

# **University of Detroit Mercy**

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**Financial Report**  
**June 30, 2020**

# University of Detroit Mercy

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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, 2020 and 2019 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 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.

#### ***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, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Emphasis of Matter***

As described in Note 1 to the financial statements, the COVID-19 pandemic has impacted the operations of the University. Our opinion is not modified with respect to this matter.

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 November 6, 2020 on our consideration of 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*

November 6, 2020

# University of Detroit Mercy

## Balance Sheet Years Ended June 30, 2020 and 2019 (rounded to nearest thousand)

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 36,412	\$ 34,079
Accounts receivable - Less allowance of \$2,187 in 2020 and \$1,865 in 2019:		
Student	6,956	6,486
Government	1,228	2,158
Other	1,314	768
Total accounts receivable - Net of allowance	9,498	9,412
Contributions receivable - Net	4,169	4,769
Notes receivable - Less allowance of \$4,211 in 2020 and \$4,763 in 2019 (Note 2)	14,262	15,567
Prepays, deposits, and other assets	662	657
Investments (Note 4)	74,194	73,252
Properties - Net (Note 5)	114,741	115,780
Total assets	<b>\$ 253,938</b>	<b>\$ 253,516</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 9,310	\$ 10,530
Other accrued expenses	9,240	8,464
Accrued voluntary employee separation incentive program (Note 10)	587	5,616
Fair value of interest rate swap agreement (Note 6)	7,774	4,834
Unearned revenue	9,033	9,183
Federal student loans	14,617	15,858
Notes and bonds payable (Note 6)	36,540	37,766
Accrued postretirement benefits (Note 7)	6,829	6,218
Total liabilities	93,930	98,469
<b>Net Assets</b>		
Without donor restrictions	89,150	87,786
With donor restrictions	70,858	67,261
Total net assets	160,008	155,047
Total liabilities and net assets	<b>\$ 253,938</b>	<b>\$ 253,516</b>

# University of Detroit Mercy

## Statement of Activities and Changes in Net Assets Years Ended June 30, 2020 and 2019 (rounded to nearest thousand)

	2020	2019
<b>Without Donor Restrictions</b>		
Operating Revenues		
Student tuition and fees	\$ 166,422	\$ 166,629
Less university-sponsored student financial aid	(41,226)	(42,194)
Less student financial aid funded from gifts and grants	(8,499)	(7,382)
Net student tuition and fees	116,697	117,053
Government appropriations, grants, and contracts	16,007	13,950
Private gifts, grants, and contracts	6,398	6,604
Investment income - Net	763	1,225
Realized and unrealized (loss) gain on investments - Net	(9)	205
Departmental activities and other revenue	9,023	10,243
Auxiliary enterprises	9,206	11,461
Net assets released from restrictions	3,247	2,472
Total Operating Revenues	161,332	163,213
Operating Expenses		
Salaries, wages, and benefits	102,749	107,192
Professional fees and contracted services	20,018	20,922
Depreciation	8,272	8,279
Occupancy, utilities, and maintenance	5,302	5,687
Materials, supplies, printing, and postage	7,989	8,677
Meetings, travel, and memberships	2,930	3,511
Interest	1,605	2,062
Other expenses	6,849	5,563
Total operating expenses	155,714	161,893
<b>Increase in Net Assets Without Donor Restrictions From Operations - Before other adjustments</b>	5,618	1,320
<b>Nonoperating activities</b>		
Adjustment to value of interest rate swap agreement (Note 6)	(2,939)	(1,269)
Adjustment to pension and postretirement benefits (Note 7)	(1,315)	(2,026)
Total nonoperating expenses	(4,254)	(3,295)
<b>Increase (decrease) Without Donor Restrictions</b>	1,364	(1,975)
<b>With Donor Restrictions</b>		
Gifts	5,682	6,941
Investment income - Net	1,444	1,833
Realized and unrealized (loss) gain on investments - Net	(282)	929
Net assets released from restrictions	(3,247)	(2,472)
<b>Increase in Net Assets With Donor Restrictions</b>	3,597	7,231
<b>Increase in Net Assets</b>	4,961	5,256
<b>Net Assets - Beginning of year</b>	155,047	149,791
<b>Net Assets - End of year</b>	<b>\$ 160,008</b>	<b>\$ 155,047</b>

# University of Detroit Mercy

## Statement of Cash Flows Years Ended June 30, 2020 and 2019 (rounded to nearest thousand)

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 4,961	\$ 5,256
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Realized and unrealized loss (gain) on investments - Net	291	(1,134)
Depreciation	8,272	8,279
Amortization of bond issuance costs	16	315
Provision for bad debt	2,236	1,623
Write-off of restricted gifts	14	23
Increase in accrued postretirement benefits	611	1,379
Increase in fair value of interest rate swap	2,940	1,269
Gifts restricted for long-term investments	(4,892)	(4,167)
(Increase) decrease in assets:		
Accounts receivable	(2,408)	6,848
Contributions receivable	586	2,717
Prepays, deposits, and other assets	(5)	(65)
Increase (decrease) in liabilities:		
Accounts payable	(1,248)	2,583
Accrued other expenses	777	1,623
Accrued voluntary employee separation incentive program	(5,029)	(4,335)
Unearned revenue	(150)	441
Net cash and cash equivalents provided by operating activities	6,972	22,655
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(38,812)	(34,865)
Proceeds from sales and maturities of investments	37,578	30,661
Disbursements of loans to students	(1,182)	(1,361)
Repayments of loans from students	2,573	2,778
(Decrease) Increase in federal student loans payable	(1,241)	392
Acquisition of properties	(7,205)	(6,352)
Net cash and cash equivalents used in investing activities	(8,289)	(8,747)
<b>Cash Flows from Financing Activities</b>		
Proceeds from notes and bonds payable	100	37,845
Payments on notes and bonds payable	(1,245)	(39,035)
Bond issuance costs	(97)	
Gifts restricted for long-term investment	4,892	4,167
Net cash and cash equivalents provided by financing activities	3,650	2,977
<b>Net Increase in Cash and Cash Equivalents</b>	2,333	16,885
<b>Cash and Cash Equivalents - Beginning of year</b>	34,079	17,194
<b>Cash and Cash Equivalents - End of year</b>	\$ 36,412	\$ 34,079

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 1 - Summary of Significant Accounting Policies

**Organization** – University of Detroit Mercy (the “University”) is an accredited coeducational higher education institution founded in 1877 by the Society of Jesus. University of Detroit Mercy is Michigan’s largest and most comprehensive Catholic university. In 1990, the University of Detroit consolidated with Mercy College of Detroit, which was founded in 1941 by the Religious Sisters of Mercy, to form University of Detroit Mercy. The University of Detroit Mercy offers more than 100 academic degrees and programs through seven schools and colleges across three campuses. Current enrollment is approximately 5,000 students.

**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 1.01 percent to 2.73 percent. The following table summarizes the University’s unconditional contributions receivable at June 30:

	2020	2019
Due within one year	\$ 2,522	\$ 3,536
Due after one year but within five years	<u>2,053</u>	<u>1,361</u>
Total	4,575	4,897
Less allowance for uncollectible contributions	(338)	(114)
Less discount for present value	<u>(68)</u>	<u>(14)</u>
Net contributions receivable	<u>\$ 4,169</u>	<u>\$ 4,769</u>



# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### 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, 2020 and 2019, notes receivable represented 5.6 percent and 6.1 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, 2020 and 2019 totaled approximately \$8,272,000 and \$8,279,000, respectively.

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

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 1 - Summary of Significant Accounting Policies (Continued)

**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:

- **Without Donor Restrictions** - 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 net assets without donor restrictions as of June 30 are as follows:

	2020	2019
Unrestricted for current operations	\$ (908)	\$ (2,167)
Board designated - quasi endowment	11,857	11,939
Investment in plant - Net of long-term debt	<u>78,201</u>	<u>78,014</u>
Total	<u>\$ 89,150</u>	<u>\$ 87,786</u>

- **With Donor Restrictions** – Donor restricted net assets may have restrictions for time or purpose or may have restrictions that are permanently maintained by the University. Contributions for which donors have imposed restrictions that limit the use of the donated assets are reported as donor restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, donor restricted net assets are classified to without donor restrictions and reported as net assets released from restrictions. Income from net assets restricted by donors for time or purpose 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 donor restricted support and are recognized at the estimated present value of the future cash flows, net of allowances. Net assets with donor restrictions in perpetuity are permanently maintained by the University with only the income earned thereon available for current use. This includes gifts, trusts and contributions that, by donor restriction, require the corpus be invested in perpetuity.

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 1 - Summary of Significant Accounting Policies (Continued)

Details of donor restricted net assets as of June 30, 2020 and 2019 are as follows:

	2020	2019
Academic programs	\$ 2,212	\$ 5,072
Scholarships	4,154	13,157
Building and equipment	3,088	4,124
Other	12,434	830
Endowment	<u>48,970</u>	<u>44,078</u>
Total Donor Restricted Net Assets	<u>\$ 70,858</u>	<u>\$ 67,261</u>

**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.

The University reports gifts and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenue of the net asset without donor restrictions class.

Other sources of revenue not otherwise categorized are recognized in the fiscal year in which they are earned.

**Revenue Recognition for Contract Revenue** - The University has revenue streams that constitute significant revenue from contracts with customers; tuition revenue, room and board revenue, dental clinic revenue, and auxiliary services (including athletics).

The University typically satisfies its performance obligations for these revenue streams over time, as services are rendered, because students and patients typically obtain the benefits of such services as the services are performed. The University typically uses days elapsed during the semester to measure progress of tuition and room and board revenue toward completion of performance obligations satisfied over time.

# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 1 - Summary of Significant Accounting Policies (Continued)

For revenue streams such as dental clinic revenue and athletics, the time required to render a service is trivially short; in those cases, the University satisfies its performance obligation upon completion of the service. The service is completed upon transfer of control to the service, which is based upon when the University has right to payment and the student or patient has accepted the service.

Each contract with students or patients typically contains only one performance obligation. Accordingly, the University need not allocate the transaction price.

In addition, students who adjust their course load or withdraw completely within the first two weeks of the academic term may receive a full or partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Changes in student enrollment status during the current reporting period may result in changes to the revenue recognized for performance obligations that were previously fully or partially satisfied.

Invoices (Course and Fee Statement) for tuition, fees, and room and board are available to students online as soon as registration has occurred. Mailed invoices are sent to the student's postal address on record with the University. The University does not offer discounts if the student pays some or all of an invoiced amount prior to the due date. The University does not offer settlement at a lower amount for any balances remaining after semester end dates have passed. Payment early in the applicable semester or service period is reflected as unearned revenue, while payment late in the applicable semester or service period is reflected as contract assets, which may include student accounts receivable. Payment for dental clinic and auxiliary services are due at the time of delivery of the good or service.

Payments for tuition and room and board are due by the Friday before the first day of the semester. The amount of consideration to which the University will be entitled is variable as long as a student can withdraw from the semester and receive a refund. The University excludes estimated refunds from the transaction price. The University also maintains appropriate accounts to reflect the effects of expected refunds on the University's financial position and periodically adjusts those accounts to reflect its actual refund experience. The University estimates refunds using historical and projected refund and enrollment trends. When a consideration contingency is resolved such that a refund will not be made, an invoice is typically sent to the student within 3 business days. None of the University's exchange revenues have a significant financing component.

# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 1 - Summary of Significant Accounting Policies (Continued)

The nature, amount, timing and uncertainty of the University's tuition and room and board revenue and related cash flows vary depending on the following factors:

- Location of classes taken (e.g., McNichols, Riverfront or Corktown Campus)
- Student's enrollment status (e.g., freshman, senior, part-time, full-time)
- Classes attended (e.g., undergraduate, graduate, program-specific)
- Semester attended (i.e., fall, winter, summer)
- Scholarship awards
- Payer (e.g., student, parents, third-parties)

Payments for dental clinic revenue are due at the time the service is performed. The nature, amount, timing and uncertainty of the University's dental clinic revenue and related cash flows vary depending on the patient's insurance status.

To determine the transaction price of a contract, the University considers its customary business practices as well as the terms of the contract. For the purpose of determining transaction prices, the University assumes that the services will be transferred to the student or patient as promised in accordance with existing contracts and that the contracts will not be cancelled, renewed, or modified.

At the end of each fiscal year, the University updates the estimated transaction prices of contracts having unsatisfied performance obligations. At those times, revenue and related account balances are adjusted to reflect any changes in transaction prices.

Services that the University transfers to students and patients are performed by the University. In no case does the University act as an agent; i.e. the University does not provide a service of arranging for another party to transfer services to students.

During the year ended June 30, 2020, the University recognized gross revenue from tuition and revenue from room and board of \$161,593,000 and \$6,510,000, respectively. The related scholarship allowances for these revenue streams during the year ended June 30, 2020 are \$48,530,000 and \$1,195,000, respectively. During the year ended June 30, 2019, the University recognized gross revenue from tuition and revenue from room and board of \$162,210,000 and \$7,900,000, respectively. The related scholarship allowances for these revenue streams during the year ended June 30, 2019 are \$48,126,000 and \$1,450,000, respectively.

# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 1 - Summary of Significant Accounting Policies (Continued)

During the year ended June 30, 2020, the University recognized gross revenue from dental clinic and auxiliary services of \$5,641,000 and \$6,078,000, respectively. During the year ended June 30, 2019, the University recognized gross revenue from dental clinic and auxiliary services of \$6,499,000 and \$7,305,000, respectively.

For the years ended June 30, 2020 and 2019, the closing balance of the University's student accounts receivable was \$6,956,000 and \$6,486,000, respectively, and the beginning balance was \$6,486,000 and \$6,513,000, respectively.

For the years ended June 30, 2020 and 2019, the closing balance of the University's dental clinic and auxiliary receivables was \$1,314,000 and \$768,000, respectively, and the beginning balance was \$768,000 and \$529,000.

For years ended June 30, 2020 and 2019, revenue yet to be recognized relates to fully or partially unsatisfied performance obligations. The closing balance of the University's unearned revenue for 2020 and 2019 was \$9,033,000 and \$9,183,000 respectively, and the beginning balance was \$9,183,000 and \$8,742,000, respectively.

**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 2020 and 2019, the University received and disbursed approximately \$4 million to students under the U.S. Department of Education's Pell Grant program. In addition, the University received and disbursed approximately \$79.3 million and \$86.7 million, respectively, under the U.S. Department of Education's Direct Loan program for the years ended June 30, 2020 and 2019. This activity is not reported in the accompanying financial statements.

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Functional Allocation of Expenditures** - The consolidated statement of functional expenses present expenses by function and natural classification. The University reports categories of expenses that attribute by program and supporting services. The University's primary program service is institutional instruction. Expenses reported as student services, academic support and auxiliary enterprises are incurred in support of the University's primary program activity. Expenses that attribute to more than one functional expense category are allocated using the cost allocation based on square footage.

Expenses by functional allocation for the year ended June 30, 2020 consist of the following:

	Program Activities		Supporting Activities			Total Expense
	Academic Instruction & Support	Student Services & Auxiliaries	Administrative Support	Fundraising	Operation & Maintenance	
Salaries, wages and benefits	\$ 73,859	\$ 13,180	\$ 9,638	\$ 3,082	\$ 2,990	\$ 102,749
Professional fees & contracted service	8,909	4,868	2,710	601	2,930	20,018
Depreciation	4,572	3,054	254	248	144	8,272
Occupancy, utilities, and maintenance	1,129	470	105	159	3,439	5,302
Meetings, travel, and memberships	1,342	1,166	334	88	-	2,930
Materials, supplies, printing & postage	4,104	2,999	301	240	345	7,989
Interest	1,050	269	139	40	107	1,605
Other expenses	4,480	1,147	595	166	461	6,849
	99,445	27,153	14,076	4,624	10,416	155,714
Facilities Operation & Maintenance	5,729	3,854	625	208	(10,416)	(0)
Total expenses	\$ 105,174	\$ 31,008	\$ 14,701	\$ 4,832	\$ (0)	\$ 155,714

Expenses by functional allocation for the year ended June 30, 2019 consist of the following:

Year Ended June 30, 2019	Program Activities		Supporting Activities			Total Expense
	Academic Instruction & Support	Student Services & Auxiliaries	Administrative Support	Fundraising	Operation & Maintenance	
Salaries, wages and benefits	\$ 78,483	\$ 13,355	\$ 9,510	\$ 2,787	\$ 3,057	\$ 107,192
Professional fees & contracted service	9,577	5,173	2,613	418	3,141	20,922
Depreciation	4,575	3,056	338	166	144	8,279
Occupancy, utilities, and maintenance	1,081	822	153	21	3,610	5,687
Meetings, travel, and memberships	1,811	1,244	395	58	3	3,511
Materials, supplies, printing & postage	5,412	2,154	387	310	414	8,677
Interest	1,349	345	179	50	139	2,062
Other expenses	3,640	932	483	135	374	5,564
	105,928	27,081	14,058	3,945	10,882	161,893
Facilities Operation & Maintenance	5,985	4,026	653	218	(10,882)	0
Total expenses	\$ 111,913	\$ 31,107	\$ 14,711	\$ 4,163	\$ -	\$ 161,893

**Advertising Expenses** - Advertising expenses for the years ended June 30, 2020 and 2019 were approximately \$1,478,000 and \$1,533,000, respectively.

# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

**Nonoperating Activities** - Nonoperating changes in net assets without donor restrictions 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.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus, now known as COVID-19, a pandemic. In response to the COVID-19 pandemic, governments have taken preventative or protective actions, such as temporary closures of non-essential businesses and "shelter-at-home" guidelines for individuals. As a result, the global economy has been negatively affected, and the University's operations were also impacted. Due to the "shelter-at-home" guidelines during April and May 2020, the University shifted to a remote online learning environment and sent students home. The University issued room and board refunds to students. The College also had many athletic events cancelled or temporarily postponed until the "shelter-at-home" guidelines were reduced or removed, which resulted in lost revenues for the University for the year ended June 30, 2020. To offset the financial impact to students and the losses incurred by the University due to the disruption caused by COVID-19, the University received grants and other relief primarily from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The University was allocated Higher Education Emergency Relief Fund (HEERF) grants totaling \$3.1M of which 50 percent was required to be given directly to students. For the year ended June 30, 2020, the University recognized HEERF grant revenue totaling \$2.8M. The severity of the continued impact due to COVID-19 on the University's financial condition, results of operations or cash flows will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the University's community, all of which are uncertain and cannot be predicted.



# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Labor Risks** - Approximately 35 percent of the University's workforce is covered under six different collective bargaining agreements, which expire at various dates through June 30, 2023. The agreement with the University of Detroit Mercy Professional Support Staff Association/MEA expired on December 31, 2019 and the University is currently in negotiations with those employees. There is also a wage reopener for International Brotherhood of Electrical Workers effective July 1, 2020, and the University will negotiate with those employees.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including November 6, 2020, which is the date the financial statements were issued.

### Note 2 - Notes Receivable

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

	2020	2019
Perkins	\$ 11,149	\$ 12,997
Other federal loan programs	7,244	6,959
Institutional loans	<u>80</u>	<u>374</u>
Subtotal	18,473	20,330
Less allowance for doubtful accounts:		
Beginning of the year	(4,763)	(4,763)
Decreases	552	-
Balance - End of year	<u>(4,211)</u>	<u>(4,763)</u>
Notes receivable - Net	<u>\$ 14,262</u>	<u>\$ 15,567</u>

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 2 - Notes Receivable (Continued)

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, 2020 and 2019, 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, 2020	\$ 14,461	\$ 2,876	\$ 458	\$ 678	\$ 18,473
June 30, 2019	\$ 15,973	\$ 894	\$ 511	\$ 2,952	\$ 20,330

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.

The Federal Perkins Loan Program expired on September 30, 2017. As of June 30, 2020, the University has made approximately \$2,052,000 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.

# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

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

**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 net assets with donor restrictions as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment is classified as net assets with donor restrictions 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

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

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

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment in perpetuity	\$ -	\$ 48,970	\$ 48,970
Donor-restricted endowment accumulated earnings for specified purpose		13,021	13,021
Board-designated endowment	11,857	-	11,857
Total	<u>\$ 11,857</u>	<u>\$ 61,991</u>	<u>\$ 73,848</u>

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 11,939	\$ 57,476	\$ 69,415
Investment income	290	1,442	1,732
Net depreciation in market value	(18)	(283)	(301)
Appropriation of endowment net assets for expenditures	(354)	(1,536)	(1,890)
Gifts	-	4,892	4,892
Endowment net assets - End of year	<u>\$ 11,857</u>	<u>\$ 61,991</u>	<u>\$ 73,848</u>

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment in perpetuity	\$ -	\$ 44,078	\$ 44,078
Donor-restricted endowment accumulated earnings for specified purpose		13,398	13,398
Board-designated endowment	11,939	-	11,939
Total	<u>\$ 11,939</u>	<u>\$ 57,476</u>	<u>\$ 69,415</u>

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 11,436	\$ 51,817	\$ 63,253
Investment income	407	1,833	2,240
Net appreciation in market value	196	927	1,123
Appropriation of endowment net assets for expenditures	(144)	(1,268)	(1,412)
Transfer to board-designated endowments	44	-	44
Gifts	-	4,167	4,167
Endowment net assets - End of year	<u>\$ 11,939</u>	<u>\$ 57,476</u>	<u>\$ 69,415</u>

# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### 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 are reported in net assets with donor restrictions. There were no deficiencies of this nature as of June 30, 2020 or 2019.

**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, 2020 and 2019. 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.

# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### 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, 2020 and 2019 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 2020 and 2019.

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.

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.

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 4 - Fair Value Measurements (Continued)

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2020

Fair Value Measurements June 30, 2020

	Investments		
	(at Fair Value)	Level 1	Level 2
<b>Assets - Investments at fair value</b>			
Pooled investment funds:			
Equity	\$ 33,568	\$ 33,568	\$ -
Fixed income	20,879	20,879	-
Multi-asset class	-	-	-
Subtotal	54,447	54,447	-
Other investments:			
Debt securities	2,175	-	2,175
Mutual funds	612	612	-
Equity and other	12	-	12
Subtotal	57,246	<u>\$ 55,059</u>	<u>\$ 2,187</u>
Investments measured at NAV -			
Pooled investment funds - fixed income (i)	14,448		
Pooled investment funds - equity (ii)	2,500		
Total investments at fair value	<u>\$ 74,194</u>		
<b>Liabilities - Interest rate swap agreement at fair value</b>	<u>\$ 7,774</u>	<u>\$ -</u>	<u>\$ 7,774</u>

- (i) The University invests in pooled investment funds invested in credit securities. The funds 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. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.
- (ii) The University invests in a pooled investment fund invested in equity securities. The fund seeks to maximize return potential by investing in what it considers to be attractive equity securities, primarily in the international markets. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 4 - Fair Value Measurements (Continued)

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2019

	Investments (at Fair Value)	Level 1	Level 2
<b>Assets - Investments at fair value</b>			
Pooled investment funds:			
Equity	\$ 33,846	\$ 33,846	\$ -
Fixed income	18,284	18,284	-
Subtotal	52,130	52,130	-
Other investments:			
Debt securities	6,061	-	6,061
Mutual funds	2,133	2,133	-
Equity and other	12	-	12
Subtotal	60,336	<u>\$ 54,263</u>	<u>\$ 6,073</u>
Investments measured at NAV -			
Pooled investment funds (i)	12,916		
Total investments at fair value	<u>\$ 73,252</u>		
<b>Liabilities - Interest rate swap agreement at fair value</b>	<u>\$ 4,834</u>	<u>\$ -</u>	<u>\$ 4,834</u>

- (i) The University invests in pooled investment funds invested in credit securities. The funds 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. These funds are 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:

	2020	2019
Land	\$ 5,921	\$ 5,551
Buildings and improvements	170,500	168,960
Furniture and equipment	41,060	39,872
Library books	36,605	35,733
Construction in progress	<u>4,774</u>	<u>1,511</u>
Total	258,860	251,627
Less accumulated depreciation	<u>144,119</u>	<u>135,847</u>
Net investment in properties	<u>\$ 114,741</u>	<u>\$ 115,780</u>



# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

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

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

	2020	2019
Michigan Facilities Authority Higher Education Limited Obligation Revenue Bonds - Series 2019A, bearing interest at a variable rate (effective rates of 1.98 and 3.275 percent as of June 30, 2020 and 2019, respectively), interest due monthly and principal due annually through 2036	\$ 22,960	\$ 23,860
Michigan Facilities Authority Higher Education Limited Obligation Revenue Bonds - Series 2019B, bearing interest at a variable rate (effective rate of 1.98 and 3.275 percent as of June 30, 2020 and 2019, respectively), interest due monthly and principal due annually through 2040	13,640	13,985
Michigan Facilities Authority Higher Education Limited Obligation Revenue Bonds - Series 2020, bearing interest at a variable rate (an effective rate of 1.95 percent as of June 30, 2020), interest due monthly and principal due annually through 2040	100	
Subtotal	\$ 36,700	\$ 37,845
Less unamortized bond issuance costs	160	79
Total	<u>\$ 36,540</u>	<u>\$ 37,766</u>

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### 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
2021	1,305
2022	1,360
2023	1,425
2024	1,480
2025	1,555
2026 and after	29,575
Total	<u>\$ 36,700</u>

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. The Series 2007 Bonds were refinanced during 2019 as described below.

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 bore interest at a variable rate, with interest due monthly and principal due annually through 2040. Principal payments began on November 1, 2012. The Series 2011 Bonds were refinanced during 2019 as described below.

The Series 2007 and Series 2011 Bonds were collateralized by separate outstanding letters of credit from a financial institution that expired on July 16, 2019. The bonds were refinanced during 2019 and the letter of credit was not renewed.

In January 2019, The University privately placed the Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds Series 2019A and 2019B Bonds to Fifth Third Commercial Funding, Inc. in the amounts of \$23,860,000 and \$13,985,000 respectively, collateralized by the University's unrestricted receivables. Bond issuance costs were approximately \$87,000. The bonds bear interest at a variable rate, with interest due monthly and principal due annually through 2040. Principal payments begin on November 1, 2019. The average variable interest rate on the Series 2019 Bonds for the years ended June 30, 2020 and June 30, 2019 was 3.29 and 2.47 percent, respectively.

# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

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

Proceeds from Fifth Third Commercial Funding, Inc. bonds purchase were placed in escrow until February 2019 when the Series 2007 and Series 2011 bonds were called and paid with the proceeds of the refinancing. As a result, the Series 2007 and Series 2011 bonds are considered to be extinguished and the long-term debt for the bonds has been removed from the University's financial statements.

In January 2020, The University privately placed the Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds Series 2020 to Fifth Third Commercial Funding, Inc. in the amount of up to \$14,000,000, collateralized by the University's unrestricted receivables. Bond issuance costs were approximately \$97,000. The bonds bear interest at a variable rate, with interest due monthly. Proceeds from the Series 2020 bond issue will fund various capital projects through January 2022, including the Student Union Project and improvements in student residence halls and other buildings on the main campus. Principal advances will be requested as costs are incurred. At June 30, 2020 the University recognized \$100,000 in advances of principal for this bond issue to finance architectural fees with respect to the capital projects.

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

During 2007, the University entered into an interest rate swap agreement on the 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.

During 2020, the University entered into a forward interest rate swap agreement on the Series 2020 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. The effective date for the forward interest rate swap is February 1, 2022 at which point the University agreed to exchange, at specified intervals, the calculated difference between fixed- and variable-interest amounts on a \$14,000,000 declining notional amount. The fixed rate as defined by the interest rate swap agreement is 1.51 percent with interest payments commencing on March 1, 2022.

Any gains or losses recognized on the interest rate swaps are recognized in current year earnings. Under the 2007 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 was \$22,960,000 and \$23,860,000 at June 30, 2020 and 2019, respectively. The fixed rate as defined by the interest rate swap agreement is 3.61 percent. The average variable rate for the Series 2019A and Series 2019B Bonds outstanding was 2.47 percent and 3.29 percent for the fiscal years ended June 30, 2020 and 2019, respectively.

# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

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

The value of the swap instruments represent 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 swaps at June 30, 2020 and 2019 was recorded in the University's financial statements as a liability of approximately \$7,774,000 and \$4,834,000, respectively.

Accordingly, the University recognized unrealized loss of approximately (\$2,939,000) and (\$1,269,000) for the years ended June 30, 2020 and 2019, respectively, related to the adjustment of value of the interest rate swap agreements.

### 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 \$4,447,000 in 2020 and \$4,415,000 in 2019.

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, 2020 and 2019.

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):

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 7 - Retirement Benefits (Continued)

#### Obligations and Funded Status

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Projected benefit obligation	\$ 6,328	\$ 5,993	\$ 6,829	\$ 6,218
Fair value of plan assets	4,867	4,700	-	-
Funded status at end of year	<u>\$ (1,461)</u>	<u>\$ (1,293)</u>	<u>\$ (6,829)</u>	<u>\$ (6,218)</u>

Amounts recognized in the balance sheet consist of the following:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Other accrued expenses	\$ 1,461	\$ 1,293	\$ -	\$ -
Accrued postretirement benefits	-	-	6,829	6,218
Total	<u>\$ 1,461</u>	<u>\$ 1,293</u>	<u>\$ 6,829</u>	<u>\$ 6,218</u>

Accumulated net periodic benefit cost recognized as net assets without restrictions is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Net loss (gain)	\$ 3,226	\$ 3,013	\$ 871	\$ 154
Prior service (credit) cost	(41)	(42)	-	-
Total	<u>\$ 3,185</u>	<u>\$ 2,971</u>	<u>\$ 871</u>	<u>\$ 154</u>

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### 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	
	2020	2019	2020	2019
Net periodic benefit cost	\$ 11	\$ 30	\$ 223	\$ 161
Employer contributions	58	149	330	295
Benefits paid	336	327	330	295

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	
	2020	2019	2020	2019
Net (gain) loss	\$ 312	\$ 365	\$ 717	\$ 1,470
Amortization of prior service credit (cost)	2	2	-	(65)
Amortization of net gain (loss)	(99)	(86)	-	107
Total recognized in nonoperating activities	\$ 215	\$ 281	\$ 717	\$ 1,512
Total recognized in functional expenses and nonoperating activities	\$ 226	\$ 310	\$ 941	\$ 1,674

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 approximately \$109,000 and \$99,000, respectively.

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 is \$25,000 and \$0, respectively.

Mortality assumptions for participants in the University's pension and postretirement plans were updated to use the most recently available tables published by the Society of Actuaries (SOA).

### Assumptions

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

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Discount rate	3.15%	3.80%	2.47%	3.34%

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 7 - Retirement Benefits (Continued)

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

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Discount rate	3.80%	4.50%	3.34%	3.97%
Expected long-term return on plan assets	6.75%	6.75%	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.

The target allocation of plan assets at the June 30, 2020 and June 30, 2019 measurement dates, by asset category, as a percentage, was as follows: 35 percent global and traditional equity securities, 40 percent fixed-income obligations, 11 percent hedge funds, 7 percent long/short equity securities, and 7 percent other types of investments.

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 7 - Retirement Benefits (Continued)

The following tables summarize the pension plan assets measured at fair value as of June 30, 2020 and 2019:

#### Pension Plan Assets Measured at Fair Value at June 30, 2020

	Level 1	Level 2	Level 3	Balance
<b>Assets - Investments</b>				
Short-term investment funds	\$ 106	\$ -	\$ -	\$ 106
Common stock - Domestic	701	-	-	701
Debt securities:				
U.S. government/federal agency	-	693	-	693
Corporate bonds	-	1,578	-	1,578
Mortgage- and asset-backed securities	-	20	-	20
Mutual funds - Equities	74	-	-	74
Subtotal	\$ 881	\$ 2,291	\$ -	3,172
Investments measured at net asset value (i)				1,695
Total				\$ 4,867

- (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 Europe, both directly and on the secondary market. These funds are valued at net asset value, which is calculated using the most recent partnership financial statements.

#### Pension Plan Assets Measured at Fair Value at June 30, 2019

	Level 1	Level 2	Level 3	Balance
<b>Assets - Investments</b>				
Short-term investment funds	\$ 151	\$ -	\$ -	\$ 151
Common stock - Domestic	624	-	-	624
Debt securities:				
U.S. government/federal agency	-	736	-	736
Corporate bonds	-	1,235	-	1,235
Mortgage- and asset-backed securities	-	14	-	14
Mutual funds - Equities	99	-	(2)	97
Subtotal	\$ 874	\$ 1,985	\$ (2)	2,857
Investments measured at net asset value (i)				1,843
Total				\$ 4,700

- (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 Europe, both directly and on the secondary market. These funds are valued at net asset value, which is calculated using the most recent partnership financial statements.



# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### 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, 2020 and 2019 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 2020 and 2019.

#### Contributions

The University expects to contribute approximately \$142,000 to its pension plan and \$318,000 to its postretirement benefit plan during the year ending June 30, 2021.

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

Years Ending June 30	Pension Benefits	Other Postretirement Benefits
2021	468	318
2022	415	318
2023	384	330
2024	389	326
2025	376	317
2026-2030	1,790	1,600

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 8 - Insurance Commitments

The University funds a reserve for dental malpractice claims. At June 30, 2020 and 2019, the University owned a bank account administered by a third party with balances of \$505,000 and \$500,000, 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, 2020 and 2019 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, 2020 and 2019, 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.

### Note 10 - Voluntary Employee Separation Incentive Program

During the year ended June 30, 2018, the University offered a Voluntary Employee Separation Incentive Program (VESIP) to all employees who were active as of July 14, 2017, and had a minimum of 10 years of service and were at least 55 years of age as of December 31, 2017. Employees who elected to participate in the program received one year's salary paid out in 26 bi-weekly installments, and 100% of group medical, prescription drug, and/or dental coverage for 18 months following the separation from the University. During the year ended June 30, 2019, a second offering was made to select faculty who met the same service and age requirements of the original program. No expenses were recognized in 2020. Expenses related to the VESIP of approximately \$1,655,000 were recognized in the statement of activities and changes in net assets during the year ended June 30, 2019. As of June 30, 2020 and 2019, the liability recorded is approximately \$587,000 and \$5,616,000, respectively. The estimated payments are as follows:

Years Ending		
June 30	Salaries	Benefits
2021	375	212
	375	212

# University of Detroit Mercy

## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 11 – Financial Assets and Liquidity Resources

The following table reflects the University's financial assets as of June 30, 2020, reduced by amounts not available for general expenditures within one year. Financial assets are unavailable when illiquid or not convertible to cash within one year. Other considerations of non-liquid assets are perpetual endowments and accumulated earnings net of appropriations within one year, amounts restricted by donors for nonoperating activities, amounts limited by the University's Board of Trustees, and student loans receivable. The University considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated endowments, contributions without donor restrictions and contributions with donor restrictions for current operating activities to be available to meet cash needs for general expenditures. The University considers all expenditures related to its operating activities that are incurred in the course of the normal business operations of the University to be general expenditures.

	2020	2019
Financial Assets		
Cash and cash equivalents	\$ 36,412	\$ 34,079
Accounts receivable, net	9,498	9,412
Contributions receivable, net	4,169	4,769
Notes receivable, net	14,262	15,567
Investments	74,194	73,252
	<u>138,535</u>	<u>137,079</u>
Financial assets at June 30, 2020		
Less financial assets unavailable for general expenditure within one year:		
Accounts receivable, net, beyond one year	-	-
Contributions receivable, net, beyond one year	1,647	1,233
Notes receivable, net, restricted for financial aid purposes	14,262	15,567
Other assets with donor or board restrictions	11,857	11,939
Endowment assets, net of appropriation for next fiscal year	59,591	55,164
	<u>87,357</u>	<u>83,903</u>
Financial assets unavailable for general expenditure within one year		
Financial assets available to meet the cash needs for general expenditure within one year	<u>\$ 51,178</u>	<u>\$ 53,176</u>

# University of Detroit Mercy

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## Notes to Financial Statements Years Ended June 30, 2020 and 2019 (tables rounded to nearest thousand)

### Note 11 – Financial Assets and Liquidity Resources (Continued)

The University's practice is to structure its financial assets to be available as its general expenses, liabilities, and obligations come due. In addition to financial assets available to meet general expenditures over the next year, the University's goal is to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statement of cash flows, which identifies the sources and uses of the University's cash generated by operating activities for the year ending June 30, 2020.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The University maintains sufficient liquidity within the endowment to cover board-designated amounts, funding commitments, and appropriations for spending distributions. The Organization's endowment funds consist of donor-restricted endowments and a quasi-endowment of \$11,857,000. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note 3, the quasi-endowment has a spending rate of 4 percent. \$435,000 of appropriations from the quasi-endowment will be available within the next 12 months. Although the Organization does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

### Note 12 – Subsequent Events

In August 2020, the University completed the purchase of a building and 8.7 acres of land located in Novi, Michigan for \$6,150,000. The purchase was funded through cash from the University and a \$4,942,000 loan from Fifth Third Bank. The building includes furnished space of 40,000 square feet and is configured for educational use. Acquisition of the building will provide space for the future optometry program that is currently being developed as well as allow for other new programs such as dental continuing education, justice center for law enforcement training, health professions education and professional development and new health professions or nursing programs.

**Independent Auditor's Report on Supplemental Information**

To the Board of Trustees  
University of Detroit Mercy

We have audited the financial statements of University of Detroit Mercy as of and for the years ended June 30, 2020 and 2019 and have issued our report thereon dated November 6, 2020, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the 2020 financial statements as a whole. The accompanying financial responsibility supplemental schedule is presented for the purpose of additional analysis, as required by Title 34 U.S. Code of Federal Regulations (CFR) Section 668.172 Department of Education Financial Ratios, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2020 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2020 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2020 financial statements as a whole.

*Plante & Moran, PLLC*

November 6, 2020

# University of Detroit Mercy

University of Detroit Mercy

## Financial Responsibility Supplemental Schedule

Year Ended June 30, 2020

Ratio	Cross-reference to the financial statement line or note disclosure		Financial element needed to calculate the composite score ratios	Gross Amounts	Net Amounts
	Section	Line item or subsection			
<b>Primary Reserve Ratio:</b> Expendable Net Assets:	Statement of Financial Position	Net assets without donor restrictions	Net assets without donor restrictions	\$	89,150
	N/A	Net assets with donor restrictions	Net assets with donor restrictions		70,858
	N/A	N/A	Secured and Unsecured related party receivable		-
	N/A	N/A	Unsecured related party receivable		-
	Statement of Financial Position	Property, Plant, and Equipment, net	Property, plant, and equipment, net (including construction in progress)	114,741	
	Financial Statement Footnotes	Property, Plant, and Equipment, net - Pre-implementation	Property, plant, and equipment, net - Pre-implementation less any construction in progress		109,967
	N/A	N/A	Property, plant, and equipment, net - Post-implementation less any construction in progress with outstanding debt for original purchase		-
	N/A	N/A	Property, plant, and equipment, net - Post-implementation less any construction in progress without outstanding debt for original purchase		-
	N/A	Property, Plant, and Equipment - Construction in process	Construction in progress		4,774
	N/A	N/A	Lease right-of-use asset		-
	N/A	N/A	Lease right-of-use asset - Pre-implementation		-
	N/A	N/A	Lease right-of-use asset - Post-implementation		-
	N/A	N/A	Intangible assets		-
	N/A	Post-employment and pension liability	Post-employment and defined pension plan liabilities		8,290
	N/A	Notes payable and line of credit (both current and long-term) and line of credit for construction in process	Long-term debt - For long-term purposes and construction in process debt	36,700	
	Financial Statement Footnotes	Notes payable and line of credit (both current and long-term) and line of credit for construction in process	Long-term debt for long-term purposes - Pre-implementation		36,700
	N/A	Notes payable and line of credit (both current and long-term) for purchase of property, plant, and equipment	Qualified long-term debt for long-term purposes - Post-implementation for purchase of property, plant, and equipment		100
	N/A	N/A	Line of credit for construction in process		-
	N/A	N/A	Lease right-of-use asset liability		-
	N/A	N/A	Pre-implementation right-of-use asset liability		-
N/A	N/A	Post-implementation right-of-use asset liability		-	
Statement of Financial Position	Annuities	Annuities with donor restrictions		418	
N/A	N/A	Term endowments with donor restrictions		-	
N/A	N/A	Life income funds with donor restrictions		-	
N/A	Perpetual Funds	Net assets with donor restrictions: restricted in perpetuity		48,970	
Total Expenses and Losses:	Statement of Activities	Total operating expenses	Total expenses without donor restrictions		155,714
		Non-operating (investment return appropriated for spending), investments, net of annual spending, gain (loss), other components of net periodic pension costs, pension-related changes other than net periodic pension, change in value of split-interest agreements, and other gains (losses)	Non-operating and net investment (loss)		282
		Non-operating (investment return appropriated for spending), investments, net of annual spending, gain (loss)	Net investment losses		282
		Pension-related changes other than periodic pension	Pension-related changes other than net periodic costs		1,315

# University of Detroit Mercy

University of Detroit Mercy

## Financial Responsibility Supplemental Schedule

Year Ended June 30, 2020

Ratio	Cross-reference to the financial statement line or note disclosure		Financial element needed to calculate the composite score ra	Gross Amounts	Net Amounts
	Section	Line item or subsection			
<b>Equity Ratio:</b>					
Modified Net Assets:					
	Statement of Financial Position	Net assets without donor restrictions	Net assets without donor restrictions	\$	89,150
	N/A	Net assets with donor restrictions	Net assets with donor restrictions		70,858
	N/A	N/A	Intangible assets		-
	N/A	N/A	Secured and Unsecured related party receivable	\$ -	-
		N/A	Unsecured related party receivable		-
Modified Assets:					
	Statement of Financial Position	Total assets	Total assets		253,938
	N/A	N/A	Lease right-of-use asset - Pre-implementation		-
	N/A	N/A	Pre-implementation right-of-use liability		-
	N/A	N/A	Intangible assets		-
	N/A	N/A	Secured and Unsecured related party receivable	-	-
		N/A	Unsecured related party receivable		-
<b>Net Income Ratio:</b>					
Change in Net Assets Without Donor Restrictions	Statement of Activities	Change in net assets without donor restrictions	Change in net assets without donor restrictions		1,364
Total revenues and gains	Statement of Activities	Net assets released from restrictions, total operating revenue and other additions and sale of fixed assets, gains (losses)	Net assets released from restrictions, total operating revenue and other additions and sale of fixed assets, gains (losses)		161,332