University of Detroit Mercy

Financial Report

June 30, 2017

Contents

Plante & Moran, PLLC
Suite 300
19176 Hall Road
Clinton Township, MI 48038
Tel: 586.416.4900
Fax: 586.416.4901
plantemoran.com

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, which comprise the balance sheet as of June 30, 2017 and 2016 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 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.

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 opinions.

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, 2017 and 2016 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
University of Detroit Mercy

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2017 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 24, 2017

Balance Sheet
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 20,547,170	$ 20,731,251
Accounts receivable - Less allowance of $1,668,000 in 2017 and $2,345,000 in 2016:		
Student	5,687,713	5,980,613
Government	3,828,276	1,739,220
Other	123,128	1,664,717
Total accounts receivable - Net of allowance	9,639,117	9,384,550
Contributions receivable - Net	4,410,816	4,154,686
Notes receivable - Less allowance of $4,599,000 in 2017 and $4,403,000 in 2016 (Note 2)	17,040,952	16,128,580
Prepaids, deposits, and other assets	512,401	682,846
Investments (Note 4)	63,821,081	62,689,959
Properties - Net (Note 5)	119,643,726	120,162,928
Total assets	**$ 235,615,263**	**$ 233,934,800**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 7,199,903	$ 7,956,227
Other accrued expenses	6,713,612	7,456,759
Fair value of interest rate swap agreement (Note 6)	5,040,724	7,409,275
Unearned revenue	8,801,615	9,018,181
Federal student loans	15,505,027	16,528,769
Notes and bonds payable (Notes 1 and 6)	39,709,001	40,731,841
Accrued postretirement benefits (Note 7)	6,017,159	6,977,905
Total liabilities	88,987,041	96,078,957
Net Assets		
Unrestricted	99,340,418	96,472,480
Temporarily restricted	18,483,038	14,621,001
Permanently restricted	28,804,766	26,762,362
Total net assets	146,628,222	137,855,843
Total liabilities and net assets	**$ 235,615,263**	**$ 233,934,800**

See notes to financial statements.

University of Detroit Mercy

Statement of Activities and Changes in Net Assets
Years Ended June 30, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Revenue:		
Student tuition and fees	$ 179,992,171	$ 173,624,083
Less university-sponsored student financial aid	(61,885,439)	(54,416,318)
Less student financial aid funded from gifts and grants	(6,340,129)	(6,081,286)
Net student tuition and fees	111,766,603	113,126,479
Government appropriations, grants, and contracts	11,018,117	9,910,071
Private gifts, grants, and contracts	5,376,421	6,136,947
Investment income	448,457	336,214
Realized and unrealized gain (loss) on investments - Net	1,192,806	(224,818)
Departmental activities and other revenue	9,752,429	10,834,359
Auxiliary enterprises	10,000,075	9,208,521
Net assets released from restrictions	2,462,025	2,686,811
Total revenue	152,016,933	152,014,584
Expenses:		
Instruction	60,423,788	59,089,752
Research	742,536	1,125,722
Public service	1,884,019	1,936,116
Academic support	31,048,049	29,254,859
Student services	10,723,058	10,063,845
Institutional support	17,395,940	19,388,624
Operations and maintenance of plant	9,980,472	10,653,787
Depreciation	8,336,660	8,275,770
Interest on long-term debt	1,718,814	1,655,268
Adjustment of value of interest rate swap agreement (Note 6)	(2,368,551)	2,027,046
Auxiliary enterprises	10,533,902	11,030,619
Other	141,234	127,560
Total expenses	150,559,921	154,628,968
Increase (Decrease) in Unrestricted Net Assets from Operations - Before other adjustments	1,457,012	(2,614,384)
Nonoperating Activities - Adjustment to pension and postretirement benefits (Note 7)	1,410,926	(186,397)
Increase (Decrease) in Unrestricted Net Assets	2,867,938	(2,800,781)
Temporarily Restricted Net Assets		
Gifts - Net of write-off of $21,700 and $106,906 in 2017 and 2016, respectively	1,979,097	2,805,236
Investment income	476,748	503,091
Realized and unrealized gain (loss) on investments - Net	3,868,217	(1,502,129)
Net assets released from restrictions	(2,462,025)	(2,686,811)
Increase (Decrease) in Temporarily Restricted Net Assets	3,862,037	(880,613)
Increase in Permanently Restricted Net Assets - Gifts	2,042,404	1,439,740
Increase (Decrease) in Net Assets	8,772,379	(2,241,654)
Net Assets - Beginning of year	137,855,843	140,097,497
Net Assets - End of year	**$ 146,628,222**	**$ 137,855,843**

See notes to financial statements.

Statement of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 8,772,379	$ (2,241,654)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Realized and unrealized (gain) loss on investments - Net	(5,061,023)	1,726,947
Depreciation	8,336,660	8,275,770
Provision for bad debt	829,331	1,566,549
Write-off of restricted gifts	21,700	106,906
Accrued postretirement benefits	(960,746)	(321,984)
(Decrease) increase in fair value of interest rate swap agreement	(2,368,551)	2,027,046
Gifts restricted for long-term investments	(2,042,404)	(1,439,740)
(Increase) decrease in assets:		
Accounts receivable	(888,682)	(3,041,522)
Contributions receivable	(277,830)	(1,460,558)
Prepaids, deposits, and other assets	242,604	318,806
(Decrease) increase in liabilities:		
Accounts payable	(555,623)	1,557,656
Accrued other expenses	(743,148)	1,445,579
Unearned revenue	(216,566)	437,507
Net cash and cash equivalents provided by operating activities	5,088,101	8,957,308
Cash Flows from Investing Activities		
Purchases of investments	(8,920,080)	(39,023,650)
Proceeds from sales and maturities of investments	12,849,982	38,657,662
Disbursements of loans to students	(4,189,498)	(2,903,069)
Repayments of loans from students	3,081,911	3,186,708
(Decrease) increase in federal student loans payable	(1,023,742)	228,444
Acquisition of properties	(8,018,159)	(8,752,070)
Net cash and cash equivalents used in investing activities	(6,219,586)	(8,605,975)
Cash Flows from Financing Activities		
Payments on notes and bonds payable	(1,095,000)	(1,040,000)
Gifts restricted for long-term investment	2,042,404	1,439,740
Net cash and cash equivalents provided by financing activities	947,404	399,740
Net (Decrease) Increase in Cash and Cash Equivalents	(184,081)	751,073
Cash and Cash Equivalents - Beginning of year	20,731,251	19,980,178
Cash and Cash Equivalents - End of year	**$20,547,170**	**$ 20,731,251**
Supplemental Cash Flow Information - Cash paid for interest	**$ 1,718,814**	**$ 1,655,268**

See notes to financial statements.

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.

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.

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 receivables are also discounted at five-year T-bill discount rates ranging from 0.72 percent to 1.83 percent. The following table summarizes the University’s unconditional contributions receivable at June 30:

	2017	2016
Due within one year	$ 2,133,953	$ 1,226,804
Due after one year but within five years	2,427,413	3,209,294
Total	4,561,366	4,436,098
Less allowance for uncollectible contributions	(97,140)	(197,160)
Less discount for present value	(53,410)	(84,252)
Net contributions receivable	$ 4,410,816	$ 4,154,686

Note 1 - Summary of Significant Accounting Policies (Continued)

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, 2017 and 2016, notes receivable represented 7.2 percent and 6.9 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.

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. Certain investments within the pooled investment fund without readily determinable fair values are valued based on the net asset value per share (or its equivalent). In management's opinion, the stated values approximate fair value as determined by the investment managers. Due to the inherent uncertainty of valuation, the estimated fair values may differ significantly from values that would have been used had readily available market values for the investments existed, and the differences could be material. 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, 2017 and 2016 totaled $8,336,660 and $8,275,770, respectively.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 are as follows:

	2017	2016
Unrestricted for current operations	$ 8,652,289	$ 8,019,611
Board designated	10,753,404	9,602,620
Endowment funds with deficiencies	-	(42,679)
Investment in plant - Net of long-term debt	79,934,725	78,892,928
Total	$ 99,340,418	$ 96,472,480

- **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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Details of temporarily restricted net assets as of June 30, 2017 and 2016 are as follows:

	2017	2016
Academic programs	$ 1,419,324	$ 1,373,327
Scholarships	14,276,049	10,303,705
Building and equipment	2,512,318	2,629,268
Other	275,347	314,701
Total	$ 18,483,038	$ 14,621,001

- **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 $28,804,766 and $26,762,362 at June 30, 2017 and 2016, 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.

Scholarship Discounts and Allowances - Student tuition and fee revenue and certain other revenue 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 revenue in the University's financial statements. To the extent that revenue from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Student Financial Aid - During 2017 and 2016, the University received and disbursed approximately $3.4 million and $3.3 million, respectively, to students under the U.S. Department of Education's Pell Grant program. In addition, the University received and disbursed approximately $75.3 million and $76.9 million, respectively, under the U.S. Department of Education's Direct Loan program for the years ended June 30, 2017 and 2016. This activity is not reported in the accompanying financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

	2017	2016
Program support	120,629,946	117,979,370
Support services	26,470,361	33,077,952
Fundraising	3,459,614	3,571,646
Total	$ 150,559,921	$ 154,628,968

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, 2017 and 2016 were approximately $1,364,000 and $1,480,000, 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.

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.

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.

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, which expire at various dates from June 30, 2019 to May 15, 2021.

Reclassification - Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 24, 2017, which is the date the financial statements were issued.

Note 1 - Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle - As of July 1, 2016, the University adopted new guidance related to the presentation of debt issuance costs in its balance sheet. Under the new guidance, debt issuance costs are reported as a direct deduction from the carrying amount of the related debt. Previously, debt issuance costs were presented as an asset. The new presentation requirements have been applied retrospectively and amounts reported in the 2016 balance sheet have been restated, as follows:

	As Previously Reported	Restated	Effect of Change
Assets - Prepaids, deposits, and other assets	$ 1,221,005	$ 682,846	$ (538,159)
Liabilities - Notes and bonds payable	$ 41,270,000	$ 40,731,841	$ (538,159)

The new guidance does not affect how the debt issuance costs are accounted for after initial recognition, and these amounts continue to be amortized over the term of the related debt and reported as a component of interest expense.

Upcoming Pronouncements - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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 University’s primary revenue sources are not expected to be significantly impacted by the standard, but a complete review of all revenue sources has not yet been completed. In addition, management is currently analyzing the disclosures that will be required with this pronouncement.

The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the University, including required disclosures about the liquidity and availability of resources. The new standard is effective for the University’s year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The University is currently evaluating the impact this standard will have on the financial statements.

Note 2 - Notes Receivable

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

	2017	2016
Perkins	$ 14,855,378	$ 14,042,094
Other federal loan programs	6,378,181	6,083,857
Institutional loans	406,067	406,088
Subtotal	21,639,626	20,532,039
Less allowance for doubtful accounts:		
Beginning of the year	(4,403,459)	(4,425,874)
(Increases) decreases	(194,771)	23,887
Recoveries	(444)	(1,472)
Balance - End of year	(4,598,674)	(4,403,459)
Notes receivable - Net	$ 17,040,952	$ 16,128,580

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 nonrepayment situations. In these situations, the federal portion of the loan balance is guaranteed. At June 30, 2017 and 2016, the following amounts represent the aging of outstanding notes receivable under the student loan programs:

	Current	1-180 Days	181 days to 2 years	Over 2 years	Total
June 30, 2017	$ 17,014,395	$ 1,030,327	$ 636,352	$ 2,958,552	$ 21,639,626
June 30, 2016	$ 15,901,979	$ 1,028,828	$ 1,039,483	$ 2,561,749	20,532,039

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 2 - Notes Receivable (Continued)

The Federal Perkins Loan Program expired on September 30, 2017. As of June 30, 2017, the University has made $2,494,295 in institutional capital contributions, which are reflected as part of the University's net position. Under current guidance issued by the Department of Education, if the University liquidates the loan portfolio and assigns the student loans to the Department of Education, the University would forego its institutional capital contribution not yet received back through loan collections. There is currently no requirement for the University to liquidate the loan portfolio and the University is not currently expecting to liquidate the loan portfolio. If the Department of Education were to require liquidation or the University voluntarily elects to liquidate the loan portfolio and assign the student loans to the Department of Education, loss of the institutional capital contributions is not expected to have a material impact on the financial position of the University.

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.

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

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ -	$ 10,446,107	$ 28,804,766	$ 39,250,873
Board-designated endowment	10,753,404	-	-	10,753,404
Total	$ 10,753,404	$ 10,446,107	$ 28,804,766	$ 50,004,277

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 9,559,941	$ 7,133,423	$ 26,762,362	$ 43,455,726
Investment income	133,717	475,987	-	609,704
Net appreciation in market value	1,148,332	3,866,968	-	5,015,300
Appropriation of endowment net assets for expenditures	(186,626)	(1,030,271)	-	(1,216,897)
Transfer to board-designated endowments	98,040	-	-	98,040
Gifts	-	-	2,042,404	2,042,404
Endowment net assets - End of year	$ 10,753,404	$ 10,446,107	$ 28,804,766	$ 50,004,277

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

Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ (42,679)	$ 7,133,423	$ 26,762,362	$ 33,853,106
Board-designated endowment	9,602,620	-	-	9,602,620
Total	$ 9,559,941	$ 7,133,423	$ 26,762,362	$ 43,455,726

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 9,577,868	$ 9,007,900	$ 25,322,622	$ 43,908,390
Investment income	144,119	500,540	-	644,659
Net depreciation in market value	(199,888)	(1,499,603)	-	(1,699,491)
Appropriation of endowment net assets				-
for expenditures	(240,734)	(875,414)	-	(1,116,148)
Transfer to board-designated endowments	278,576	-	-	278,576
Gifts	-	-	1,439,740	1,439,740
Endowment net assets - End of year	$ 9,559,941	$ 7,133,423	$ 26,762,362	$ 43,455,726

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 are reported in unrestricted net assets. There were no deficiencies of this nature at June 30, 2017. Deficiencies at June 30, 2016 were $42,679.

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

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, 2017 and 2016. 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, 2017 and 2016 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.

Note 4 - Fair Value Measurements (Continued)

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 2017 and 2016.

The University holds shares or interests in investments at year end whereby the fair value of the investment is presented using net asset value (NAV) per share as a practical expedient for the fair value of the investment.

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 fund valued at NAV and the investment had a redemption frequency of 30 days.

Note 4 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2017

	Investments (at Fair Value)	Level 1	Level 2
Assets - Investments at fair value			
Pooled investment funds:			
Equity	$ 22,850,006	$ 22,850,006	$ -
Fixed income	9,527,089	9,527,089	-
Multi-asset class	7,292,645	7,292,645	-
Subtotal	39,669,740	39,669,740	-
Other investments:			
Debt securities	14,426,621		14,426,621
Mutual funds	557,910	557,910	
Equity and other	22,657		22,657
Subtotal	54,676,928	$ 40,227,650	$14,449,278
Investments measured at NAV - Pooled investment funds (i)	9,144,153		
Total investments at fair value	$ 63,821,081		
Liabilities - Interest rate swap agreement at fair value	$ 5,040,724	$ -	$ 5,040,724

Note 4 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2016

	Investments (at Fair Value)	Level 1	Level 2
Assets - Investments at fair value			
Pooled investment funds:			
Equity	$ 19,392,623	$ 19,392,623	$ -
Fixed income	9,067,671	9,067,671	-
Multi-asset class	6,850,024	6,850,024	-
Subtotal	35,310,318	35,310,318	-
Other investments:			
Debt securities	18,798,332	-	18,798,332
Mutual funds	581,542	581,542	-
Equity and other	56,984	-	56,984
Subtotal	54,747,176	$ 35,891,860	$18,855,316
Investments measured at NAV:			
Pooled investment funds (i)	7,942,783		
Total investments at fair value	$ 62,689,959		
Liabilities - Interest rate swap agreement at fair value	$ 7,409,275	$ -	$ 7,409,275

(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 at June 30 consist of the following:

	2017	2016
Land and improvements	$ 5,505,692	$ 5,505,692
Buildings and improvements	164,400,405	158,745,342
Furniture and equipment	34,895,315	33,115,992
Library books	34,098,774	33,544,533
Construction in progress	370,062	734,114
Total	239,270,248	231,645,673
Less accumulated depreciation	119,626,522	111,482,745
Net investment in properties	$ 119,643,726	$ 120,162,928

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

Long-term debt at June 30 consists of the following:

	2017	2016
Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds - Series 2007, bearing interest at a variable rate (an effective rate of 0.97 percent and 0.41 percent as of June 30, 2017 and 2016, respectively), interest due monthly and principal due annually through 2036	$ 25,545,000	$ 26,340,000
Michigan Facilities Authority Higher Education Limited Obligation Revenue Bonds - Series 2011, bearing interest at a variable rate (an effective rate of 1.02 percent and 0.49 percent as of June 30, 2017 and 2016, respectively), interest due monthly and principal due annually through 2040	14,630,000	14,930,000
Subtotal	40,175,000	41,270,000
Less unamortized bond issuance costs	465,999	538,159
Total	$ 39,709,001	$ 40,731,841

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
2018	$ 1,140,000
2019	1,190,000
2020	1,245,000
2121	1,305,000
2022	1,380,000
2023 and after	33,915,000
Total	$ 40,175,000

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 0.77 percent and 0.18 percent for the fiscal years ended June 30, 2017 and 2016, 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 $25,545,000 and $26,340,000 at June 30, 2017 and 2016. 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 0.65 percent and 0.11 percent for the fiscal years ended June 30, 2017 and 2016, respectively.

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

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, 2017 and 2016 was recorded in the University's financial statements as a liability of $5,040,724 and $7,409,275, respectively.

Accordingly, the University recognized unrealized gains (losses) of approximately $2,369,000 and $(2,027,000) for the years ended June 30, 2017 and 2016, respectively, related to the adjustment of value of the interest rate swap agreement.

During 2017, the University had unsecured lines of credit available totaling $10,000,000, which expired on June 27, 2017, and were not renewed. Interest was charged at the prime rate plus 0.25 percent (3.75 percent at June 30, 2016). There were no draws on the line at June 30, 2017 and 2016.

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 $4,297,000 in 2017 and $4,077,000 in 2016.

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. The Plan was unfunded at June 30, 2017 and 2016.

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	
	2017	2016	2017	2016
Projected benefit obligation	$ 6,107,423	$ 6,396,617	$ 6,017,159	$ 6,977,905
Fair value of plan assets	4,378,518	4,156,605	-	-
Funded status at end of year	$ (1,728,905)	$ (2,240,012)	$ (6,017,159)	$ (6,977,905)

Amounts recognized in the balance sheet consist of the following:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Other accrued expenses	$ 1,728,905	$ 2,240,012	$ -	$ -
Accrued postretirement benefits	-	-	6,017,159	6,977,905
Total	$ 1,728,905	$ 2,240,012	$ 6,017,159	$ 6,977,905

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

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Net loss (gain)	$ 3,176,617	$ 3,555,443	$ (330,948)	$ 638,034
Prior service (credit) cost	(45,943)	(47,700)	129,752	194,627
Total	$ 3,130,674	$ 3,507,743	$ (201,196)	$ 832,661

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	
	2017	2016	2017	2016
Net periodic benefit cost	$ 73,614	$ 62,033	$ 313,774	$ 591,288
Employer contributions	207,652	312,460	240,663	394,327
Benefits paid	404,317	272,905	240,663	394,327

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	
	2017	2016	2017	2016
Net (gain) loss	$ (271,398)	$ 826,572	$ (968,982)	$ (312,090)
Net prior service credit occurring during the year	-	(47,700)	-	-
Amortization of prior service credit (cost)	1,757	-	(64,875)	(64,875)
Amortization of net loss	(107,428)	(73,530)	-	(141,980)
Total recognized in nonoperating activities	$ (377,069)	$ 705,342	$ (1,033,857)	$ (518,945)
Total recognized in functional expenses and nonoperating activities	$ (303,455)	$ 767,375	$ (720,083)	$ 72,343

The estimated net loss and prior service credit for the defined benefit pension plan that will be amortized into net periodic benefit cost over the next fiscal year is $97,266 and $1,757, respectively.

The estimated prior service cost for the other postretirement plan that will be amortized into net periodic benefit cost over the next fiscal year is $64,875.

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, 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. These tables were amended in 2016 to change life expectancies for certain demographics.

Note 7 - Retirement Benefits (Continued)

Assumptions

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

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Discount rate	4.20%	4.15%	3.66%	3.40%

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

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Discount rate	4.15%	4.90%	3.40%	4.25%
Expected long-term return on plan assets	7.00%	7.00%	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.

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.

Note 7 - Retirement Benefits (Continued)

The target allocation of plan assets at the June 30, 2017 measurement date, by asset category, as a percentage, is as follows: 36 percent global and traditional equity securities, 35 percent fixed-income obligations, 11 percent hedge funds, 10 percent long/short equity securities, and 8 percent other types of investments.

The target allocation of plan assets at the June 30, 2016 measurement date, by asset category, as a percentage, was as follows: 42 percent global and traditional equity securities, 30 percent fixed-income obligations, 11 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, 2017 and 2016:

Pension Plan Assets Measured at Fair Value at June 30, 2017

	Level 1	Level 2	Level 3	Balance
Assets - Investments				
Short-term investment funds	$ 128,436	$ -	$ -	$ 128,436
Common stock - Domestic	333,544	-	-	333,544
Debt securities:				
U.S. government/federal agency	-	425,171	-	425,171
Corporate bonds	-	1,024,170	-	1,024,170
Mortgage- and asset-backed securities	-	40,074	-	40,074
Mutual funds - Equities	158,879	-	3,938	162,817
Subtotal	$ 620,859	$ 1,489,415	$ 3,938	2,114,212
Investments measured at net asset value (i)				2,264,306
Total				$ 4,378,518

Note 7 - Retirement Benefits (Continued)

Pension Plan Assets Measured at Fair Value at June 30, 2016

	Level 1	Level 2	Level 3	Balance
Assets - Investments				
Short-term investment funds	$ 93,453	$ -	$ -	$ 93,453
Common stock - Domestic	274,456	197	-	274,653
Debt securities:				
U.S. government/federal agency	-	511,077	-	511,077
Corporate bonds	-	906,082	-	906,082
Mortgage- and asset-backed securities	-	58,934	-	58,934
Mutual funds - Equities	89,090	-	5,073	94,163
Subtotal	$ 456,999	$ 1,476,290	$ 5,073	1,938,362
Investments measured at net asset value (i)				2,218,243
Total				$ 4,156,605

(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 multistrategy, multimanager 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.

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, 2017 and 2016 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.

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 2017 and 2016.

Note 7 - Retirement Benefits (Continued)

Contributions

The University expects to contribute approximately $198,000 to its pension plan and $335,000 to its postretirement benefit plan during the year ending June 30, 2018.

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

Years Ending June 30	Pension Benefits	Other Postretirement Benefits
2018	$ 409,080	$ 334,982
2019	381,383	311,422
2020	372,736	311,636
2021	390,255	312,141
2022	398,964	325,793
2023-2027	1,840,015	1,596,636

Note 8 - Insurance Commitments

The University funds a reserve for dental malpractice claims. At June 30, 2017 and 2016, the University owned a bank account administered by a third party with balances of $486,481 and $487,257, 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, 2017 and 2016 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 Michigan Independent Colleges and Universities (MICU) Workers' Compensation Self-Insurers Fund. The University records workers' compensation expense at the time its contribution is due in accordance with the MICU 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, 2017 and 2016, 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.