	(25,242,129)	(18,457,416)
Cash Flows from Financing Activities		
Payments on notes and bonds payable	(1,000,000)	(955,000)
Gifts restricted for long-term investment	2,537,244	2,600,337
Net cash provided by financing activities	1,537,244	1,645,337
Net Decrease in Cash and Cash Equivalents	(5,500,571)	(2,458,439)
Cash and Cash Equivalents - Beginning of year	25,480,749	27,939,188
Cash and Cash Equivalents - End of year	**$19,980,178**	**$ 25,480,749**
Supplemental Cash Flow Information - Cash paid for interest	**$ 1,551,231**	**$ 1,683,944**

Note 1 - Summary of Significant Accounting Policies

Organization - University of Detroit Mercy (the "University") is an educational facility that operates three campuses and a University health center in Detroit, Michigan.

Basis of Accounting - The accompanying financial statements of the University have been prepared on the accrual basis.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets - The University records net assets, revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** - Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as unrestricted support. Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

  Details of unrestricted net assets as of June 30, 2015 and 2014 are as follows:

	2015	2014
Unrestricted for current operations	$ 12,388,968	$ 6,457,308
Board designated	9,598,559	9,032,377
Endowment funds with deficiencies	(20,690)	-
Investment in plant - Net of long-term debt	77,306,424	77,889,658
Total	$ 99,273,261	$ 93,379,343

Note 1 - Summary of Significant Accounting Policies (Continued)

- **Temporarily Restricted Net Assets** - Contributions for which donors have imposed restrictions that limit the use of the donated assets are reported as temporarily restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are classified to unrestricted net assets and reported as net assets released from restrictions. Income from temporarily restricted net assets is predominantly intended to fund general operations, investment in properties, and scholarship expenditures. Unconditional promises from donors are reported as contributions receivable as part of temporarily restricted support and are recognized at the estimated present value of the future cash flows, net of allowances.

  Details of temporarily restricted net assets as of June 30, 2015 and 2014 are as follows:

	2015	2014
Academic programs	$ 2,506,465	$ 1,691,271
Scholarships	9,927,329	9,413,498
Building and equipment	2,195,929	2,377,186
Other	871,891	772,191
Total	$ 15,501,614	$ 14,254,146

- **Permanently Restricted Net Assets** - Contributions of assets that donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted net assets. Income from permanently restricted net assets is predominantly intended for fixed asset and scholarship expenditures. Permanently restricted net assets of $25,322,622 and $22,785,378 at June 30, 2015 and 2014, respectively, are included in endowment funds held by the University.

Revenue Recognition - Tuition and fees are recorded as unrestricted revenue in the appropriate fiscal year. Tuition and fees received in advance of the following academic year are recorded as unearned revenue in the year in which the funds are received. Revenue from government grant and contract agreements is recognized as it is earned through expenditure, in accordance with the agreement.

Note 1 - Summary of Significant Accounting Policies (Continued)

Scholarship Discounts and Allowances - Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statement of activities and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Supplemental Education Opportunity grants, and other federal, state, or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Cash and Cash Equivalents - The University considers all investments with maturities of less than 90 days when purchased to be cash equivalents. The University maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The University maintains cash balances in excess of the $250,000 guarantee. The University has not experienced any losses in such accounts. Management believes the University is not exposed to any significant credit risk related to cash.

Student Accounts Receivable - Accounts receivable are stated at net amounts. An allowance for doubtful accounts and related expense is established based on the age and historical collection results of receivables from students and others. Actual uncollectible accounts are charged against the allowance for doubtful accounts in the period that determination is made.

Note 1 - Summary of Significant Accounting Policies (Continued)

Contributions Receivable - Contributions receivable represent unconditional promises from donors to be used for capital and operating purposes. An allowance for uncollectible contributions and related expense is established based on the age and historical collection results of receivables from donors. Actual uncollectible contributions are charged against the allowance for uncollectible contributions in the period that determination is made. The following table summarizes the University's unconditional contributions receivable at June 30:

	2015	2014
Due within one year	$ 669,879	$ 623,842
Due after one year but within five years	2,401,768	1,612,233
Total	3,071,647	2,236,075
Less discount ($180,193 and $63,368 for June 30, 2015 and 2014, respectively, at five-year T-bill discount rates ranging from .72 percent to 3.50 percent) and allowance for uncollectible contributions	(270,613)	(175,459)
Net contributions receivable	$ 2,801,034	$ 2,060,616

Student Loans Receivable - The University participates in various student loan programs that provide loans to qualified students. The University makes uncollateralized loans to students based on financial need. Such loans are funded through government programs and institutional resources. These loans have mandated interest rates and repayment terms. The government-funded loans are subject to significant restrictions as to their transfer or disposition. Management reviews and assesses the collectibility of notes receivable on an annual basis and provides an allowance when collection is doubtful (see Note 2). As of June 30, 2015 and 2014, notes receivable represented 7.1 percent and 7.4 percent of total assets, respectively.

Investments - The University invests in commercial paper, government bonds, corporate bonds, mutual funds, and common and preferred stocks. Substantially all of the investments are registered securities held by the University's custodians or by its agents and are subject to predetermined guidelines based on quality ratings issued by appropriate rating agencies. The University's investments in real estate are individually approved by the board of trustees.

Note 1 - Summary of Significant Accounting Policies (Continued)

Certain of the University's investments are pooled in a common investment fund. The pooled investment fund is reported at fair market value, which is determined by quoted market prices. Other investments are reported at fair value, which is determined by either quoted market prices or quoted prices for similar assets and liabilities in active markets or other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Earnings from investments represent investment gains and losses, dividends, and interest, net of direct investment expenses.

Properties - Properties are stated at cost or, if acquired by gift, at fair value at the date of gift. Depreciation of properties is provided by the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 50 years. Depreciation expense for the years ended June 30, 2015 and 2014 totaled $7,823,923 and $7,764,810, respectively.

Student Financial Aid - During both 2015 and 2014, the University received and disbursed approximately $3.4 million to students under the U.S. Department of Education's Pell Grant program. This activity is not reported in the accompanying financial statements.

Fair Value of Financial Instruments - The carrying amounts of the University's cash equivalents, accounts receivable, notes receivable, accounts payable, accrued liabilities, and line of credit approximate their fair value due to the short maturity of such instruments. The fair value of the University's notes and bonds payable approximates the carrying amounts in the accompanying financial statements as the borrowing rate approximates the current market rate. The fair value of these financial instruments is determined using Level 2 inputs, as described in Note 4.

Unearned Revenue - Unearned revenue primarily represents unearned tuition and fees for class sessions to be conducted in the subsequent fiscal year.

Income Tax Status - The University operates as a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Functional Allocation of Expenditures - Functional allocation of expenditures is as follows:

	2015	2014
Program support	$ 107,543,285	$ 110,899,485
Support services	31,690,950	25,586,002
Fundraising	3,011,667	3,436,191
Total	$ 142,245,902	$ 139,921,678

Note 1 - Summary of Significant Accounting Policies (Continued)

Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Advertising Expenses - Advertising expenses for the years ended June 30, 2015 and 2014 were approximately $1,612,000 and $1,393,000, respectively.

Nonoperating Activities - Nonoperating changes in unrestricted net assets reflect transactions that are peripheral to the University's primary operating activities, providing a postsecondary education.

Risks and Uncertainties - The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Labor Risks - Approximately 35 percent of the University's workforce is covered under six different collective bargaining agreements. One agreement is currently under negotiation and the other five expire at various dates from December 31, 2015 to March 31, 2017.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 23, 2015, which is the date the financial statements were issued.

Upcoming Pronouncement - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the University's year ending June 30, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two respective application methods. The University has not determined which application method it will use or the potential effects of the new standard on the financial statements.

Note 2 - Notes Receivable

At June 30, notes receivable and the related allowance for doubtful accounts consisted of the following:

	2015	2014
Perkins	$ 14,643,734	$ 15,163,150
Other federal loan programs	5,826,872	5,537,192
Institutional loans	345,071	75,330
Subtotal	20,815,677	20,775,672
Less allowance for doubtful accounts:		
Beginning of the year	(4,252,047)	(4,110,690)
Increases	(170,252)	(138,491)
Write-offs (recoveries)	(3,575)	(2,866)
Balance - End of year	(4,425,874)	(4,252,047)
Net notes receivable	$ 16,389,803	$ 16,523,625

In addition to Perkins, the University participates in the Health Professionals Student, Nursing Student, Nurse Faculty, and ARRA-Nurse Faculty federal revolving loan programs. The availability of funds for loans under these programs is primarily dependent on reimbursements to the pool from repayments on outstanding loans. Loans disbursed under the federal programs are able to be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed. At June 30, 2015 and 2014, the following amounts were past due under the student loan programs:

	Current	1-180 Days	2 years	Over 2 years	Total
June 30, 2015	$ 15,903,585	$ 1,186,255	$ 1,333,340	$ 2,392,497	$ 20,815,677
June 30, 2014	16,282,475	1,173,563	850,827	2,468,807	20,775,672

The University records an allowance for doubtful accounts for its portion of the student loan when, in management's judgment, it is probable a portion of the loan will not be collected. The allowance for doubtful accounts is assessed annually and based on prior collections and delinquency status.

Note 3 - Donor-restricted and Board-designated Endowments

The University's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The State of Michigan enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in September 2009. The University has interpreted UPMIFA as requiring the preservation of donor-restricted endowment funds at the original value at the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ (20,690)	$ 9,007,900	$ 25,322,622	$ 34,309,832
Board-designated endowment	9,598,558	-	-	9,598,558
Total	$ 9,577,868	$ 9,007,900	$ 25,322,622	$ 43,908,390

Note 3 - Donor-restricted and Board-designated Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 9,032,377	$ 9,408,114	$ 22,785,378	$ 41,225,869
Investment income	231,953	833,839	-	1,065,792
Net appreciation in market value	(413,562)	(457,302)	-	(870,864)
Appropriation of endowment net assets for expenditures	(143,108)	(776,751)	-	(919,859)
Transfer to board-designated endowments	870,208	-	-	870,208
Gifts	-	-	2,537,244	2,537,244
Endowment net assets - End of year	$ 9,577,868	$ 9,007,900	$ 25,322,622	$ 43,908,390

Endowment Net Asset Composition by Type of Fund as of June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ -	$ 9,408,114	$ 22,785,378	$ 32,193,492
Board-designated endowment	9,032,377	-	-	9,032,377
Total	$ 9,032,377	$ 9,408,114	$ 22,785,378	$ 41,225,869

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 4,740,251	$ 5,502,934	$ 20,185,041	$ 30,428,226
Investment income	118,906	579,043	-	697,949
Net appreciation in market value	821,439	4,022,283	-	4,843,722
Appropriation of endowment net assets for expenditures	(124,252)	(696,146)	-	(820,398)
Transfer to board-designated endowments	3,476,033	-	-	3,476,033
Gifts	-	-	2,600,337	2,600,337
Endowment net assets - End of year	$ 9,032,377	$ 9,408,114	$ 22,785,378	$ 41,225,869

Note 3 - Donor-restricted and Board-designated Endowments (Continued)

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America (GAAP), deficiencies of this nature that are reported in unrestricted net assets were $20,690 as of June 30, 2015. There were no donor-restricted endowment funds in a deficient position as of June 30, 2014.

Return Objectives and Risk Parameters - The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for donor-specified periods, as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the market index while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average rate of return of approximately 8.00 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The University has a policy of appropriating for distribution each year a certain percent of its endowment fund's average fair value over the prior three years through the fiscal year end preceding the fiscal year in which the distribution is planned. The rate was 4.00 percent for the fiscal years ended June 30, 2015 and 2014. In establishing this policy, the University considered the long-term expected return on its endowment and is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the University's assets and liabilities measured at fair value on a recurring basis at June 30, 2015 and 2014 and the valuation techniques used by the University to determine those fair values.

Level 1 - In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the University has the ability to access.

Level 2 - Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The University's policy is to recognize transfers between levels of the fair value hierarchy as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of the fair value hierarchy during 2015 and 2014.

The University holds shares or interests in investments at year end whereby the fair value of the investment held as a practical expedient is estimated based on the net asset value per share (NAV) (or its equivalent) of the investment company.

Note 4 - Fair Value Measurements (Continued)

The University has processes in place to select the appropriate valuation technique and unobservable inputs to perform NAV fair value measurements. These processes include periodic meetings with the University's investment committee for calibration and review of monthly fund manager statements and annual audited financial statements. The University cannot independently assess the value of these underlying positions through a public exchange or over-the-counter market. The University utilizes a third-party manager to monitor, participate in fund manager calls, and obtain underlying financial information on the NAV investments.

At year end there were no unfunded commitments related to the pooled investment valued at NAV and the investment had a redemption frequency of 30 days

As of June 30, 2015, the University early implemented and retrospectively applied Accounting Standards Update (ASU) No. 2015-07 issued by the Financial Accounting Standards Board (FASB) on *Fair Value Measurement (Topic 820); Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU No. 2015-07 changes the required disclosures for investments valued at net asset value per share (NAV) as the practical expedient; as a result, investments measured at fair value using NAV as a practical expedient are not classified in the fair value hierarchy below.

Note 4 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2015

	Level 1	Level 2	Level 3	Balance at June 30, 2015
Assets - Investments				
Pooled investment funds:				
Equity:				
Domestic	$ 8,421,707	$ -	$ -	$ 8,421,707
International	6,490,436	-	-	6,490,436
Global	7,769,431	-	-	7,769,431
Fixed income:				
Mutual funds	9,141,838	-	-	9,141,838
Multi-asset class:				
Mutual funds	5,543,969	-	-	5,543,969
Exchange-traded funds	2,887,295	-	-	2,887,295
Subtotal	40,254,676	-	-	40,254,676
Other investments:				
Debt securities	-	20,454,641	-	20,454,641
Mutual funds	686,792	-	-	686,792
Equity and other	-	60,584	-	60,584
Subtotal	$ 40,941,468	$ 20,515,225	$ -	$ 61,456,693
Pooled Investments valued at net asset value (i)				$ 2,594,226
Total				$ 64,050,919
Liabilities - Interest rate swap agreement	$ -	$ 5,382,229	$ -	$ 5,382,229

Note 4 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2014

	Level 1	Level 2	Level 3	Balance at June 30, 2014
Assets - Investments				
Pooled investment funds:				
Equity:				
Domestic	$ 8,473,092	$ -	$ -	$ 8,473,092
Non-U.S.	8,237,403	-	-	8,237,403
Global	6,192,486	-	-	6,192,486
				-
Fixed income:				
Mutual funds	6,301,206	-	-	6,301,206
Multi-asset class:				
Mutual funds	4,057,567	-	-	4,057,567
Exchange-traded funds	3,890,042	-	-	3,890,042
Subtotal	37,151,796	-	-	37,151,796
Other investments:				
Debt securities	-	4,766,008	-	4,766,008
Mutual funds	816,588	-	-	816,588
Equity and other	-	63,920	-	63,920
Subtotal	$ 37,968,384	$ 4,829,928	$ -	$ 42,798,312
Pooled Investments valued at net asset value (i)				$ 3,299,684
Total				$ 46,097,996
Liabilities - Interest rate swap agreement	$ -	$ 4,944,274	$ -	$ 4,944,274

(i) The University invests in a pooled investment fund invested in credit securities. The fund seeks to maximize return potential by investing in what it considers to be attractive issuers in the investment grade corporate, high yield corporate, bank loan, and securitized markets based on the current phase of the credit cycle. This fund is valued at net asset value, which is calculated using the most recent fund financial statements.

Note 5 - Properties

Properties consist of the following:

	2015	2014
Land and improvements	$ 5,510,977	$ 5,510,977
Buildings and improvements	153,481,124	148,496,546
Furniture and equipment	30,884,563	29,606,958
Library books	32,670,768	31,739,462
Construction in progress	275,967	1,265,030
Total	222,823,399	216,618,973
Less accumulated depreciation	103,206,975	95,419,315
Net investment in properties	$ 119,616,424	$ 121,199,658

Note 6 - Revolving Lines of Credit, Notes, and Bonds Payable

Long-term debt consists of the following:

	2015	2014
Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds - Series 2007, bearing interest at a variable rate (an effective rate of 0.06 percent and 0.20 percent as of June 30, 2015 and 2014, respectively), interest due monthly and principal due annually through 2036	$ 27,095,000	$ 27,820,000
Michigan Facilities Authority Higher Education Limited Obligation Revenue Bonds - Series 2011, bearing interest at a variable rate (an effective rate of 0.12 percent and 0.07 percent as of June 30, 2015 and 2014, respectively), interest due monthly and principal due annually through 2040	15,215,000	15,490,000
Total	$ 42,310,000	$ 43,310,000

Note 6 - Revolving Lines of Credit, Notes, and Bonds Payable (Continued)

Future principal maturities of the bonds are as follows:

Years Ending June 30	Amount
2016	$ 1,040,000
2017	1,095,000
2018	1,140,000
2019	1,190,000
2020	1,245,000
2021 and after	36,600,000
Total	$ 42,310,000

Series 2007 Bonds proceeds were used to advance refund $6,680,000 of Series 1996 Bonds with an average interest rate of 6 percent and $7,865,000 of Series 2003 Bonds with a variable interest rate. The proceeds of $6,901,962 and $7,991,055 for the Series 1996 Bonds and the Series 2003 Bonds, net of underwriting and other issuance costs of $46,876 and $60,749, respectively, were deposited in escrow funds to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the long-term debt for the bonds has been removed from the University's financial statements.

In July 2011, the University issued Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds, Series 2011, in the amount of $16,000,000. The proceeds of the bonds were used to fund certain capital projects of the University. The bonds bear interest at a variable rate, with interest due monthly and principal due annually through 2040. Principal payments began on November 1, 2012.

The Series 2007 and Series 2011 Bonds are collateralized by separate outstanding letters of credit from a financial institution that expire on July 16, 2019. The bonds become callable on demand upon the expiration of the letters of credit.

The University has agreed to certain covenants, including maintenance of operations and debt service ratios.

Note 6 - Revolving Lines of Credit, Notes, and Bonds Payable (Continued)

The University entered into a remarketing agreement with a remarketing agent for the Series 2007 Bonds. Under this agreement, the remarketing agent will receive a fee equal to 0.09 percent of average aggregate principal outstanding on the date payable. The fee is payable in advance semiannually on May 1 and November 1.

The University entered into a remarketing agreement for the Series 2011 Bonds whereby the remarketing agent receives a fee equal to one-eighth of 1 percent of the aggregate principal outstanding during the calendar year, payable annually, in arrears, on November 1. The average variable interest rate on the Series 2011 Bonds was 0.10 percent and 0.07 percent for the fiscal years ended June 30, 2015 and 2014, respectively.

Under the terms of the indenture and related agreements, bondholders have the option to redeem or put the bonds when the interest rate is reset. In the event that the University receives notice of any optional tender on its variable-rate bonds, or if the bonds become subject to mandatory tender, the purchase of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have an obligation to purchase the bonds tendered. The University maintains a direct-pay letter of credit with a financial institution to provide alternative liquidity to support the repurchase of tendered variable-rate bonds in the event that the bonds are unable to be remarketed. Financing obtained through a letter of credit facility to fund the purchase of bonds would bear interest at rates different from those associated with the original bond issues.

During 2007, the University entered into an interest rate swap agreement on the Series 2007 Bonds for the purpose of managing the risk associated with interest rates on variable rate borrowings. The interest rate swap agreement is considered a derivative financial instrument for reporting purposes.

Any gains or losses recognized on the interest rate swap are recognized in current year earnings. Under the interest rate swap, the University has agreed to exchange, at specified intervals, the calculated difference between fixed and variable interest amounts on a declining notional amount, which is $27,095,000 at June 30, 2015. The fixed rate as defined by the interest rate swap agreement is 3.61 percent. The average variable rate for the Series 2007 Bonds outstanding was 0.06 percent and 0.11 percent for the fiscal years ended June 30, 2015 and 2014, respectively.

The value of the swap instrument represents the estimated benefit or cost to the University to cancel the agreement as of the reporting date and is based on the option-pricing models that consider risks and other market factors. The fair value of the interest rate swap at June 30, 2015 and 2014 was recorded in the University's financial statements as a liability of approximately $5,382,000 and $4,944,000, respectively.

Note 6 - Revolving Lines of Credit, Notes, and Bonds Payable (Continued)

Accordingly, the University recognized unrealized losses of approximately $438,000 and $42,000 for the years ended June 30, 2015 and 2014, respectively, related to the adjustment of value of the interest rate swap agreement.

On July 1, 2014, the University entered into agreements for unsecured lines of credit totaling $10,000,000, set to expire on June 30, 2015. During the fiscal year the line was extended and is set to expire June 28, 2016. Interest is charged at the prime rate plus 0.25 percent (3.50 percent at June 30, 2015).

Note 7 - Retirement Benefits

Substantially all University employees participate in either a defined contribution pension plan sponsored by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), or a noncontributory defined benefit pension plan, The Sisters of Mercy-Province of Detroit Retirement Plan.

The University and participants in the defined contribution retirement plan make annual contributions to TIAA-CREF to purchase individual annuities or to invest in tax-deferred savings plans. The University's contribution to the defined contribution plan totaled approximately $3,615,000 in 2015 and $2,588,000 in 2014.

Benefits under The Sisters of Mercy-Province of Detroit Retirement Plan are based on years of service and employees' compensation during the last 10 years of employment. Contributions are made in amounts necessary to fund the plan's benefits as computed by an independent actuary. The University amended its defined benefit pension plan effective July 1, 2002. As a result, no pension benefits have been earned by participants after June 2002.

In addition to providing pension benefits, the University pays a portion of the premiums for healthcare benefits provided to certain retired employees who reach retirement age while working for the University. Healthcare benefits for retirees and survivors are provided through insurance agreements, the premiums of which are based in part on the benefits paid. The University's costs are capped at certain amounts per month per person dependent on the age of the eligible participants as defined in the plan agreement.

Note 7 - Retirement Benefits (Continued)

Changes in projected benefit obligation and plan assets during the year, the funded status of the plan, and the reconciliation to the amount recognized on the balance sheet were as follows as of June 30 (using an actuarial measurement date of June 30):

Obligations and Funded Status

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Projected benefit obligation	$ 5,816,347	$ 5,722,368	$ 7,299,889	$ 7,650,325
Fair value of plan assets	4,031,250	3,812,189	-	-
Funded status at end of year	$ (1,785,097)	$ (1,910,179)	$ (7,299,889)	$ (7,650,325)

Amounts recognized in the balance sheet consist of the following:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Other accrued expenses	$ 1,785,097	$ 1,910,179	$ -	$ -
Accrued postretirement benefits	-	-	7,299,889	7,650,325
Total	$ 1,785,097	$ 1,910,179	$ 7,299,889	$ 7,650,325

Accumulated net periodic benefit cost recognized as unrestricted net assets is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Net loss	$ 2,802,401	$ 2,687,017	$ 1,092,104	$ 1,827,212
Prior service cost	-	-	259,502	324,377
Total	$ 2,802,401	$ 2,687,017	$ 1,351,606	$ 2,151,589

Note 7 - Retirement Benefits (Continued)

Net periodic benefit cost, which is included in functional expenses, contributions, and benefits paid, is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Net periodic benefit cost	$ 69,115	$ 86,558	$ 540,895	$ 531,035
Employer contributions	309,581	258,299	91,348	244,803
Benefits paid	256,729	293,266	91,348	244,803

As of June 30, the following items are included in nonoperating activities as a pension and postretirement adjustment and are not yet recognized as components of net periodic benefit cost:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Net loss (gain)	$ 187,836	$ 289,513	$ (619,384)	$ 232,255
Amortization of prior service credit (cost)	-	-	(64,875)	(64,875)
Amortization of net gain	(72,452)	(66,899)	(115,724)	(89,241)
Total recognized in nonoperating activities	$ 115,384	$ 222,614	$ (799,983)	$ 78,139
Total recognized in functional expenses and nonoperating activities	$ 184,499	$ 309,172	$ (259,088)	$ 609,174

The estimated net loss for the defined benefit pension plan that will be amortized into net periodic benefit cost over the next fiscal year is $73,530.

The estimated net loss and prior service cost for the other postretirement plan that will be amortized into net periodic benefit cost over the next fiscal year are $40,235 and $64,875, respectively.

Mortality assumptions for participants in the University's pension and postretirement plans incorporate future mortality improvements from the tables published by the Society of Actuaries ("SOA") . During 2014, the SOA issued new mortality tables that raise life expectancies and thereby indicate the amount of estimated aggregate benefit payments to participants of the plans is increasing.

Note 7 - Retirement Benefits (Continued)

For the pension plan, the University incorporated a modified version of the SOA mortality tables into the measurement of the plan's benefit obligation. This resulted in an increase in the pension plan's benefit obligation of approximately $300,000. The loss was partially offset by actuarial gains related to changes in discount rates used to measure the plan's liabilities as of June 30, 2015.

For other postretirement benefits, the full version of the new mortality tables were incorporated into the measurement of the benefit obligation. This resulted in an increase of approximately $900,000 in the benefit obligation, which was more than offset by an increase in the discount rate to measure the obligation and a reduction in the participation assumption.

Assumptions

Weighted average assumptions used to determine benefit obligations at June 30 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Discount rate	4.90%	4.85%	4.25%	4.15%

Weighted average assumptions used to determine net periodic benefit cost for the years ended June 30 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Discount rate	4.85%	5.30%	4.15%	4.65%
Expected long-term return on plan assets	7.00%	7.25%	N/A	N/A

The overall expected rate of return on plan assets represents a weighted average composite rate based on the historical rates of returns of the respective asset classes.

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the University, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits.

Note 7 - Retirement Benefits (Continued)

The investment program employs a total return investment approach whereby a mix of equities and fixed-income investments is used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition.

The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Other investments such as hedge funds, interest rate swaps, and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments.

The target allocation of plan assets at the June 30, 2015 measurement date, by asset category, as a percentage, is as follows: 30 percent global and traditional equity securities, 38 percent fixed-income obligations, 15 percent hedge funds, 10 percent long/short equity securities, and 7 percent other types of investments.

The following tables summarize the pension plan assets measured at fair value as of June 30, 2015 and 2014:

Note 7 - Retirement Benefits (Continued)

Pension Plan Assets Measured at Fair Value at June 30, 2015

	Level 1	Level 2	Level 3	Balance
Assets - Investments				
Short-term investment funds	$ 140,091	$ -	$ -	$ 140,091
Common stock - Domestic	284,478	131	-	284,609
Debt securities:				
U.S. government/federal agency	-	440,943	-	440,943
Corporate bonds	-	851,391	-	851,391
Mortgage- and asset-backed securities	-	73,990	-	73,990
Mutual funds - Equities	126,149	-	6,869	133,018
Subtotal	550,718	1,366,455	6,869	1,924,042
Investments measured at net asset value (i)				2,107,208
Total				$ 4,031,250

Pension Plan Assets Measured at Fair Value at June 30, 2014

	Level 1	Level 2	Level 3	Balance
Assets - Investments				
Short-term investment funds	$ 190,137	$ -	$ -	$ 190,137
Common stock - Domestic	338,598	1,152	-	339,750
Debt securities:				
U.S. government/federal agency	-	423,936	-	423,936
Corporate bonds	-	806,853		806,853
Mortgage- and asset-backed securities	-	58,074	2,183	60,257
Mutual funds - Fixed income	73,651	-	-	73,651
Mutual funds - Equities	173,527	-	8,570	182,097
Subtotal	775,913	1,290,015	10,753	2,076,681
Investments measured at net asset value (i)				1,735,508
Total				$ 3,812,189

(i) The pension plan invests in various hedge fund strategies and private equity funds. The hedge funds utilize a “fund-of-funds” approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed-income securities, commodities, currencies, and derivatives. The private equity funds invest primarily in the United States, Asia, and Europe, both directly and on the secondary market pursuing distressed opportunities and natural resources, primarily energy. These funds are valued at net asset value, which is calculated using the most recent partnership financial statements.

Note 7 - Retirement Benefits (Continued)

Investments in Entities that Calculate Net Asset Value per Share

The pension plan 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.

The tables on the previous page present information about the pension plan assets measured at fair value at June 30, 2015 and 2014 and the valuation techniques used by the University to determine those fair values. See Note 4 for definitions of Levels 1, 2, and 3 of the fair value hierarchy, as well as the University's implementation of ASU No. 2015-07, *Fair Value Measurement (Topic 820); Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

The University's policy is to recognize transfers between levels of the fair value hierarchy as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of the fair value hierarchy during 2015 and 2014.

Contributions

The University expects to contribute approximately $312,000 to its pension plan and $356,000 to its postretirement benefit plan during the year ending June 30, 2016.

The expected benefits to be paid in the next fiscal years are as follows:

Years Ending June 30	Pension Benefits	Other Postretirement Benefits
2016	$ 292,000	$ 356,000
2017	307,000	366,000
2018	320,000	380,000
2019	334,000	382,000
2020	346,000	391,000
2021-2025	1,838,000	2,126,000

Note 8 - Insurance Commitments

The University funds a reserve for dental malpractice claims. At June 30, 2015 and 2014, the University owned a bank account administered by a third party with balances of $486,494 and $486,912, respectively, which is included as cash and cash equivalents and investments. Claims and related costs are paid from the University-owned bank trust account. Estimated claims at June 30, 2015 and 2014 were insignificant. In addition to the reserve, effective January 1, 2009, the University purchased professional liability insurance for dental malpractice risk. The additional insurance has a $100,000 deductible per occurrence and a $5,000,000 limit per occurrence. The aggregate coverage limit is $7,000,000.

The University is a member of the Association of Independent Colleges and Universities of Michigan (AICUM) Workers' Compensation Self-Insurers Fund. The University records workers' compensation expense at the time its contribution is due in accordance with the AICUM Workers' Compensation Trust agreement. Dividends are recorded as income in the year received. Additional provision for workers' compensation expense may be required if claims pending settlement by the fund exceed available fund equity. At June 30, 2015 and 2014, no such additional provision was required.

Note 9 - Contingencies

The University is a defendant in certain lawsuits. For those claims whereby the likelihood of loss is probable and measurable, a provision has been made in the accompanying financial statements related to such claims. Management believes that the resolution of these claims will not have a material impact on the financial statements.