

FINANCIAL REPORT

2020-2021



NORTHERN MICHIGAN
UNIVERSITY

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As of June 30, 2021 with terms ending
December 31 in year shown

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Marquette
2022

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Vice Chair
Lansing
2026

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Jason T. Morgan
Ann Arbor
2028

Donna L. Murray-Brown
Detroit
2026

Gregory J. Seppanen
Marquette
2028

Fritz J Erickson
President of the University
Ex Officio

Executive Officers

As of June 30, 2021

Fritz J Erickson
President

R. Gavin Leach
Vice President for Finance & Administration and
Treasurer of the Board of Trustees

Kerri D. Schuiling
Provost/Vice President for Academic Affairs

Stephen P. VandenAvond
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Finance and Administrative Staff

As of June 30, 2021

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Controller

Jill M. Compton
Internal Auditor

Rhea E. Dever
Assistant Vice President for Human Resources

Matthew J. Franti
Director of Budget & Finance

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Director of Auxiliary Services

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Medical Director/Physician

Brian A. Larson
Senior Director of ERP/Information Services

Christopher L. Lewis
Senior Director - EAN/APP Dev/Support Services

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Chief Technology Officer

Kathy A. Richards
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Planning/Facilities

Michael R. Rotundo
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Northern Michigan University's (the "University") annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2021, 2020 and 2019. This discussion, which includes The Northern Michigan University Foundation, whenever appropriate, has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of management.



Reporting Entity

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

Using the Annual Report

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

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

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Under the University reporting model, State appropriations, Pell grant revenue, Federal Higher Education Emergency Relief Funds, Federal Coronavirus Relief Funds grant, gifts, and investment income are reported as nonoperating revenues and results in the University showing an operating loss of \$54.9 million for the year ended June 30, 2021, and \$55.2 million for the year ended June 30, 2020. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

Financial Highlights

The University's net position for the year ended June 30, 2021 of \$254.0 million increased by \$32.3 million from the prior year balance of \$221.7 million. The increase in net position of \$32.3 million for fiscal year 2021 changed by \$25.0 million from the fiscal year 2020 increase in net position of \$7.3 million. The increase of \$25.0 million resulted from a \$16.5 million increase in operating and non-operating revenues, a \$7.3 million decrease in operating and non-operating expenses, and a \$1.3 million decrease in loss on asset disposal.

Operating revenues for the year ended June 30, 2021 of \$106.8 million decreased by \$6.8 million from the prior year. Student tuition and fees totaling \$68.2 million is the largest component of operating revenue and decreased by \$3.0 million from the prior year. All other operating revenues of \$38.6 million netted to a \$3.7 million decrease. Nonoperating revenues totaling \$91.1 million increased by \$23.3 million from the prior year. The largest components of this increase was a \$17.3 million increase in Federal Higher Education Emergency Relief Funds (HEERF) and Federal Coronavirus Relief Fund grants, a \$4.8 million increase in State appropriations as a result of the approximate 11% reduction in State appropriations in fiscal year 2020, a \$3.1 million increase in investment income and a \$1.4 million decrease in Pell Grant revenue.

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

Operating and nonoperating expenses (including HEERF related expenses) totaling \$165.0 million for the year ended June 30, 2021 decreased by \$7.3 million from the prior year. Salaries, wages, and benefits of \$95.2 million, the largest component of operating and non-operating expenses, decreased by \$8.0 million, primarily due to the implementation of an Early Retirement Incentive Plan in 2020 and other pandemic related labor decreases. Supplies and support services of \$34.8 million decreased by \$0.8 million from the prior year total of \$35.6 million. All other components of operating and nonoperating expenses increased by \$1.4 million which included an increase in scholarships of \$1.8 million and depreciation expense of \$0.4 million and decreases in interest on capital asset related debt of \$0.2 million and utilities of \$0.6 million.



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

Condensed Financial Information

Condensed Statements of Net Position

	June 30		
	2021	2020	2019
Assets			
Current assets	\$ 73,616,019	\$ 53,058,529	\$ 48,676,142
Noncurrent assets			
Capital	325,964,676	333,027,401	331,245,245
Other	109,043,530	101,301,492	104,926,773
Total noncurrent assets	435,008,206	434,328,893	436,172,018
Total assets	508,624,225	487,387,422	484,848,160
Total deferred outflows of resources	7,398,997	6,726,973	7,818,981
Liabilities			
Current liabilities	35,190,771	31,196,497	33,125,734
Noncurrent liabilities	160,123,023	172,844,678	174,316,723
Total liabilities	195,313,794	204,041,175	207,442,457
Total deferred inflows of resources	66,713,943	68,423,332	70,841,881
Net position			
Net investment in capital assets	173,245,584	173,285,048	164,757,526
Restricted			
Nonexpendable	1,141,269	925,363	911,530
Expendable	5,747,382	5,203,384	5,087,313
Unrestricted	73,861,250	42,236,093	43,626,434
Total net position	\$ 253,995,485	\$221,649,888	\$ 214,382,803

Current assets totaled \$73.6 million at June 30, 2021, \$53.1 million at June 30, 2020, and \$48.7 million for June 30, 2019. The ratio of current assets to current liabilities was 2.1 for the year ended June 30, 2021, 1.7 for the year ended June 30, 2020, and 1.5 for the year ended June 30, 2019. Cash and cash equivalents increased by \$9.7 million from the prior year due to maintaining additional funds more liquid for operational needs.

Current liabilities of \$35.2 million at June 30, 2021 increased \$4.0 million from the prior year. Accounts payable and accrued liabilities increased by \$1.1 million due mostly to employee furloughs in 2020. Deferred revenue increased by \$2.2 million from the prior year due primarily to federal stimulus dollars for the Public TV/FM stations and being the fiscal agent for two math grants for local Intermediate School Districts throughout the state.

Long-term debt including notes and bonds payable, net of unamortized deferred charge on refunding, is the largest liability totaling \$77.4 million at June 30, 2021, \$83.1 million at June 30, 2020, and \$88.6 million at June 30, 2019. Bonds and notes payable at June 30, 2021 included \$62.8 million of 2018 General Revenue Fixed Rate Bonds, \$10.2 million of 2012 General Revenue Fixed Rate Bonds, and remaining unamortized deferred costs and premiums of \$4.4 million. The University reported a net pension liability of \$64.6 million at June 30, 2021, \$63.1 million at June 30, 2020, and \$59.8 million at June 30, 2019 for its proportionate share of the MPSERS net pension liability. The University reported an OPEB liability of \$4.0 million at June 30, 2021, \$8.6 million at June 30, 2020 and \$11.1 million at June 30, 2019 for its proportionate share of the MPSERS net OPEB liability.



Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30		
	2021	2020	2019
Operating revenues			
Tuition and fees, net	\$ 68,213,279	\$ 71,259,616	\$ 65,611,246
Grants and contracts	6,606,291	7,686,258	7,085,090
Auxiliary enterprises, net	19,639,290	22,253,995	23,209,248
Other operating revenues	12,362,110	12,381,116	12,986,256
Total operating revenues	106,820,970	113,580,985	108,891,840
Operating expenses	161,732,713	168,777,665	168,317,572
Operating loss	(54,911,743)	(55,196,680)	(59,425,732)
Nonoperating revenues			
State appropriations	48,890,358	44,079,546	48,270,045
Pell grant revenue	9,354,436	10,793,567	10,923,903
Federal Higher Education Emergency Relief Funds	15,391,288	3,458,415	
Federal Coronavirus Relief Funds	5,358,200		
Other nonoperating revenues, net	8,790,843	5,944,481	4,770,908
Net nonoperating revenues	87,785,125	64,276,009	63,964,856
Income before other revenues	32,873,382	9,079,329	4,539,124
Loss on asset disposal	(527,785)	(1,812,244)	(268,313)
Total increase in net position	32,345,597	7,267,085	4,270,811
Net position - beginning of year	221,649,888	214,382,803	210,111,992
Net position - end of year	\$ 253,995,485	\$ 221,649,888	\$ 214,382,803



Tuition and Fees

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

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

Average Annual Academic Year Full Time Student Tuition and Fees

	2021	2020	2019
Undergraduate, resident			
Lower division	\$ 12,172	\$ 11,255	\$ 10,729
Upper division	12,748	11,795	11,245
Undergraduate, nonresident			
Lower division	17,668	16,751	16,225
Upper division	18,496	17,543	16,993
Graduate, resident	15,508	14,375	13,753
Graduate, nonresident	20,692	19,559	18,937

Room and Board

The annual cost of room and board which includes laundry and other miscellaneous residence fees, was \$11,072 for fiscal year 2021, \$10,774 for fiscal year 2020, and \$10,666 for fiscal year 2019. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters.



Eight residence halls with a rated capacity of 2,396 students have an average occupancy of 2,045 (eight residence halls which housed 2,252 in fiscal year 2020) and are at 85.4% capacity (2020 – 93.9%). The reduction in occupancy was due to a number of students returning home for the winter semester during the pandemic. Campus apartments total 365 units. Most apartments are rented during the academic year with occupancy varying depending on the ratio of single students to student families and the size of the household. All residence hall students are required to be on one of four different meal plans which can be used at two on-campus dining facilities.

Operating Expenses

Operating expenses for June 30, 2021, including depreciation of \$13.1 million, totaled \$161.7 million. Of this total, \$76.4 million, or 47.2%, was used for instruction, research, student aid, and student services, \$28.9 million, or 17.8% was used for operation, maintenance, and depreciation, and \$18.2 million, or 11.3%, was used for auxiliary enterprises. Operating expenses for June 30, 2020, including depreciation of \$12.8 million, totaled \$168.8 million. Of this total, \$81.1 million, or 48.0%, was used for instruction, research, student aid, and student services, \$29.5 million, or 17.5% was used for operation, maintenance, and depreciation, and \$19.9 million, or 11.8%, was used for auxiliary enterprises. Operating expenses for June 30, 2019, including depreciation of \$12.0 million, totaled \$168.3 million. Of this total, \$80.3 million, or 47.7%, was used for instruction, research, student aid, and student services, \$28.2 million, or 16.8% was used for operation, maintenance, and depreciation, and \$21.8 million, or 12.9%, was used for auxiliary enterprises.

Other

State appropriations of \$48.9 million for the year ended June 30, 2021, \$44.1 million for the year ended June 30, 2020, and \$48.3 million for the year ended June 30, 2019 is the largest source of nonoperating revenues. The appropriation is recognized in the period for which it is appropriated.

Interest expense on outstanding debt and capital leases was \$3.3 million for the year ended June 30, 2021, \$3.5 million for the year ended June 30, 2020, and \$3.8 million for the year ended June 30, 2019.



The Statements of Cash Flows

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

Condensed Statements of Cash Flows

	June 30		
	2021	2020	2019
Cash provided (used) by:			
Operating activities	\$ (36,059,696)	\$ (39,479,083)	\$ (45,752,718)
Noncapital financing activities	62,183,307	67,932,774	61,056,556
Capital and related financing activities	(17,038,296)	(28,864,788)	(37,935,041)
Investing activities	578,057	8,988,805	11,458,550
Net increase (decrease) in cash and cash equivalents	9,663,372	8,577,708	(11,172,653)
Cash and cash equivalents, beginning of year	29,451,673	20,873,965	32,046,618
Cash and cash equivalents, end of year	<u>\$ 39,115,045</u>	<u>\$ 29,451,673</u>	<u>\$ 20,873,965</u>

Major sources of funds included in operating activities are student tuition and fees of \$68.2 million, grants and contracts of \$10.1 million and auxiliary sales of \$20.0 million for the year ended June 30, 2021; student tuition and fees of \$71.3 million, grants and contracts of \$7.3 million and auxiliary sales of \$22.6 million for the year ended June 30, 2020; student tuition and fees of \$65.7 million, grants and contracts of \$7.7 million and auxiliary sales of \$23.1 million for the year ended June 30, 2019. The major sources of funds included in noncapital financing activities are State appropriations of \$41.2 million, Federal Higher Education Emergency Relief Funds (HEERF) of \$6.6 million, Pell grant revenue of \$9.4 million, and Federal Coronavirus Relief Funds (CRF) of \$5.4 million for the year ended June 30, 2021; State appropriations of \$48.0 million, Pell grant revenue of \$10.8 million, and HEERF revenue of \$2.3 million for the year ended June 30, 2020; State appropriations of \$46.9 million and Pell grant revenue of \$10.9 million for the year ended June 30, 2019. See additional cash flow information related to capital assets and long-term debt within the footnotes.

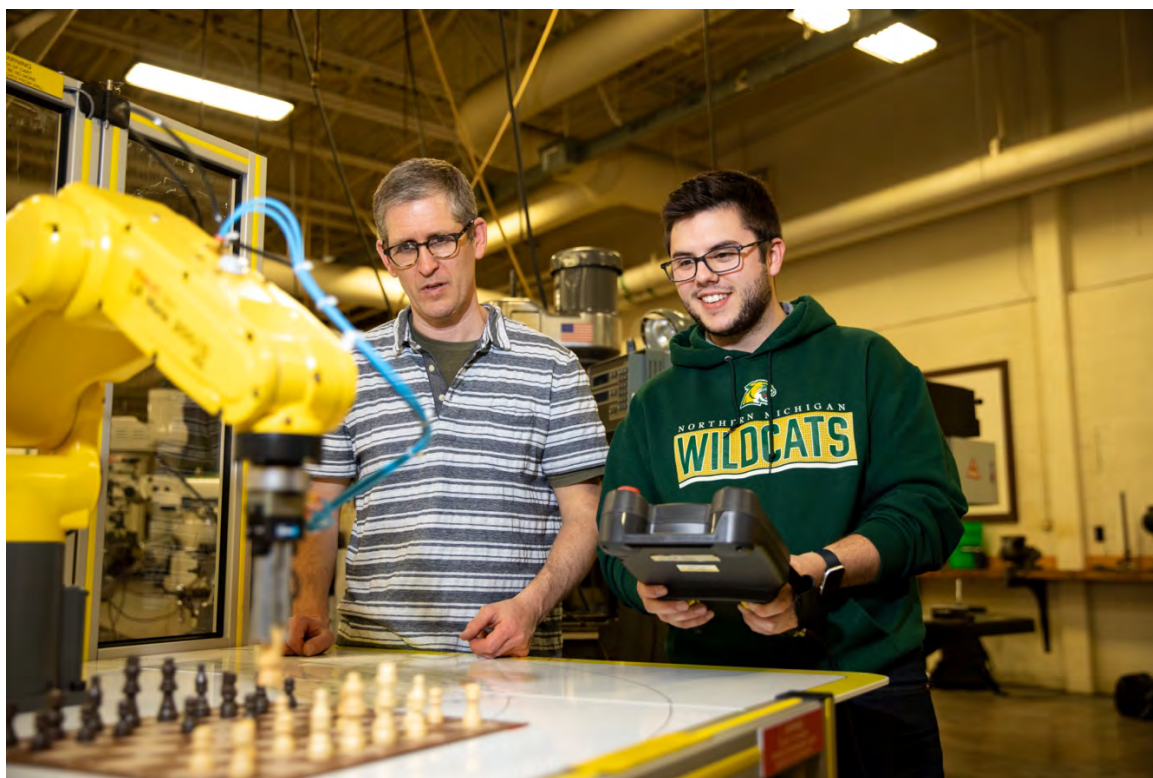
Northern Michigan University Foundation

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

Net assets of \$56.3 million increased \$12.4 million for the year ended June 30, 2021 as compared to an increase in net assets of \$1.6 million for the year ended June 30, 2020.

Net assets of \$43.9 million increased \$1.6 million for the year ended June 30, 2020 as compared to an increase in net assets of \$2.1 million for the year ended June 30, 2019. The increase in net position of \$1.6 million for fiscal year 2020 changed by \$0.5 million from the increase in net position of \$2.1 million for fiscal year 2019.

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



Factors Impacting Future Periods

Economic Factors

The COVID-19 global pandemic continued into and throughout the entire 2020-21 academic year, posing a wide variety of challenges to the University, as it did to other colleges and universities. As it had done from March to May at the start of the pandemic the previous year, the University expended considerable effort to provide a safe environment for students, faculty, staff and campus visitors while at the same time offering as much in-person and hybrid learning/teaching, living and working as was considered safe to make available.

The University did extensive COVID-19 testing for students, faculty, and staff; developed creative hybrid learning options that offered at least some face-to-face components; dramatically changed the physical spacing in nearly every classroom, lab and non-academic departmental spaces to provide for proper social distancing; required masks indoors and outdoors when near others; transitioned numerous traditional student and employee activities to virtual environments; provided new technology and new technology training to students, faculty, and staff; offered weekly University and community vaccination clinics when COVID-19 vaccines became available; and took on many other efforts to keep the University community safe, informed and engaged in COVID-19 related decision-making and pandemic protocol implementation.

The University's ability to adapt, remain mostly in-person and continue to move forward were paramount in fiscal year 2021 ending in a stronger financial position than originally anticipated. This same effort and ability to adapt remains important going forward as the pandemic remains present as do its subsequent challenges to the University with their unknown economic implications into the next fiscal year.

Enrollment Management and Student Services

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

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





The Educational Success Platform (ESP) is a retention and communication tool intended to assist faculty, advisers, and students communicate more effectively, serves as an early warning system, and ultimately, increase the retention of students at the University. Faculty may use the system to compliment students for their efforts, communicate with one or all students in a class section, and also let students know when they are not performing adequately. These notifications to students are copied to their academic advisers (and, if an athlete, to their head coach) so that they may be aware and also reach out to the student. Advisers will also have the ability to use data resources from HelioCampus to identify those that may struggle and intercede, providing suggestions, interventions, and strategies for success.

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

The University's investment in the U.P. Cybersecurity Institute is designed as a way to attract new students to the programs of this in- demand career field, provide opportunities for adult career changers, and produce the talent necessary to support regional economic development. In 2019, the University was selected by the State of Michigan to serve as the State's sixth cybersecurity hub, the only one of its kind in the Upper or Northern Lower Peninsula. The Institute that has developed from the cybersecurity hub designation is expanding training in cybersecurity to a wide range of Upper Peninsula residents, including K-12 students, college students, businesses, and adult community members, many of whom are seeking to change careers. This effort is rapidly contributing to the buildout of the local digital economy. There are an estimated 4 million vacant cybersecurity positions globally, and many of these jobs can be performed from anywhere in the world, including the Upper Peninsula.

Enrollment Data

For the 2020-21 academic year, as of the fall census date, thirty-seven percent (37%) of the University's students were from Upper Peninsula Michigan counties, thirty-nine (39%) of the University's students came from Michigan's Lower Peninsula counties, and the remaining twenty-four percent (24%) came from other states and foreign countries.

The following table indicates the total beginning-of-semester (BOS) fall headcount enrollment of undergraduate and graduate students. Also indicated are the fiscal year equated students and total annual end-of-semester (EOS) credit hours for all students attending the University.

Academic Year	Fall BOS Headcount Enrollment			Fiscal Year Equated Students	Annual Total Credit Hours Taken		
	Undergraduate Students	Graduate Students	Total		Undergraduate Students	Graduate Students	Total
2017	7,018	594	7,612	6,891	191,199	7,976	199,175
2018	7,089	506	7,595	6,713	193,665	7,329	200,994
2019	7,136	596	7,732	6,768	194,656	7,705	202,361
2020	6,734	634	7,368	6,816	183,659	9,138	192,797
2021	6,611	603	7,214	6,509	N/A	N/A	N/A



Admissions

The Admissions staff developed and executed strategic activities to positively impact enrollment in a global pandemic environment. Through collaboration with University partners, Admissions utilized a mix of virtual and in-person college fairs, campus visits, and scholarship competitions. The Wildcat Weekend open house events, which could not be held in person, were replaced with virtual "Northern Nights" and "Cat Chats" and "Transfer Northern 101" sessions. In-person and virtual visits pushed capacity limits, with over 1,300 prospective students and 1,800 guests participating. Off campus, Admissions conducted over 950 outreach activities to reach targeted markets. In addition, Admissions engaged with an external partner to gain exposure beyond the Midwest. This partnership is expected to yield applications for the Winter 2022 cycle.

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

First-Year Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Total New Freshmen Enrolled	Percent Enrolled
2016	5,346	4,056	75.9	1,355	33.4
2017	6,173	4,591	74.4	1,501	32.7
2018	7,768	5,007	64.5	1,608	32.1
2019	7,827	5,045	64.5	1,601	31.7
2020	6,389	4,169	67.0	1,354	32.5

By August 4, 2021, the University had received 6,669 freshman applications (as compared to 6,372 as of August 5, 2020) and had granted 4,675 acceptances (as compared to 4,178 as of August 5, 2020).

Transfer Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Students Enrolled	Percent Enrolled
2016	1,075	634	59.0	396	62.5
2017	1,096	668	60.9	407	60.9
2018	1,547	782	50.5	488	62.4
2019	1,337	698	52.2	419	60.0
2020	1,229	701	57.0	393	56.1

By August 4, 2021, the University had received 1,139 transfer applications (as compared to 1,201 as of August 5, 2020) and had granted 671 acceptances (as compared to 687 as of August 5, 2020).

Capital Plan

The University has recently focused on modernizing the campus as part of the strategic plan of investing in innovation. Major projects totaling \$109 million that have been recently completed include The Woods (\$79.6 million), Northern Center (\$23.3 million), and dining facility (\$5.8 million). Further information regarding these and upcoming projects follow:

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

All renovated spaces are equipped with smart audio visual/sound system technology to meet the conference needs, infrastructure to support performances, and wireless displays are included in all smaller conference spaces. The modernized facility renovation cost was \$23.3 million.

The modernization of the Northern Center will continue with the relocation of the Cosmetology and Hospitality Management program from the Jacobetti Complex to the west wing of the Northern Center. These two academic programs



have great interaction with the public through their practical lab experience requirements making the Northern Center location ideal with its significant community service role. The renovation of the existing west wing to accommodate these two academic programs will be an investment of \$4.85 million which includes upgrading the exterior west facade to match renovated areas.

The Behavior Education Assessment and Research (BEAR) Center enables credentialed professionals to provide Applied Behavior Analytic (ABA) services to the regional community. The services provided by the BEAR Center have grown along with their space needs. In May 2021, the University purchased property near campus and plans to renovate the facility to include a waiting/reception area, office type counseling rooms, staff offices, file room, classroom and restrooms for the BEAR Center. The total project budget is estimated at \$1.2 million with construction beginning in spring 2022.



In December 2018, the Career Tech and Engineering Technology Facility project for \$28.6 million was authorized for planning per Public Act 618. The project will provide new modern classrooms and flexible laboratories creating a vibrant, high tech facility for future application engineers and technical career professionals. Construction authorization for the Career Tech and Engineering Technology project was approved by the State Legislature on December 29, 2020. The design is progressing with plans to bid the project in winter 2022. Construction is expected to begin in spring 2022 with expected project completion in August 2023.

The College of Business Enterprise Center will be the University's new capital outlay request to the State of Michigan. This new academic facility will be centrally located within the academic core and enable the University to expand these opportunities, increase economic growth and significantly enhance the learning and growth opportunities for our students. New classrooms and laboratories will provide vibrant, modern high-tech teaching spaces for our future business leaders based on the University's expertise in collaborative learning design and incorporating technology into instruction. The new facility cost will be \$19.1 million.

Plans are underway for a new Health and Wellness Center that will integrate the existing Health Center and Counseling Center that are currently located in separate buildings. The new Health and Wellness Center will be constructed adjacent to the existing residence halls providing more convenient access to students living on campus. Exam rooms, therapy rooms and laboratories will meet the latest Center for Disease Control's (CDC) recommendations for environmental conditions. A new parking lot will be constructed adjacent to the new center for faculty, staff and students who live off campus. The anticipated project cost is \$6.5 million.

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



Bonds and notes payable at June 30, 2021 consist of the following:

Maturity Dates	Interest Rates		Maturity Value
	Coupon	Yield	
6/1/2025	3.000%	2.940%	\$ 875,000
6/1/2026	3.000%	3.060%	900,000
06/01/2027-06/01/2029	3.250%	3.350%	2,870,000
12/1/2021	3.350%		1,010,000
06/01/2030-06/01/2032	3.500%	3.650%	3,165,000
12/1/2022	3.510%		1,025,000
12/1/2023	3.630%		1,025,000
12/1/2024	3.730%		895,000
12/1/2025	3.770%		800,000
12/1/2026	3.800%		830,000
12/1/2027	3.900%		865,000
6/1/2022	4.000%	2.610%	775,000
6/1/2023	4.000%	2.770%	805,000
6/1/2024	4.000%	2.870%	840,000
12/1/2028	4.000%		895,000
12/1/2029	4.100%		920,000
12/1/2030	4.150%		950,000
12/1/2031	4.200%		880,000
12/1/2032	4.250%		915,000
12/1/2033	4.300%		955,000
12/01/2034-12/01/2038	4.450%		3,745,000
12/01/2039-12/01/2043	4.500%		4,105,000
12/1/2021	5.000%	2.150%	3,035,000
12/1/2022	5.000%	2.280%	3,115,000
12/1/2023	5.000%	2.400%	3,310,000
12/1/2024	5.000%	2.560%	3,545,000
12/1/2025	5.000%	2.700%	3,240,000
12/1/2026	5.000%	2.820%	2,970,000
12/1/2027	5.000%	2.910%	3,095,000
12/1/2028	5.000%	2.990%	3,290,000
12/1/2029	5.000%	3.060%	3,475,000
12/1/2030	5.000%	3.110%	3,615,000
12/1/2031	5.000%	3.170%	1,775,000
12/1/2032	5.000%	3.210%	1,850,000
12/1/2033	5.000%	3.240%	1,930,000
12/1/2034	5.000%	3.290%	2,015,000
12/1/2035	5.000%	3.340%	2,450,000
12/1/2036	5.000%	3.400%	65,000
12/1/2037	5.000%	3.430%	65,000
12/1/2038	5.000%	3.450%	70,000
Total			<u>\$ 72,955,000</u>

Teaching, Learning, and Communication (TLC) Initiative

Access to Global Campus academic programs and online personal and professional development offerings has increased significantly due to the rapid buildout of the University's unique wireless LTE network. More than 7,200 students and an additional 7,900 Educational Access Network customers use the network to manage course related activities and research, including bandwidth intensive applications such as streaming media, video conferencing, and large data file transfers. The University began building the network in fall 2017 with a goal of serving 64 communities over a two-year period, putting a priority on bringing high-speed educational broadband to students – pre-school through lifelong learner – in the most unserved and underserved rural Upper Peninsula communities. Today, the network serves 113 Upper Peninsula communities. The University's success with LTE in Marquette County has spread throughout Michigan's Upper Peninsula and northeastern Wisconsin, and is positively changing the lives of many citizens and erasing the "homework gap" for K-12 schoolchildren who previously did not have anyone willing to help them bridge the digital divide in this rural part of the United States.

The system runs on spectrum that is licensed to the University by the Federal Communications Commission (FCC) to serve six General Service Areas (GSAs). The network covers more than 16,000 square miles and crosses a geographic service area roughly the size of four New England states. To accelerate the buildout, the University received financial assistance from the Michigan Economic Development Corporation (MEDC) and partners with area K-12 schools, colleges and universities to deliver educational broadband to rural communities in an effort to engage learners of all ages in credit and no-credit educational experiences. As a result, learners of all ages are able to successfully earn high school and college credentials, receive continuing education needed in workforce development programs across the region, and engage in online personal enrichment learning modules.

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

WNMU-TV and WNMU-FM spent much of the year focused on maintaining the delivery of programming while adhering to the protocols put in place due to the COVID-19 pandemic. Both stations successfully navigated and adapted to provide high quality local programming utilizing remote production capabilities. WNMU-TV also partnered with the University to provide several University president led town hall sessions and local medical expert programs to answer questions from parents and students, the University community, and members of the regional community. These timely programs proved to be especially important as many were looking for solid facts and information concerning the pandemic while spending more time at home due to state-mandated closures.

In early 2021, WNMU-TV (as part of a consortium of five other Michigan Public Broadcasting stations), added a fourth broadcast channel to its station that provides 24x7 educational content under the State's Michigan Learning Channel (MLC) banner. The project provided new encoding equipment for the station and will permit WNMU-TV to increase to a toll of six, its maximum channel capacity, paving the way for more channels beyond the MLC currently under construction. As part of its long range plan, WNMU-TV is looking at using a portion of that added channel capacity to offer programs specifically geared toward the region's Native American populations.

As part of the Federal Communication Commission's (FCC) 2016 spectrum repack project, WNMU-TV completed its construction of new transmission facilities, migrating from channel 13 to channel 8. This change included new equipment that will allow the station to upgrade to the pending ATSC 3.0 broadcast standard. This digital upgrade treats all broadcast content as data and permit new web and internet datacasting which will be advantageous to the University's instructional mission. The change will also allow the University to implement new emergency messaging capabilities for public safety enhancement.



State Appropriations

The University expects to receive \$48.8 million in base State Appropriations for the upcoming fiscal year, which is the same amount of base appropriations received in 2021. The University also expects to receive one-time funding for operations equal to 1% of base State Appropriations and a one-time operational support payment from the State equal to 3.9% of base State Appropriations. The University has set student tuition and fees at 4.2% above the prior fiscal year and has met the State tuition restraint requirements.

Executive Transition

The University's Board of Trustees terminated the contract of its President, effective immediately, on September 24, 2021 and assigned leadership of the University to the Provost/Vice President of Academic Affairs and Vice President of Finance and Administration until an Interim President had been selected. Subsequently, the Board of Trustees appointed the University's Provost and Vice President of Academic Affairs as the Interim President effective October 1, 2021 until a permanent President is in place.



INDEPENDENT AUDITORS' REPORT

October 25, 2021

Board of Trustees
Northern Michigan University
Marquette, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of **Northern Michigan University** (the "University"), a component unit of the State of Michigan, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

Rehmann is an independent member of Nexia International.



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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of **Northern Michigan University** as of June 30, 2021 and 2020, and the respective results of operations and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 25, 2021, on our consideration of **Northern Michigan University's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Lohman LLC". The signature is written in a cursive, flowing style.



NORTHERN MICHIGAN UNIVERSITY
Statements of Net Position

	Northern Michigan University		Component Unit	
	June 30		NMU Foundation	
	2021	2020	2021	2020
Assets				
Current assets				
Cash and cash equivalents	\$ 39,115,045	\$ 29,451,673	\$ 629,823	\$ 672,912
Short-term investments			2,091,753	507,620
State appropriation receivable	8,876,307	3,534,362		
Accounts receivable (less allowance 2021--\$3,406,228; 2020--\$3,172,956)	20,632,197	15,376,445		
Student notes receivable (less allowance 2021--\$1,155,592; 2020--\$894,726)	1,356,978	1,397,551		
Pledges receivable (less allowance 2021--\$28,567; 2020--\$34,634)			667,342	528,841
Inventories	901,099	842,795		
Other assets	2,734,393	2,455,703	319,974	310,325
Total current assets	73,616,019	53,058,529	3,708,892	2,019,698
Noncurrent assets				
Long-term investments	106,576,715	97,531,928	49,429,605	39,335,804
Student notes receivable (less allowance 2021--\$1,935,053; 2020--\$2,288,219)	2,271,853	3,574,602		
Other long-term investments	194,962	194,962	1,627,591	1,323,553
Pledges receivable			998,692	485,011
Capital assets, net	325,964,676	333,027,401	1,425,981	1,439,480
Total noncurrent assets	435,008,206	434,328,893	53,481,869	42,583,848
Total assets	508,624,225	487,387,422	57,190,761	44,603,546
Deferred outflows of resources				
Deferred charge on refunding	1,846,588	1,955,211		
Deferred pension and OPEB amounts	5,552,409	4,771,762		
Total deferred outflows of resources	7,398,997	6,726,973		
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	11,683,430	12,337,914	478,952	314,237
Accrued payroll and benefits	7,547,401	5,797,650		
Unearned revenue (unearned student fees & deposits)	7,765,788	5,572,190		
Long-term liabilities-current portion	8,194,152	7,488,743		41,896
Total current liabilities	35,190,771	31,196,497	478,952	356,133
Noncurrent liabilities				
Annuities payable			413,375	310,090
Net pension and OPEB liability	68,538,290	71,734,742		
Long-term liabilities-net of current portion	91,584,733	101,109,936		68,104
Total noncurrent liabilities	160,123,023	172,844,678	413,375	378,194
Total liabilities	195,313,794	204,041,175	892,327	734,327
Deferred inflows of resources				
Deferred pension and OPEB amounts	2,439,885	3,256,578		
Concessionaires arrangement	64,274,058	65,166,754		
Total deferred inflows of resources	66,713,943	68,423,332		
Net position				
Net investment in capital assets	173,245,584	173,285,048	1,425,981	1,439,480
Restricted for:				
Nonexpendable				
Scholarships and fellowships	63,757	63,757	2,299,143	1,745,743
Loans	60,038	60,038		
Instruction	1,017,474	801,568		
Expendable				
Instruction	1,295,334	1,020,467	11,340,760	9,349,533
Scholarships and fellowships	686,633	556,604	31,932,334	24,910,849
Loans	3,405,264	3,341,627		
Research	245,719	194,536		
Academic, student and public service	114,432	90,150	4,383,662	3,310,355
Unrestricted	73,861,250	42,236,093	4,916,554	3,113,259
Total net position	\$253,995,485	\$ 221,649,888	\$56,298,434	\$43,869,219



NORTHERN MICHIGAN UNIVERSITY

Statements of Revenues, Expenses, and Changes in Net Position

	Northern Michigan University June 30		Component Unit NMU Foundation June 30	
	2021	2020	2021	2020
Operating revenues				
Student tuition and fees (less allowance 2021--\$20,662,000; 2020--\$21,085,000)	\$ 68,213,279	\$ 71,259,616		
Gifts and contributions			\$ 4,936,118	\$ 6,462,061
Federal grants and contracts	4,276,912	5,077,491		
State and local grants and contracts	995,183	1,223,438		
Nongovernmental grants and contracts	1,334,196	1,385,329		
Sales and services of educational activities	12,351,664	12,364,719		
Auxiliary enterprise				
Residential life (less allowance 2021--\$4,481,000; 2020--\$5,297,000)	17,029,180	19,588,227		
Other auxiliary	2,610,110	2,665,768		
Other operating revenues	10,446	16,397	100	1,474
Total operating revenues	106,820,970	113,580,985	4,936,218	6,463,535
Operating expenses				
Educational and general				
Instruction	45,400,264	49,568,682		
Research	1,322,147	1,467,196		
Public service	8,950,958	8,743,981		
Academic support	14,033,860	14,322,783		
Student services	16,806,195	19,027,790		
Institutional support	15,318,173	15,214,403	1,867,932	1,944,604
Operations and maintenance of plant	15,732,716	16,777,742		
Student aid	12,838,253	11,030,764		
Depreciation	13,132,549	12,770,600		
Auxiliary enterprise				
Residential life	14,320,117	16,271,627		
Other	3,877,481	3,582,097		
Total operating expenses	161,732,713	168,777,665	1,867,932	1,944,604
Operating (loss) income	(54,911,743)	(55,196,680)	3,068,286	4,518,931
Nonoperating revenues (expenses)				
State appropriations	48,890,358	44,079,546		
Pell grant revenue	9,354,436	10,793,567		
Federal Higher Education Emergency Relief Funds grant	15,391,288	3,458,415		
Federal Coronavirus Relief Funds grant	5,358,200			
Gifts (including 2021--\$2,462,000 and 2020--\$2,940,000 from the NMU Foundation)	2,462,368	2,939,778		
Payments to and on behalf of the University			(2,575,072)	(3,052,305)
Investment income (net of investment expense for the University 2021--\$120,695 and 2020--\$98,101; and for the NMU Foundation 2021--\$102,103 and 2020--\$70,412)	9,596,805	6,517,725	11,826,001	88,729
Interest on capital asset-related debt	(3,268,330)	(3,513,022)		
Net nonoperating revenues (expenses)	87,785,125	64,276,009	9,250,929	(2,963,576)
Income before other (expenses) revenues	32,873,382	9,079,329	12,319,215	1,555,355
Gain on extinguishment of debt			110,000	
(Loss) on asset disposal	(527,785)	(1,812,244)		
Total other (expenses) revenues	(527,785)	(1,812,244)	110,000	
Increase in net position	32,345,597	7,267,085	12,429,215	1,555,355
Net position - beginning of year	221,649,888	214,382,803	43,869,219	42,313,864
Net position - end of year	\$ 253,995,485	\$ 221,649,888	\$ 56,298,434	\$ 43,869,219



NORTHERN MICHIGAN UNIVERSITY

Statements of Cash Flows

	Year Ended June 30	
	2021	2020
Cash Flows from Operating Activities		
Tuition and fees	\$ 68,233,255	\$ 71,276,876
Grants and contracts	10,082,147	7,332,855
Payments to suppliers	(41,261,554)	(42,242,508)
Payments to employees	(95,902,910)	(101,866,202)
Payments for scholarships and fellowships	(12,838,253)	(11,030,764)
Collection of loans to students and employees	1,343,322	1,127,117
Auxiliary enterprise		
Residential life	17,013,256	19,901,977
Other	2,973,686	2,737,135
Other receipts	14,297,355	13,284,431
Net cash used in operating activities	(36,059,696)	(39,479,083)
Cash Flows from Noncapital Financing Activities		
State appropriations	41,216,754	47,954,796
Federal Coronavirus Relief Funds grant	5,358,200	
Pell grant revenue	9,354,436	10,793,567
Federal Higher Education Emergency Relief Funds	6,634,429	2,339,460
William D. Ford direct lending receipts	31,905,270	35,570,008
William D. Ford direct lending disbursements	(31,905,270)	(35,570,008)
Gifts and grants received for other than capital purposes	2,458,863	2,954,577
Other	(2,839,375)	3,890,374
Net cash provided by noncapital financing activities	62,183,307	67,932,774
Cash Flows from Capital and Related Financing Activities		
Capital financing		1,139,746
Purchases of capital assets	(8,473,923)	(19,610,397)
Proceeds from sale of capital assets	466,825	
Principal paid on capital debt	(5,806,344)	(6,668,564)
Paycheck Protection Program grant proceeds	239,800	
Interest paid on capital debt	(3,464,654)	(3,725,573)
Net cash used in capital and related financing activities	(17,038,296)	(28,864,788)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	1,833,634	110,041,764
Interest on investments	2,747,585	3,343,492
Purchase of investments	(4,003,162)	(104,396,451)
Net cash provided by investing activities	578,057	8,988,805
Net increase in cash and cash equivalents	9,663,372	8,577,708
Cash and cash equivalents - beginning of the year	29,451,673	20,873,965
Cash and cash equivalents - end of year	\$ 39,115,045	\$ 29,451,673

continued...



Reconciliation of Operating Loss to Net Cash Used in Operating Activities

	Year Ended June 30	
	2021	2020
Operating loss	\$ (54,911,743)	\$ (55,196,680)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	13,132,549	12,770,600
Change in operating assets and liabilities which provided (used) cash:		
Receivables, net	4,940,562	1,776,425
Inventories	(58,304)	301,588
Other assets	(297,044)	(317,627)
Accounts payable and accrued liabilities	(312,906)	(312,467)
Unearned revenue	2,181,253	228,736
Accrued payroll and benefits	1,728,070	(329,039)
Net pension and OPEB liabilities	(2,462,133)	1,599,381
Net cash used in operating activities	\$ (36,059,696)	\$ (39,479,083)
		concluded

NOTES TO FINANCIAL STATEMENTS

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

BASIS OF PRESENTATION

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

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

REPORTING ENTITY

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

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

Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements are reported in a separate column to emphasize that a) it is legally separate from the University and b) its assets are not necessarily available to satisfy all liabilities of the University.

During the years ended June 30, 2021 and 2020, the Foundation made distributions of \$2.6 and \$3.1 million, respectively, to or on behalf of, the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from their office at 603 Cohodas Administrative Center, Marquette, MI 49855.



SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—Northern Michigan University

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

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

Basis of Accounting—Component Unit

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

Cash Equivalents

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

Investments (including component unit)

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

Fair Value Measurements

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

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

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

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

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

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

Inventories

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

Capital Assets

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

Depreciation is provided for physical properties on a straight line basis over the estimated useful lives, 50 years for buildings, 5 to 50 years for building and land improvements, 10 to 30 years for infrastructure, 5 years for books, and 5 to 20 years for equipment. Depreciation expense for 2021 and 2020 was approximately \$13,133,000 and \$12,771,000, respectively. The University capitalizes assets with a cost of \$5,000 and greater, and an estimated useful life in excess of one year.

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Pension

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

Other Postemployment Benefits Other Than Pensions (OPEB)

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

State Appropriations

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

Non-Exchange Transactions

In accordance with accounting principles generally accepted in the United States of America (GAAP), gifts and grants are recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

Compensated Absences

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

Unearned Revenue

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

Use of Estimates

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

Income Taxes

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

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

Reclassifications

Certain amounts as reported in the 2020 financial statements have been reclassified to conform with the 2021 presentation.

Risks and Uncertainties

In March 2020, the World Health Organization declared the global novel coronavirus disease (COVID-19) outbreak a pandemic. While the pandemic introduced unprecedented challenges to higher education systems, such as different modes of teaching, unpredictable enrollment, and changing business operations, the University's financial condition remained stable. To offset revenue challenges, the University recognized and administered several higher education grants. First, the University accepted approximately \$5,995,000 from the Education Stabilization Fund through the Federal CARES Act for the initial Higher Education Emergency Relief Fund (HEERF). The University awarded \$2,997,000 of these HEERF funds directly to students as emergency financial aid. Second, in fiscal 2020, the State of Michigan cut higher education appropriations 11%. These funds, approximately \$5,358,000, were replaced with CARES Act replacement funding and recognized as revenue in fiscal 2021. Ultimately, the University received two additional HEERF grants. The Coronavirus Response and Relief Supplemental Appropriation Act (CRRSAA) (HEERF II), signed into law December 27, 2020, allocated approximately \$9,891,000 to the University, of which \$2,997,000 was required to be awarded to students as emergency financial aid grants. Then, through the March 11, 2021, American Rescue Plan (ARP) (HEERF III), the University was allocated approximately \$17,395,000; again, \$8,740,000 was required to be awarded directly to students as financial aid.



During 2020, the COVID-19 pandemic prompted a transition to online instruction and remote business operations. University facilities reopened in August 2020 and the option for in-person instruction resumed. While the University continues to prepare for, and respond to pandemic issues, the severity of continued COVID-19 outbreaks and the effectiveness of world-wide risk mitigation are highly uncertain. The University is unable to predict the full impact of COVID-19 on its financial condition, results of operations, or cash flows.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY

Investment of Operating Funds

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

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

Investment of Endowed Funds

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

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

The University's cash and investments are included in the statements of net position under the following classifications at June 30:

	2021	2020
Cash and cash equivalents	\$ 39,115,045	\$ 29,451,673
Long-term investments	106,576,715	97,531,928
Other long-term investments	194,962	194,962
Total	<u>\$ 145,886,722</u>	<u>\$ 127,178,563</u>

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the University's investment policy limits the average weighted maturities and the maximum maturities of its investments. For investments in the short-term pool, the average weighted maturity generally will not exceed one year. For investments in the Intermediate pool, the average weighted duration of the portfolio is expected to be less than six years. For investments in the Long-term pool, the average weighted duration of fixed income holdings shall be no greater than 20% that of the Barclays Aggregate Bond Index.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. At June 30, 2021 and 2020, the carrying amounts of the University's deposits were \$11,200,957 and \$7,444,754 respectively. The bank balance of the University's deposits at June 30, 2021 and 2020 was \$12,583,219 and \$8,596,431, respectively. Of that amount, \$2,000,408 and \$1,000,000 was insured in 2021 and 2020, respectively. The remaining \$10,582,811 and \$7,596,431 at June 30, 2021 and 2020, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized. It is precluded by state law from collateralizing its deposits. To limit its exposure to custodial credit risk for investments, the University intends to select and retain only pooled/mutual funds that will meet the requirements set forth in the investment policy.

Credit Risk – Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. To limit its exposure to credit risk, the University's investment policy limits the average credit rating of its portfolios. For investments within the Short-term pool, the weighted average credit quality must be AAA (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be AA. For Intermediate-Term investments, the weighted average credit quality must be BBB (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be BBB. For Long-Term investments, the weighted average credit quality in fixed income investments shall be no less than BBB (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be no less than B. At June 30, 2021 and 2020, the University's bond mutual funds, and money market mutual funds are not rated.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the investment. Under the University's Investment Policy Statement for Operating Cash, the majority of investments will be dollar denominated. The University holds investments in various global equity mutual funds. These funds are invested in various countries and therefore expose the University to foreign currency risk. Investments in these funds were \$10,245,425 and \$7,311,204 for the years ended June 30, 2021 and 2020, respectively.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's general policy shall be to diversity investments within both equity and fixed income securities to provide a balance between return and undue risk concentrations in any single issuer. As of June 30, 2021 and 2020, the University did not have investments in any one issuer that was greater than 5% of total investments.



At June 30, 2021, the University had the following investments and maturities:

	Fair Market Value	Less Than 1	1-5	6-10	More Than 10
Money Market Mutual Funds	\$ 27,914,088	\$ 27,914,088			
Bond Mutual Funds	82,957,294		\$ 42,225,996	\$ 39,145,025	\$ 1,586,273
Equity Mutual Funds	22,577,163				22,577,163
Stock & ETFs	1,042,258				1,042,258
Real Estate	194,962				194,962
Total	134,685,765	\$ 27,914,088	\$ 42,225,996	\$ 39,145,025	\$ 25,400,656
Less Investments Reported as "Cash Equivalents" on Statement of Net Position	(27,914,088)				
Total Investments	<u>\$ 106,771,677</u>				

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

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

Fair Value Measurements

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

The following is a description of the valuation methodology used for assets recorded at fair value. The description includes an indication of the level of the fair value hierarchy in which the assets are classified. There have been no changes in the methodologies used at June 30, 2021 or 2020.

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

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

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



The following table sets forth by level, within the fair value hierarchy, the University's investments measured at fair value on a recurring basis as of June 30, 2021:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total 2021
Money Market Mutual Funds	\$ 27,914,088			\$ 27,914,088
Bond Mutual Funds	82,957,294			82,957,294
Equity Mutual Funds	22,577,163			22,577,163
Stock & ETFs	1,042,258			1,042,258
Real Estate			\$ 194,962	194,962
Leveled investment total	<u>\$ 134,490,803</u>		<u>\$ 194,962</u>	<u>\$ 134,685,765</u>

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

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

NOTE C—INVESTMENTS—FOUNDATION

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

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

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

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

	2021	2020
Realized gain (loss) on sale of investments	\$ 1,398,636	\$ (287,286)
Unrealized gain (loss) on investments	9,488,780	(1,025,196)
Interest and Dividends	1,040,688	1,471,623
Investment fee	(102,103)	(70,412)
Total	<u>\$ 11,826,001</u>	<u>\$ 88,729</u>

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

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

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

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

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

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

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

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

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

Credit Risk

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

Interest Rate Risk

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

Fair Value Hierarchy

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

Level 1:

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

Level 2:

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

Level 3:

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



The following table sets forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value as of June 30, 2021:

	Balance at June 30, 2021 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Mutual and ETF funds:				
Index funds	\$ 12,361,134	\$ 12,361,134		
Balanced funds	5,861,324	5,861,324		
Growth funds	20,601,584	20,601,584		
Fixed income funds	8,400,458	8,400,458		
Total mutual and ETF funds	47,224,500	47,224,500		
Alternative investments measured at net asset value				
Private equity funds (a)	920,398			
Hedge funds (b)	3,068,604			
Total alternative investments measured at net asset value	3,989,002			
Cash equivalents	307,856	307,856		
Held by third party	1,627,591			\$ 1,627,591
Total assets	\$ 53,148,949	\$ 47,532,356		\$ 1,627,591
Liabilities				
Liabilities on annuity contracts and trusts	\$ 413,375			\$ 413,375

- (a) Private equity funds - The purpose is to provide endowment funds and nonprofit organizations the opportunity to invest in private limited partnerships, which, in turn, make investments in equity securities, warrants, or other options that are generally not actively traded at the time of investment. The partnerships may also invest in operating companies as direct investments or co-investment opportunities.
- (b) Hedge funds - This category includes investments in hedge funds that invest primarily in other hedge funds, limited partnerships, and investment companies. Management of these funds employs a variety of strategies and has the ability to shift investments based on market, economic, political, and government-driven events. The fair values of the investments in this category have been estimated using net asset value per share of the investments. These investments can be redeemed, and currently, there are no restrictions.



The following table sets forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value as of June 30, 2020:

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

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

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

Held by third party assets categorized as Level 3 consists of a perpetual trust, in which the Foundation is the 100 percent beneficiary of future distributions and an irrevocable charitable remainder trust in which the Foundation is a 2.82 percent beneficiary of future distributions. As of June 30, 2021, the Foundation estimates the value of the perpetual trust to be \$1,564,117 and the irrevocable charitable remainder trust to be \$63,474.

Liabilities on annuity contracts and trusts characterized as Level 3 liabilities consist primarily of charitable gift annuity agreements. The agreements require payments during the life of the annuitant at various rates up to 8.8 percent of the principal amounts. The Foundation estimates the fair value of these contributions based on estimated rate of return, anticipated future payments to be made to donors during the donors' lives, the donors' life expectancies, and an assumed discount rate between 0.6 percent and 7.8 percent. Changes in the value of annuity obligations payable are reported in the Statement of Revenues, Expenses, and Changes in Net Position.

Investments in Entities that Calculate Net Asset Value Per Share

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

At year end, the fair value and unfunded commitments totaled \$4,024,207 and \$957,772, respectively. The funds are ineligible for redemption resulting in no redemption notice period being required.

The following table sets forth a summary of the changes in the fair value of the Foundation's Level 3 investment assets and liabilities for the year ended June 30, 2021:

	Balance at June 30, 2020	Total realized gains (losses) included in change in net position	Gross additions, deletions and purchases	Gross sales and maturities	Balance at June 30, 2021
Assets					
Investments:					
Irrevocable trust receivable	<u>\$ 1,323,553</u>	<u>\$ 304,038</u>			<u>\$ 1,627,591</u>
Liabilities					
Liabilities on annuity contracts and trusts	<u>\$ 310,090</u>		<u>\$ 103,285</u>		<u>\$ 413,375</u>

The following table sets forth a summary of the changes in the fair value of the Foundation's Level 3 investment assets and liabilities for the year ended June 30, 2020:

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



Concentration of Credit Risk

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

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

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

Short Term Unendowed Pool Asset Allocation Targets

Asset Class	Manager Role	Allocation Range	Target
U.S. Equities	All Cap	+/- 20%	9%
Non-U.S. Equities	All Cap Developed and Emerging Markets	+/- 15%	11%
Equity sub-total		0-50%	20%
U.S. Income	U.S. Income	+/- 15%	59%
Non U.S. Income	Developed and Emerging Markets	+/- 15%	2%
Income sub-total		50-100%	61%
Cash Equivalents		0-50%	19%
Total Funds			100%

Intermediate Term Unendowed Pool Asset Allocation Targets

Asset Class	Manager Role	Allocation Range	Target
U.S. Equities	All Cap	+/- 20%	26%
Non-U.S. Equities	All Cap Developed and Emerging Markets	+/- 15%	26%
Equity sub-total		40-80%	52%
U.S. Income	U.S. Income	+/- 5%	18%
Non U.S. Income	Developed and Emerging Markets	+/- 3%	1%
Income sub-total		5-35%	19%
Liquid Alternative Investments (a)	Various	10-40%	24%
Cash Equivalents		0-10%	5%
Total Funds			100%

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



Endowment Pool Asset Allocation Targets

Asset Class	Manager Role	Allocation Range	Target
U.S. Equities	All Cap	+/- 40%	24%
Non-U.S. Equities	All Cap Developed and Emerging Markets	+/- 40%	24%
Equity sub-total		40-80%	48%
U.S. Income	U.S. Income	+/- 10%	14%
Non U.S. Income	Developed and Emerging Markets	+/- 5%	1%
Income sub-total		5-30%	15%
Alternative Investments (b)	Various	10-40%	33%
Cash Equivalents		0-10%	4%
Total Funds			100%

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

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

Custodial Credit Risk

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At June 30, 2021, the Foundation's assets are held in combination of mutual funds and exchange traded funds (ETF's), hedge funds, and one private equity program.

Foreign Currency Risk

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

NOTE D—RECEIVABLES

Receivables of the University include the following at June 30:

	2021	2020
State appropriations - net	\$ 8,876,307	\$ 3,534,362
Student notes receivable - net	3,628,831	4,972,153
Charter schools	7,488,436	7,301,271
NMU Foundation	112,888	50,737
State, federal and private grants	10,367,275	2,715,459
Students, employees and vendors - net	2,663,598	5,308,978
Total	<u>\$ 33,137,335</u>	<u>\$ 23,882,960</u>

For the years ended June 30, 2021 and 2020, the University received approximately \$42,256,000 and \$40,174,000, respectively, for charter schools which was forwarded, net of an administrative fee, to nine charter schools.

NOTE E—CAPITAL ASSETS

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2021:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Depreciable assets:				
Land improvements	\$ 10,911,424	\$ 249,193		\$ 11,160,617
Buildings and improvements	340,519,562	1,842,978	\$ 267,570	342,094,970
Infrastructure	16,855,580			16,855,580
Equipment	90,542,402	6,029,998	4,443,736	92,128,664
Books	6,789,610	14,573	271,641	6,532,542
Subtotal depreciable assets	<u>465,618,578</u>	<u>8,136,742</u>	<u>4,982,947</u>	<u>468,772,373</u>
Nondepreciable assets:				
Land	6,162,268	45,212		6,207,480
Building (see Note O)	75,748,937			75,748,937
Construction in progress	2,378,558	(1,060,579)		1,317,979
Subtotal nondepreciable assets	<u>84,289,763</u>	<u>(1,015,367)</u>		<u>83,274,396</u>
Total depreciable and nondepreciable assets	<u>549,908,341</u>	<u>7,121,375</u>	<u>4,982,947</u>	<u>552,046,769</u>
Less accumulated depreciation for:				
Land improvements	8,082,024	324,069		8,406,093
Buildings and improvements	142,448,055	6,992,384	145,651	149,294,788
Infrastructure	13,188,148	377,293		13,565,441
Equipment	47,237,534	5,356,142	3,544,683	49,048,993
Books	5,925,179	82,661	241,062	5,766,778
Total accumulated depreciation	<u>216,880,940</u>	<u>13,132,549</u>	<u>3,931,396</u>	<u>226,082,093</u>
Capital assets, net	<u>\$ 333,027,401</u>	<u>\$ (6,011,174)</u>	<u>\$ 1,051,551</u>	<u>\$ 325,964,676</u>



The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2020:

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

Capital assets are capitalized at cost including ancillary charges necessary to place the asset into use. Interest expense on debt incurred for construction is included in the asset cost for the period of construction. The University is in the process of renovating various campus buildings. Contractual commitments relating to renovations were approximately \$2,490,000 and \$1,493,000 at June 30, 2021 and 2020, respectively. The commitments of \$2,490,000 for fiscal 2021 are expected to be paid from University resources.

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

NOTE F—COLLECTIONS

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



NOTE G—PAYABLES

Payables of the University include the following at June 30:

	2021	2020
Accrued payroll and benefits	\$ 7,547,401	\$ 5,797,650
Construction contractors	1,098,661	1,650,359
Charter schools	7,263,783	7,082,233
Vendors	2,808,087	3,174,192
Interest payable	512,899	431,130
Total	<u>\$ 19,230,831</u>	<u>\$ 18,135,564</u>

NOTE H—NON-CANCELABLE LEASES

The University has entered into non-cancelable leases for computers to be used by students and employees. Beginning in fiscal year 2016, the University began using exempt financing to purchase laptops.

The future payments of capital leases for the year ended June 30, 2022 are a total of \$76,202 consisting of \$75,795 of principal and \$407 of interest.

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

	2021	2020
Laptops	\$ 1,929,774	\$ 4,384,353
Less:		
Accumulated depreciation	1,474,524	3,070,416
Total	<u>\$ 455,250</u>	<u>\$ 1,313,937</u>

Lease expense for 2021 and 2020 was approximately \$35,000 and \$33,000, respectively.

NOTE I—LONG-TERM LIABILITIES

In March of 2021, the University's TV and FM stations entered into a loan agreement in the amount of \$239,800 under the Paycheck Protection Program. The loan has an interest rate of 1% with deferred payments for 10 months and a scheduled maturity date of March 25, 2026. The terms of the loan are subject to the U.S. Small Business Administration (SBA) Paycheck Protection Program. The note is subject to loan forgiveness as determinable by the sole approval of the SBA upon submission of the Loan Forgiveness application and supporting documents.

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

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

In October 2017, the University entered into an investment agreement with the Michigan Strategic Fund (the "MSF") that will provide \$6.5 million to reimburse the University for fees, costs and expenses incurred to build out the NMU Educational Access Network ("EAN"), a high-speed broadband service, across Michigan's Upper Peninsula. The University provided matching cost-share funds of thirty-three percent of total project costs, or approximately \$9.8 million. The EAN project is expected to be a self-liquidating operation. Revenue is generated from subscription fees, equipment sales and rentals, tower rental, and other sources. As of June 30, 2021, the build-out has been completed and the EAN provides service to 113 Upper Peninsula communities. As of June 30, 2020, the University had received \$6.5 million in reimbursements from the MSF. As of June 30, 2021, there is currently no future maturity or payment schedule related to these borrowings.

Structured repayment of the investment award will be made in annual installments equal to thirty-five percent (35%) of positive net revenue of the EAN project in each fiscal year, beginning with operations for fiscal year 2030, and continuing each year thereafter until the MSF has been repaid in full plus interest at the rate of two percent (2%) per annum. Any amount remaining outstanding, together with accrued and unpaid interest, is required to be paid by the University in full no later than December 31, 2047.

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

As of June 30, 2021, debt service requirements of the bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2022	\$ 4,820,000	\$ 3,223,881	\$ 8,043,881
2023	4,945,000	3,004,225	7,949,225
2024	5,175,000	2,774,807	7,949,807
2025	5,315,000	2,534,537	7,849,537
2026	4,940,000	2,306,890	7,246,890
Total Five Years	25,195,000	13,844,340	39,039,340
Thereafter			
2027-2031	25,850,000	8,207,718	34,057,718
2032-2036	15,545,000	3,271,215	18,816,215
2037-2041	3,795,000	1,010,540	4,805,540
2042-2044	2,570,000	176,850	2,746,850
Total	72,955,000	\$ 26,510,663	\$ 99,465,663
Deferred charge on refunding, net	(1,846,588)		
Deferred re-offering premium	6,252,203		
Total	\$ 77,360,615		

Long-term liability activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable:					
Bonds payable	\$ 78,385,000		\$ 5,430,000	\$ 72,955,000	\$ 4,820,000
Premium on bond issuance	6,638,919		386,716	6,252,203	386,716
Total bonds payable	85,023,919		5,816,716	79,207,203	5,206,716
Other Liabilities:					
Severance benefits (Note L)	4,362,338	\$ 140,575	1,458,674	3,044,239	2,398,875
WNMU-TV & WNMU-FM PPP loan (direct borrowing)		239,800		239,800	239,800
Michigan Strategic Fund loan (direct borrowing)	6,500,000			6,500,000	
The Woods commitments (Note O)	4,554,752		46,127	4,508,625	46,498
Capital lease (direct borrowing)	452,139		376,344	75,795	75,795
Compensated absences	2,969,183	2,009,997	2,128,308	2,850,872	226,468
Federal capital contribution of Perkins Loan Program	4,736,348		1,383,997	3,352,351	
Total other liabilities	23,574,760	2,390,372	5,393,450	20,571,682	2,987,436
Total long-term liabilities	\$ 108,598,679	\$ 2,390,372	\$ 11,210,166	\$ 99,778,885	\$ 8,194,152



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

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

NOTE J—OPERATING EXPENSES

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

	2021	2020
Salaries, wages and benefits	\$ 95,168,847	\$103,136,545
Supplies and support services	34,831,517	35,561,512
Utilities	5,761,547	6,278,244
Depreciation expense	13,132,549	12,770,600
Scholarships	12,838,253	11,030,764
Total	\$ 161,732,713	\$168,777,664

NOTE K—RETIREMENT PLANS

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

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

Teachers Insurance and Annuities Association (TIAA)

The TIAA plan is a defined contribution retirement plan. Substantially all full-time employees of the University are eligible to participate in the TIAA plan. Employee benefits vest immediately. The



University contributes a specified percentage of employee wages, as defined by the appropriate labor contract, and has no liability beyond its own contribution. As of June 30, 2021, 2020, and 2019 the plan had 820, 677, and 747 participants, respectively.

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

	2021	2020	2019
University contributions	\$ 7,613,855	\$ 7,603,777	\$ 7,390,361
Covered payroll	55,826,813	55,240,627	53,660,531

Michigan Public School Employees' Retirement System (MPSERS)

Plan Description

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

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

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

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

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

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

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

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as

well as a savings component. Member contributions to the savings component are matched at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

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

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

Pension Benefits Provided

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

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

Other Postemployment Benefits Provided

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

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



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

Contributions

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

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year 2021, which includes supplemental MPSERS UAAL employer stabilization contributions that are passed through the University to MPSERS:.

Pension Contribution Rates		
Benefit Structure	Members	Employer
Basic	0.0 - 4.0%	26.03%
Member Investment Plan	3.0 - 7.0%	26.03%
Pension Plus	3.0 - 6.4%	N/A
Defined Contribution	0.0	19.74%

The University's contributions to MPSERS under all pension plans as described above for the years ended June 30, 2021, 2020, and 2019 were \$4,788,721, \$4,712,064, and \$4,731,455 respectively.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2021, which includes supplemental MPSERS UAAL employer stabilization contributions that are passed through the University to MPSERS:

OPEB Contribution Rates		
Benefit Structure	Members	Employer
Premium Subsidy	3.00%	6.57%
Personal Healthcare Fund (PHF)	0.00%	5.99%



The University required contributions to the OPEB plan for the years ended June 30, 2021, 2020, and 2019 were \$1,245,672, \$1,216,972, and \$1,215,813 respectively.

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

The University reported a liability of \$64,568,315 and \$63,128,769 as of June 30, 2021 and 2020 respectively, for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2020 and 2019 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2019 and 2018 respectively. The University's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2020, the University's proportion (as calculated by MPSERS) was 9.45336%, which was an increase of .0254% points from its proportion measured as of September 30, 2019 of 9.42796%.

For the year ended June 30, 2021, the University recognized pension expense of \$5,005,904 from changes in MPSERS related net pension liability, deferred inflows, and deferred outflows. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 82,107		\$ 82,107
	82,107		82,107
State appropriations for MPSERS		\$ 1,997,397	(1,997,397)
University contributions subsequent to the measurement date	4,353,360		4,353,360
Total	\$ 4,435,467	\$ 1,997,397	\$ 2,438,070

The amount of deferred outflows of resources related to University contributions, subsequent to the measurement date, of \$4,353,360 will be recognized as a reduction in net pension liability for the year ending June 30, 2022. Deferred inflows of resources resulting from the pension portion of State aid payments received pursuant to UAAL stabilization payments of \$1,997,397 will be recognized as State appropriations revenue for the year ending June 30, 2022. Other amounts reported as deferred outflows/inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30	Amount
2022	\$ (451,111)
2023	11,688
2024	356,826
2025	164,704
Total	\$ 82,107



For the year ended June 30, 2020, the University recognized pension expense of \$7,658,867 from changes in MPSERS related net pension liability, deferred inflows, and deferred outflows. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual earnings on pension plan investments		\$ 1,142,510	\$ (1,142,510)
		1,142,510	(1,142,510)
State appropriations for MPSERS University contributions subsequent to the measurement date		1,100,151	(1,100,151)
	\$ 3,625,502		3,625,502
Total	\$ 3,625,502	\$ 2,242,661	\$ 1,382,841

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

The University reported a liability of \$3,969,975 and \$8,605,973 as of June 30, 2021 and 2020 respectively for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2020 and 2019, respectively and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2019 and 2018, respectively. The University's proportion of the net OPEB liability was determined by dividing each employers statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2020, the University's proportion (as calculated by MPSERS) was 9.39544% which was an increase of .01871% points from its proportion measured as of September 30, 2019 of 9.37673%.

For the year ended June 30, 2021, the University recognized a reduction in OPEB expense of \$3,965,121. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between actual and expected experience		\$ 108,140	\$ (108,140)
Changes in assumptions	\$ 19,369		19,369
Net difference between projected and actual earnings on OPEB plan investments	82,591		82,591
Changes in proportion and differences between employer contributions and proportionate share of contributions	389	86	303
	102,349	108,226	(5,877)
State appropriations for MPSERS University contributions subsequent to the measurement date		334,262	(334,262)
	1,014,593		1,014,593
Total	\$ 1,116,942	\$ 442,488	\$ 674,454



The \$1,014,593 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Deferred inflows of resources resulting from the OPEB portion of State aid payments received pursuant to UAAL stabilization payments of \$334,262 will be recognized as State appropriations revenue for the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Amount
2022	\$ (176,399)
2023	20,502
2024	97,951
2025	52,069
Total	\$ (5,877)

For the year ended June 30, 2020, the University recognized a reduction in OPEB expense of \$1,744,096. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between actual and expected experience		\$ 531,485	\$ (531,485)
Changes in assumptions	\$ 213,648		213,648
Net difference between projected and actual earnings on OPEB plan investments		265,161	(265,161)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,625	54	1,571
	<u>215,273</u>	<u>796,700</u>	<u>(581,427)</u>
State appropriations for MPSERS		217,217	(217,217)
University contributions subsequent to the measurement date	930,987		930,987
Total	<u>\$ 1,146,260</u>	<u>\$ 1,013,917</u>	<u>\$ 132,343</u>

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liability in the September 30, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Additional information as of the latest actuarial valuation follows:

Valuation Date	September 30, 2019 and 2018
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate	2.75%
Investment Rate of Return Pension	
MIP and Basic Plans (Non-Hybrid)	6.80% net of investment expenses
Pension Plus Plan (Hybrid)	6.80% net of investment expenses
Pension Plus 2 Plan (Hybrid)	6.00%
OPEB Plans	6.95%
Projected Salary Increases	2.75 - 11.55%, including wage inflation at 2.75%
Investment Rate of Return OPEB	6.95% net of investment expenses
Cost-of-living Pension adjustments	3% annual Non-Compounded for MIP Members
Healthcare cost trend rate	7.0% (7.5% for 2018) Year 1 graded to 3.5% Year 15
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for
Other OPEB assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liability as of September 30, 2020, is based on the results of an actuarial valuation date of September 30, 2019, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 1.0000 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 1.3472 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years. Full actuarial assumptions are available in the 2020 and 2019 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/orsschools).

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 1.0000 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 1.1641 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Long-term Expected Return on Pension Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2020 are summarized in the following table:

Pension As of September 30, 2020

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-weighted Rate of Return
Domestic equity pools	25.0%	5.60%	1.40%
Alternative investment pools	16.0%	9.30%	1.49%
International equity pools	15.0%	7.40%	1.11%
Fixed income pools	10.5%	0.50%	0.05%
Real estate and infrastructure pools	10.0%	4.90%	0.49%
Absolute return pools	9.0%	3.20%	0.29%
Real return/opportunistic pools	12.5%	6.60%	0.83%
Short-term investment pools	2.0%	-0.01%	0.00%
Total	<u>100.0%</u>		5.66%
Inflation			2.30%
Risk adjustment			<u>-1.16%</u>
Investment rate of return			<u>6.80%</u>

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2019 are summarized in the following table:

Pension As of September 30, 2019			
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-weighted Rate of Return
Domestic equity pools	28.0%	5.50%	1.54%
Alternative investment pools	18.0%	8.60%	1.55%
International equity pools	16.0%	7.30%	1.17%
Fixed income pools	10.5%	1.20%	0.13%
Real estate and infrastructure pools	10.0%	4.20%	0.42%
Absolute return pools	15.5%	5.40%	0.84%
Short-term investment pools	2.0%	0.80%	0.02%
Total	<u>100.0%</u>		5.67%
Inflation			2.30%
Risk adjustment			<u>-1.17%</u>
Investment rate of return			<u>6.80%</u>

Long-term Expected Return on OPEB Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2020 are summarized in the following table:

OPEB As of September 30, 2020			
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-weighted Rate of Return
Domestic equity pools	25.0%	5.60%	1.40%
Alternative investment pools	16.0%	9.30%	1.49%
International equity pools	15.0%	7.40%	1.11%
Fixed income pools	10.5%	0.50%	0.05%
Real estate and infrastructure pools	10.0%	4.90%	0.49%
Absolute return pools	9.0%	3.20%	0.29%
Real return/opportunistic pools	12.5%	6.60%	0.83%
Short-term investment pools	2.0%	-0.10%	0.00%
Total	100.0%		5.66%
Inflation			2.10%
Risk adjustment			-0.81%
Investment rate of return			6.95%

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2019 are summarized in the following table:

OPEB
As of September 30, 2019

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

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus Plan, a hybrid plan provided through non-university employers only). A discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% and 6.95% on OPEB plan investments. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.



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

The following presents the University's proportional share of net pension liability calculated using the discount rate of 6.80%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1% lower (5.80%) or 1% higher (7.80%) than the current rate as of June 30, 2021:

	1% Decrease (5.80%)	Current Single Discount Rate Assumption (6.80%)	1% Increase (7.80%)
University's proportionate share of net pension liability (2021)	\$ 75,670,139	\$ 64,568,315	\$ 55,100,728

The following presents the University's proportional share of net pension liability calculated using the discount rate of 6.80%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1% lower (5.80%) or 1% higher (7.80%) than the current rate as of June 30, 2020:

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

The following presents the University's proportional share of net OPEB liability calculated using the discount rate of 6.95%, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (5.95%) or 1% higher (7.95%) than the current rate as of June 30, 2021:

	1% Decrease (5.95%)	Current Single Discount Rate Assumption (6.95%)	1% Increase (7.95%)
University's proportionate share of net OPEB liability	\$ 5,935,011	\$ 3,969,975	\$ 2,296,219

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

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



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

The following presents the University's proportional share of net OPEB liability calculated using assumed trend rate of 7.00%, as well as what the University's net OPEB liability would be if it were calculated using a trend rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate as of June 30, 2021:

	1% Decrease (6.00%)	Current Healthcare Cost Trend (7.00%)	1% Increase (8.00%)
University's proportionate share of net OPEB liability	\$ 2,184,748	\$ 3,969,975	\$ 6,013,131

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

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

Pension and OPEB Plans Fiduciary Net Position

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

NOTE L—EARLY RETIREMENT INCENTIVE PLAN

During fiscal year 2020, the University established an Early Retirement Incentive Plan (ERIP) available to all current full-time employees who completed ten years of service by August 31, 2020. Employees had to apply for the ERIP no later than June 19, 2020. Approved employees were eligible for post-separation cash severance benefits. Employees could elect Cobra health coverage benefits at the employee's expense for a period not to exceed 36 months. The ERIP is expected to be paid over a three-year period beginning in fiscal year 2021. The ERIP liability as of June 30, 2021 and 2020 was approximately \$3,044,000 and \$4,362,000, respectively, of which approximately \$2,399,000 is payable in fiscal year 2022.

NOTE M—LIABILITY INSURANCE

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

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

M.U.S.I.C. was established on May 28, 1987 pursuant to the State of Michigan Constitution of 1963, Article 8, Sections 5 and 6, and subsequently they incorporated as a Michigan nonprofit corporation pursuant to the provisions of Act 162 Public Acts of 1982. Eleven Michigan Public universities participate in M.U.S.I.C. All members have signed a participation agreement. Participant contributions are assessed on an annual basis to cover insurance risks retained as a group, costs related to excess coverage, and general and administrative expenses. Members' equity totaled \$15,491,164 at June 30, 2021, based on the last published financial statements.

Self-insurance

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

Stop-loss coverage has been purchased by the University for the self-funded hospital/medical benefits, including prescription drugs, and workers' compensation claims. The medical stop-loss insurance limits the claims for medical/prescription benefits to \$500,000 per covered individual for fiscal years ended June 30, 2021 and 2020. The workers' compensation stop-loss insurance limits the University's liability for claims paid per individual to \$450,000 for fiscal years ended June 30, 2021 and 2020, the aggregate excess insured maximum liability is \$5,000,000. Changes in the estimated liability for the fiscal years ended June 30, 2021 for health benefits, including dental and vision, were as follows:

Claims activity for the year ended June 30, 2021:

	Liability - Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability - End of Year
Medical claims	\$ 1,719,547	\$ 13,631,048	\$ (12,347,370)	\$ 3,003,225
Workers' compensation	41,033	175,143	(192,295)	23,881
Total	<u>\$ 1,760,580</u>	<u>\$ 13,806,191</u>	<u>\$ (12,539,665)</u>	<u>\$ 3,027,106</u>

Claims activity for the year ended June 30, 2020:

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

NOTE N—CONTINGENCIES

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

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

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

NOTE O—STUDENT HOUSING PARTNERSHIP

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

Under the phase-in approach, Phase I consisted of two buildings that opened in August 2017 and two buildings that opened in January 2018. Phase II consisted of two buildings that opened in August 2018. The residence halls are reported as a capital asset with a carrying value of \$75.7 million at June 30, 2021 and 2020, and deferred inflows of resources in the amount of \$64.3 million and \$65.2 million at June 30, 2021 and 2020, respectively, pursuant to the service concession agreement. The University is responsible for the trash removal and insurance coverage for the term of the contract. As such, the University recorded a liability at present value at June 30, 2021 and 2020 for trash removal and insurance in the amount of \$4.51 million and \$4.55 million, respectively. The 75-year term lease with Greystar includes maintenance standards for the facilities and parameters for the room rental rates for the contract duration. The University will receive a percentage of the total revenues and a share of the net income, after Greystar achieves a minimum internal rate of return.



REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

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

	2021	2020	2019	2018	2017	2016	2015
A. University's proportionate share of net pension liability as a percentage	9.45336%	9.42796%	9.35723%	9.36203%	9.40606%	9.91719%	9.80724%
B. University's proportionate share of net pension liability	\$ 64,568,315	\$ 63,128,769	\$ 59,796,196	\$ 53,856,163	\$ 52,696,531	\$ 54,405,703	\$ 36,787,546
C. University's covered payroll	\$ 5,000,127	\$ 5,579,565	\$ 6,024,443	\$ 6,310,967	\$ 7,004,463	\$ 7,585,630	\$ 8,338,570
D. University's proportionate share of net pension liability as a percentage of its covered payroll (%)	1,291.33%	1,131.43%	992.56%	853.37%	752.33%	717.22%	441.17%
E. Plan fiduciary net position as a percentage of total pension liability	43.07%	44.24%	45.87%	47.42%	46.77%	47.45%	63.00%

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

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions	\$ 4,788,721	\$ 4,712,064	\$ 4,731,455	\$ 4,391,052	\$ 4,085,736	\$ 3,402,937	\$ 3,315,213
Contributions in relation to the statutorily required contribution	(4,788,721)	(4,712,064)	(4,731,455)	(4,391,052)	(4,085,736)	(3,402,937)	(3,315,213)
Contribution deficiency (excess)	\$ 4,294,908	\$ 4,960,158	\$ 5,714,430	\$ 6,036,760	\$ 6,484,390	\$ 7,382,355	\$ 7,750,117
University's covered payroll	111.50%	95.00%	82.80%	72.74%	63.01%	46.10%	42.78%
Contributions as a percentage of covered payroll							



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

	2021	2020	2019	2018
A. University's proportionate share of net OPEB liability as a percentage	9.39544%	9.37673%	9.36784%	9.37099%
B. University's proportionate share of net OPEB liability	\$ 3,969,975	\$ 8,605,973	\$ 11,114,061	\$ 13,335,045
C. University's covered payroll	\$ 5,000,127	\$ 5,579,565	\$ 6,024,443	\$ 6,310,967
D. University's proportionate share of net OPEB liability as a percentage of its covered payroll (%)	79.40%	154.24%	184.48%	211.30%
E. Plan fiduciary net position as a percentage of total OPEB liability	80.04%	61.07%	51.90%	44.11%

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

	2021	2020	2019	2018
Statutorily required contributions	\$ 1,245,672	\$ 1,216,972	\$ 1,215,813	\$ 1,558,414
Contributions in relation to the statutorily required contribution	(1,245,672)	(1,216,972)	(1,215,813)	(1,558,414)
Contribution deficiency (excess)	<u>\$ 4,294,908</u>	<u>\$ 4,960,158</u>	<u>\$ 5,714,430</u>	<u>\$ 6,036,760</u>
University's covered payroll	29.00%	24.53%	21.28%	25.82%
Contributions as a percentage of covered payroll				

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Pension Information

GASB 68 was implemented in fiscal year 2015. The pension plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedule of the University's Proportionate Share of the Net Pension Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2021 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2022 employer contributions decreased from 3.5% to 3.0%.
- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic plans, 6.80% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 Plan.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic plans, 7.00% for the Pension Plus plan, and 6.00% for the Pension Plus 2 plan.
- 2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic plans and 7.00% for the Pension Plus plan.

OPEB Information

GASB 75 was implemented in fiscal year 2018. The OPEB plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedule of the University's Proportionate Share of the Net OPEB Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2021 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2022 employer contributions decreased from 3.5% to 3.0%. The healthcare cost trend rate used in the September 30, 2019 actuarial valuation decreased to 7.0%.
- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95%.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15%.



**NORTHERN MICHIGAN
UNIVERSITY**

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