

University of Detroit Mercy

Financial Report
June 30, 2024

University of Detroit Mercy

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Independent Auditor's Report

To the Board of Trustees
University of Detroit Mercy

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of University of Detroit Mercy (the "University"), which comprise the balance sheet as of June 30, 2024 and 2023 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2024 and 2023 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the University and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Trustees
University of Detroit Mercy

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2024 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the University's 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.



October 18, 2024

University of Detroit Mercy

Balance Sheet Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

	2024	2023
Assets		
Cash and cash equivalents (Note 10)	\$ 44,646	\$ 43,993
Restricted Cash (Note 6)	3,729	-
Accounts receivable - Less allowance of \$1,802 in 2024 and \$2,100 in 2023:		
Student	5,941	7,653
Government	3,816	1,220
Other	1,162	1,055
Total accounts receivable - Net of allowance	10,919	9,928
Contributions receivable - Net	3,222	3,239
Notes receivable - Less allowance of \$3,145 in 2024 and \$3,938 in 2023 (Note 2)	9,922	12,730
Prepays, deposits, and other assets	1,687	2,151
Investments (Note 4)	100,462	86,017
Properties - Net (Note 5)	144,289	138,604
Total assets	\$ 318,876	\$ 296,662
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 8,152	\$ 8,399
Other accrued expenses	6,980	6,284
Fair value of interest rate swap agreement (Note 6)	-	230
Unearned revenue	9,402	10,007
Federal student loans	10,200	11,375
Notes and bonds payable (Note 6)	54,188	50,919
Accrued postretirement benefits (Note 7)	3,374	3,774
Total liabilities	92,296	90,988
Net Assets		
Without donor restrictions	115,296	110,798
With donor restrictions	111,284	94,876
Total net assets	226,580	205,674
Total liabilities and net assets	\$ 318,876	\$ 296,662

University of Detroit Mercy

Statement of Activities and Changes in Net Assets Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

	2024	2023
Unrestricted Net Assets		
Operating Revenues		
Student tuition and fees	\$ 178,875	\$ 172,412
Less university-sponsored student financial aid	(46,712)	(44,785)
Less student financial aid funded from gifts and grants	(10,324)	(8,677)
Net student tuition and fees	121,839	118,950
Government appropriations, grants, and contracts	15,409	13,247
Private gifts, grants, and contracts	8,332	4,637
Investment income	1,978	1,407
Realized and unrealized gain on investments - Net	1,509	990
Departmental activities and other revenue	9,724	10,450
Auxiliary enterprises	8,224	7,638
Net assets released from restrictions	5,611	4,487
Total Operating Revenues	172,626	161,806
Operating Expenses		
Salaries, wages, and benefits	109,102	106,311
Professional fees and contracted services	23,029	21,710
Depreciation and amortization	10,176	9,192
Occupancy, utilities, and maintenance	6,751	6,519
Materials, supplies, printing, and postage	8,277	8,588
Meetings, travel, and memberships	4,207	3,888
Interest	2,854	1,987
Other expenses	4,298	4,484
Total operating expenses	168,694	162,679
Increase (Decrease) in unrestricted net assets from operations	3,932	(873)
Nonoperating activities		
Adjustment to value of interest rate swap agreement (Note 6)	708	1,550
Adjustment to pension and postretirement benefits (Note 7)	(142)	907
Total nonoperating revenue	566	2,457
Increase in unrestricted net assets	4,498	1,584
Donor Restricted Net Assets		
Gifts	10,350	7,472
Investment income	1,236	1,211
Realized and unrealized gain on investments - Net	10,433	6,137
Net assets released from restrictions	(5,611)	(4,487)
Increase in Donor Restricted Net Assets	16,408	10,333
Increase in Net Assets	20,906	11,917
Net Assets - Beginning of year	205,674	193,757
Net Assets - End of year	\$ 226,580	\$ 205,674

University of Detroit Mercy

Statement of Cash Flows Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

	2024	2023
Cash Flows from Operating Activities		
Increase in net assets	\$ 20,906	\$ 11,917
Adjustments to reconcile Increase in net assets to net cash and cash equivalents from operating activities:		
Realized and unrealized (gain) on investments - Net	(11,942)	(7,127)
Depreciation	9,911	9,192
Amortization of bond issuance costs	78	19
Provision for bad debt	493	1,718
Write-off of restricted gifts	-	-
Accrued postretirement benefits	(400)	(837)
Increase/(Decrease) in fair value of interest rate swap	(230)	(1,550)
Gifts restricted for long-term investments	(2,168)	(6,080)
(Increase) decrease in assets:		
Accounts receivable	(2,277)	(2,341)
Contributions receivable	17	2,847
Prepays, deposits, and other assets	464	(271)
Increase (decrease) in liabilities:		
Accounts payable	201	(822)
Accrued other expenses	696	(2,907)
Unearned revenue	(605)	138
Net cash and cash equivalents (used) provided by operating activities	15,144	3,896
Cash Flows from Investing Activities		
Purchases of investments	(79,375)	(20,630)
Proceeds from sales and maturities of investments	76,872	17,674
Disbursements of loans to students	(315)	(555)
Repayments of loans from students	3,916	1,964
(Decrease) in federal student loans payable	(1,175)	(1,498)
Acquisition of properties	(16,044)	(15,146)
Net cash and cash equivalents used in investing activities	(16,121)	(18,191)
Cash Flows from Financing Activities		
Proceeds from notes and bonds payable	55,450	600
Payments on notes and bonds payable	(51,631)	(1,896)
Bond issuance costs	(628)	-
Gifts restricted for long-term investment	2,168	6,080
Net cash and cash equivalents provided by financing activities	5,359	4,784
Net Increase (Decrease) in Cash and Cash Equivalents	4,382	(9,511)
Cash and Cash Equivalents - Beginning of year	43,993	53,504
Cash and Cash Equivalents - End of year	\$ 48,375	\$ 43,993
Supplemental Cash Flow Information - Cash paid for interest	\$ 2,462	\$ 2,068

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 1 - Summary of Significant Accounting Policies

Organization - University of Detroit Mercy (the "University") is an accredited coeducational higher education institution. University of Detroit Mercy is Michigan's largest and most comprehensive Catholic university. In 1990, the University of Detroit which was founded in 1877 by the Society of Jesus consolidated with Mercy College of Detroit, which was founded in 1941 by the Religious Sisters of Mercy, to form University of Detroit Mercy. The University of Detroit Mercy offers more than 100 academic degrees and programs through seven schools and colleges across three campuses. Current enrollment is approximately 5,400 students.

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

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

Student Accounts Receivable – The University's accounts receivable balance consists of amounts due from students. Accounts receivable are stated at billed amounts. An allowance for credit losses is established for amounts expected to be uncollectible over the life of the receivables. The University collectively evaluates receivables to determine the allowance for credit losses based on an evaluation of the current age of receivables, historical experience, and economic environmental factors. The University calculates the allowance using an expected loss model that considers the University's actual historical loss rates adjusted for current economic conditions and reasonable and supportable forecasts. The University considers past due amounts, prior payment history with affected students, and geographic and general economic conditions when making adjustments for reasonable and supportable forecasts. Uncollectible amounts are written off against the allowance for credit losses in the period they are determined to be uncollectible. Recoveries of amounts previously written off are recognized when received.

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 1 - Summary of Significant Accounting Policies (Continued)

Contributions Receivable - Contributions receivable represent unconditional promises from donors to be used for capital and operating purposes. An allowance for uncollectible contributions and related expense is established based on the age and historical collection results of receivables from donors. Actual uncollectible contributions are charged against the allowance for uncollectible contributions in the period that determination is made. The receivables are also discounted at five-year T-bill discount rates ranging from 0.29 percent to 4.33 percent. The following table summarizes the University's unconditional contributions receivable at June 30:

	2024	2023
Due within one year	\$ 3,143	\$ 2,217
Due after one year but within five years	977	1,624
Total	4,120	3,841
Less allowance for uncollectible contributions	(842)	(544)
Less discount for present value	(56)	(58)
Net contributions receivable	<u>\$ 3,222</u>	<u>\$ 3,239</u>

Student Loans Receivable - The University participates in various student loan programs that provide loans to qualified students. The University makes uncollateralized loans to students based on financial need. Such loans are funded through government programs and institutional resources. These loans have mandated interest rates and repayment terms. The government-funded loans are subject to significant restrictions as to their transfer or disposition. Management reviews and assesses the collectability of notes receivable on an annual basis and provides an allowance when collection is doubtful (see Note 2). As of June 30, 2024 and 2023, notes receivable represented 3.1 percent and 4.3 percent of total assets, respectively.

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

Certain of the University's investments are pooled in common investment funds. The pooled investment funds are reported at fair market value, which is determined by quoted market prices. Certain investments within the pooled investment funds without readily determinable fair values are valued based on the net asset value per share (or its equivalent). The stated values approximate fair value as determined by the investment managers. Due to the inherent uncertainty of valuation, the

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 1 - Summary of Significant Accounting Policies (Continued)

estimated fair values may differ significantly from values that would have been used had readily available market values for the investments existed, and the differences could be material. Other investments are reported at fair value, which is determined by either quoted market prices or quoted prices for similar assets and liabilities in active markets or other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Earnings from investments represent investment gains and losses, dividends, and interest, net of direct investment expenses.

Properties - Properties are stated at cost or, if acquired by gift, at fair value at the date of gift. Depreciation of properties is provided by the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 50 years. Depreciation expense for the years ended June 30, 2024 and 2023 totaled approximately \$9,911 and \$9,192 respectively.

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

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

- **Without Donor Restrictions** - Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as unrestricted support. Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Details of net assets without donor restrictions as of June 30 are as follows:

	<u>2024</u>	<u>2023</u>
Unrestricted for current operations	\$ 10,112	\$ 10,424
Board designated - quasi endowment	15,083	12,689
Investment in plant - Net of long-term debt	<u>90,101</u>	<u>87,685</u>
Total	<u>\$ 115,296</u>	<u>\$ 110,798</u>

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Details of donor restricted net assets as of June 30, 2024 and 2023 are as follows:

	2024	2023
Academic programs	\$ 2,341	\$ 2,537
Scholarships	26,161	16,365
Building and equipment	9,796	8,515
Other	6,426	3,067
Endowment	<u>66,560</u>	<u>64,392</u>
Total Donor Restricted Net Assets	<u>\$ 111,284</u>	<u>\$ 94,876</u>

Revenue Recognition - Tuition and fees are recorded as unrestricted revenue in the appropriate fiscal year. Tuition and fees received in advance of the following academic year are recorded as unearned revenue in the year in which the funds are received.

Revenue from government grant and contract agreements is recognized as it is earned through expenditure, in accordance with the agreement.

Unconditional promises to give cash and other assets to the University are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift becomes unconditional or is received.

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

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Payments for tuition and room and board are due by the Friday before the first day of the semester. The amount of consideration to which the University will be entitled is variable as long as a student can withdraw from the semester and receive a refund. The University excludes estimated refunds from the transaction price. The University also maintains appropriate accounts to reflect the effects of expected refunds on the University's financial position and periodically adjusts those accounts to reflect its actual refund experience. The University estimates refunds using historical and projected refund and enrollment trends. When a consideration contingency is resolved such that a refund will not be made,

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 1 - Summary of Significant Accounting Policies (Continued)

an invoice is typically sent to the student within 3 business days. None of the University's exchange revenues have a significant financing component.

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

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

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

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

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

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

During the year ended June 30, 2024, the University recognized gross revenue from tuition and fees and revenue from room and board of \$178,875 and \$5,905, respectively. The related scholarship allowances for these revenue streams during the year ended June 30, 2024 are \$56,050 and \$986, respectively. During the year ended June 30, 2023, the University recognized gross revenue from tuition and fees and revenue from room and board of \$172,412 and \$5,282, respectively. The related scholarship allowances for these revenue streams during the year ended June 30, 2023 are \$52,557 and \$905, respectively.

During the year ended June 30, 2024, the University recognized gross revenue from dental clinic and auxiliary services of \$7,466 and \$4,577, respectively. During the

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 1 - Summary of Significant Accounting Policies (Continued)

year ended June 30, 2023, the University recognized gross revenue from dental clinic and auxiliary services of \$7,387 and \$5,418, respectively.

For the years ended June 30, 2024 and 2023, the closing balance of the University's student accounts receivable was \$5,941 and \$7,653, respectively, and the beginning balance was \$7,653 and \$6,853, respectively.

For the years ended June 30, 2024 and 2023, the closing balance of the University's dental clinic and auxiliary receivables was \$1,162 and \$1,055, respectively, and the beginning balance was \$1,055 and \$1,147, respectively.

For years ended June 30, 2024 and 2023, revenue yet to be recognized relates to fully or partially unsatisfied performance obligations. The closing balance of the University's unearned revenue for 2024 and 2023 was \$9,402 and \$10,007, respectively, and the beginning balance was \$10,007 and \$9,868, respectively.

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

Student Financial Aid - During 2024 and 2023, the University received and disbursed approximately \$5.5 million and \$4.6 million, respectively, to students under the U.S. Department of Education's Pell Grant program. In addition, the University received and disbursed approximately \$87.4 million and \$84.1 million, respectively, under the U.S. Department of Education's Direct Loan program for the years ended June 30, 2024 and 2023. This activity is not reported in the accompanying financial statements.

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

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenses by functional allocation for the year ended June 30, 2024 consist of the following:

	Program Activities		Supporting Activities			Total Expense
	Academic Instruction & Support	Student Services & Auxiliaries	Administrative Support	Fundraising	Facilities Operation & Maintenance	
Salaries, wages and benefits	\$ 81,034	\$ 14,239	\$ 6,983	\$ 3,273	\$ 3,573	\$ 109,102
Professional fees & contracted services	9,504	5,413	4,177	691	3,244	23,029
Depreciation	5,750	3,840	201	204	181	10,176
Occupancy, utilities, and maintenance	784	268	116	68	5,515	6,751
Meetings, travel, and memberships	1,829	1,746	506	126	0	4,207
Materials, supplies, printing & postage	5,181	2,230	523	248	95	8,277
Interest	1,867	478	248	69	192	2,854
Other expenses	2,812	720	373	104	289	4,298
	108,761	28,933	13,127	4,783	13,089	168,694
Facilities Operation & Maintenance	7,199	4,843	785	262	(13,089)	
Total expenses	\$ 115,960	\$ 33,776	\$ 13,913	\$ 5,045	\$ (0)	\$ 168,694

Expenses by functional allocation for the year ended June 30, 2023 consist of the following:

	Program Activities		Supporting Activities			Total Expense
	Academic Instruction & Support	Student Services & Auxiliaries	Administrative Support	Fundraising	Facilities Operation & Maintenance	
Salaries, wages and benefits	\$ 77,862	\$ 13,352	\$ 8,764	\$ 3,189	\$ 3,144	\$ 106,311
Professional fees & contracted services	9,303	4,739	3,734	651	3,283	21,710
Depreciation	5,194	3,469	181	184	164	9,192
Occupancy, utilities, and maintenance	875	309	295	196	4,844	6,519
Meetings, travel, and memberships	1,689	1,670	413	117	0	3,888
Materials, supplies, printing & postage	4,517	2,995	709	258	109	8,588
Interest	1,300	333	172	48	134	1,987
Other expenses	2,933	751	389	109	301	4,483
	103,672	27,617	14,658	4,751	11,980	162,679
Facilities Operation & Maintenance	6,589	4,433	719	240	(11,980)	0
Total expenses	\$ 110,261	\$ 32,050	\$ 15,377	\$ 4,991	\$ (0)	\$ 162,679

Advertising Expenses - Advertising expenses for the years ended June 30, 2024 and 2023 were approximately \$1,595 and \$1,389, respectively.

Nonoperating Activities - Nonoperating changes in net assets without donor restrictions reflect transactions that are peripheral to the University's primary operating activities, providing a postsecondary education.

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

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Labor Risks - Approximately 35 percent of the University's workforce is covered under five different collective bargaining agreements, which expire at various dates through June 30, 2026.

Adoption of New Accounting Pronouncement - During 2024, the University adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. The ASU includes changes to the accounting and measurement of financial assets, including the University's accounts receivable, by requiring the University to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the historical practice where an allowance was not recognized until losses were considered probable. The University adopted this standard using the modified retrospective transition method, which did not significantly impact the financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 18, 2024, which is the date the financial statements were available to be issued.

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 2 - Notes Receivable

At June 30, notes receivable and the related allowance for credit losses consisted of the following:

	2024	2023
Perkins	\$ 4,417	\$ 6,947
Other federal loan programs	8,579	9,647
Institutional loans	<u>70</u>	<u>74</u>
Subtotal	13,066	16,668
Less allowance for credit losses:		
Beginning of the year	(3,938)	(4,315)
Additions charged to expense	-	-
Deductions/write-offs	794	377
Recoveries	<u>-</u>	<u>-</u>
Balance - End of year	<u>(3,144)</u>	<u>(3,938)</u>
Notes receivable - Net	<u>\$ 9,922</u>	<u>\$ 12,730</u>

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 2 - Notes Receivable (Continued)

In addition to Perkins, the University participates in the Health Professionals Student, Nursing Student, Nurse Faculty, and ARRA-Nurse Faculty federal revolving loan programs. The availability of funds for loans under these programs is primarily dependent on reimbursements to the pool from repayments on outstanding loans. Loans disbursed under the federal programs are able to be assigned to the federal government in certain nonrepayment situations. In these situations, the federal portion of the loan balance is guaranteed. At June 30, 2024 and 2023, the following amounts represent the aging of outstanding notes receivable under the student loan programs:

	Current	1-180 Days	181 days to 2 years	Over 2 years	Total
June 30, 2024	\$ 10,539	\$ 1,380	\$ 643	\$ 505	\$ 13,067
June 30, 2023	\$ 10,955	\$ 4,945	\$ 332	\$ 436	\$ 16,668

The University collectively evaluates receivables to determine the allowance for credit losses for its portion of the student loan based on an evaluation of the current age of receivables, historical experience, and economic environmental factors. The University calculates the allowance using an expected loss model that considers the University's actual historical loss rates adjusted for current economic conditions and reasonable and supportable forecasts.

The Federal Perkins Loan Program expired on September 30, 2017. As of June 30, 2024, the University has made approximately \$1,427 in institutional capital contributions, which are reflected as part of the University's net assets. Under current guidance issued by the Department of Education, if the University liquidates the loan portfolio and assigns the student loans to the Department of Education, the University would forego its institutional capital contribution not yet received back through loan collections. There is currently no requirement for the University to liquidate the loan portfolio and the University is not currently expecting to liquidate the loan portfolio. If the Department of Education were to require liquidation or the University voluntarily elects to liquidate the loan portfolio and assign the student loans to the Department of Education, loss of the institutional capital contributions is not expected to have a material impact on the financial position of the University.

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 3 - Donor-restricted and Board-designated Endowments

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

Interpretation of Relevant Law - The State of Michigan enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in September 2009. The University has interpreted UPMIFA as requiring the preservation of donor-restricted endowment funds at the original value at the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies net assets with donor restrictions as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

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

Endowment Net Asset Composition by Type of Fund as of June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment in perpetuity	\$ -	\$ 66,560	\$ 66,560
Donor-restricted endowment accumulated earnings for specified purpose	-	26,927	26,927
Board-designated endowment	15,083	-	15,083
Total	<u>\$ 15,083</u>	<u>\$ 93,487</u>	<u>\$ 108,570</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 12,689	\$ 82,676	\$ 95,365
Investment income	218	1,975	2,193
Net appreciation in market value	2,230	8,925	11,155
Appropriation of endowment net assets for expenditures	(432)	(2,257)	(2,689)
Transfers	210	-	210
Gifts	168	2,168	2,336
Endowment net assets - End of year	<u>\$ 15,083</u>	<u>\$ 93,487</u>	<u>\$ 108,570</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment in perpetuity	\$ -	\$ 64,392	\$ 64,392
Donor-restricted endowment accumulated earnings for specified purpose	-	18,284	18,284
Board-designated endowment	12,689	-	12,689
Total	<u>\$ 12,689</u>	<u>\$ 82,676</u>	<u>\$ 95,365</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 11,950	\$ 71,313	\$ 83,263
Investment income	496	3,215	3,711
Net appreciation in market value	677	4,133	4,810
Appropriation of endowment net assets for expenditures	(450)	(2,062)	(2,512)
Transfers	-	(3)	(3)
Gifts	16	6,080	6,096
Endowment net assets - End of year	<u>\$ 12,689</u>	<u>\$ 82,676</u>	<u>\$ 95,365</u>

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

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

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America (GAAP), deficiencies of this nature are reported in net assets with donor restrictions, which together have an original gift value of \$5,751, a current fair value of \$5,558, and a deficiency of \$193 as of June 30, 2023. There were no funds with a deficiency at June 30, 2024.

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

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

Spending Policy and How the Investment Objectives Relate to Spending Policy - The University has a policy of appropriating for distribution each year a certain percent of its endowment fund's average fair value over the prior three years through the fiscal year end preceding the fiscal year in which the distribution is planned. The rate was 4.00 percent for the fiscal years ended June 30, 2024 and 2023. In establishing this policy, the University considered the long-term expected return on its endowment and is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 4 - Fair Value Measurements (Continued)

The following tables present information about the University's assets and liabilities measured at fair value on a recurring basis at June 30, 2024 and 2023 and the valuation techniques used by the University to determine those fair values.

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

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

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

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

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

At year end there were no unfunded commitments related to the pooled investment funds valued at NAV and the investment had a redemption frequency of 15 days.

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 4 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2024

	Investments (at Fair Value)	Level 1	Level 2
Assets - Investments at fair value			
Pooled investment funds:			
Equity	\$ 47,804	\$ 47,804	\$ -
Fixed income	14,953	14,953	-
Subtotal	62,757	62,757	-
Other investments:			
Mutual funds	551	551	-
Equity and other	156	-	156
Subtotal	63,464	<u>\$ 63,308</u>	<u>\$ 156</u>
Investments measured at NAV -			
Pooled investment funds - Equity (i)	24,620		
Pooled investment funds - Other (ii)	12,378		
Total investments at fair value	<u>\$ 100,462</u>		
Liabilities - Interest rate swap agreement at fair value		<u>\$ -</u>	<u>\$ -</u>

- (i) The University invests in pooled investment funds invested in equity securities. The funds seek to maximize return potential by investing in what it considers to be attractive equity securities, primarily in the international markets. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.
- (ii) The University invests in a pooled investment fund invested in real asset securities. The Fund seeks to offer diversification by investing approximately 25% of the Fund's assets in commodities, 25% in global natural resource stocks, 20% in global infrastructure stocks, 10% in U.S. REITs, and 20% in U.S. Intermediate TIPS. The fund is valued at net asset value, which is calculated using the most recent fund financial statements.

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 4 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2023

	Investments (at Fair Value)	Level 1	Level 2
Assets - Investments at fair value			
Pooled investment funds:			
Equity	\$ 45,514	\$ 45,514	\$ -
Fixed income	17,257	17,257	-
Multi-asset class	-	-	-
Subtotal	62,771	62,771	-
Other investments:			
Debt securities	580	-	580
Mutual funds	527	527	-
Equity and other	147	-	147
Subtotal	64,025	<u>\$ 63,298</u>	<u>\$ 727</u>
Investments measured at NAV:			
Pooled investment funds - Equity (i)	17,966		
Pooled investment funds - Other (ii)	4,026		
Total investments at fair value	<u>\$ 86,017</u>		
Liabilities - Interest rate swap agreement at fair value	<u>\$ 230</u>	<u>\$ -</u>	<u>\$ 230</u>

- (i) The University invests in a pooled investment fund invested in equity securities. The fund seeks to maximize return potential by investing in what it considers to be attractive equity securities, primarily in the international markets. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.
- (ii) The University invests in pooled investment funds invested in real asset securities. The Fund seeks to offer diversification by investing approximately 25% of the Fund's assets in commodities, 25% in global natural resource stocks, 20% in global infrastructure stocks, 10% in U.S. REITs, and 20% in U.S. Intermediate TIPS. The fund is valued at net asset value, which is calculated using the most recent fund financial statements.

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 5 - Property and Equipment

Properties at June 30 consist of the following:

	2024	2023
Land	\$ 8,041	\$ 8,020
Buildings and improvements	214,846	186,132
Furniture and equipment	51,992	47,247
Library books	39,333	38,612
Construction in progress	<u>9,634</u>	<u>28,315</u>
Total	323,846	308,326
Less accumulated depreciation	<u>179,557</u>	<u>169,722</u>
Net investment in properties	<u>\$ 144,289</u>	<u>\$ 138,604</u>

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

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

	2024	2023
Michigan Facilities Authority Higher Education Limited Obligation Revenue Bonds - Series 2019A, bearing interest at a variable rate (an effective rate of 5.45 percent as of June 30, 2023), interest due monthly and principal due annually through 2036. Facility was refinanced and consolidated as part of the Series 2023 refinancing transaction.	\$ -	\$ 20,015
Michigan Facilities Authority Higher Education Limited Obligation Revenue Bonds - Series 2019B, bearing interest at a variable rate (an effective rate of 5.45 percent as of June 30, 2023), interest due monthly and principal due annually through 2040. Facility was refinanced and consolidated as part of the Series 2023 refinancing transaction.	-	12,495
Michigan Facilities Authority Higher Education Limited Obligation Revenue Bonds - Series 2020, bearing interest at a variable rate (an effective rate of 5.76 percent as of June 30, 2023), interest due monthly and principal due annually through 2040. Facility was refinanced and consolidated as part of the Series 2023 refinancing transaction.	-	13,690
Fifth Third Bank Term Loan - Property purchase 41555 Twelve Mile Road, Novi, MI - Interest only for first 24 months beginning September 2020 through August 2022 (an effective rate of 7.10 percent as of June 30, 2023) - Maturity is 2026. Facility was refinanced and consolidated as part of the Series 2023 refinancing transaction.	-	4,781

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

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

Michigan Finance Authority Higher Education Facilities Limited Obligation Revenue Refunding Bonds, Series 2023, bearing interest at 5% per annum, interest due bi-annually and principal due annually through 2052

	54,798	-
Subtotal	\$ 54,798	\$ 50,981
Less unamortized bond issuance costs	610	62
Total	\$ 54,188	\$ 50,919

Future principal maturities of the bonds are as follows:

Years Ending June 30	Amount
2025	845
2026	885
2027	930
2028	975
2029	1,025
2030 and after	49,195
Total	\$ 54,188

In January 2019, the University privately placed the Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds Series 2019A and 2019B Bonds to Fifth Third Commercial Funding, Inc. in the amounts of \$23,860 and \$13,985 respectively, collateralized by the University's unrestricted receivables. This was primarily for refinancing existing debt as of January 2019. Bond issuance costs were approximately \$87. The bonds bear interest at a variable rate, with interest due monthly and principal due annually through 2040. Principal payments began on November 1, 2019. The average variable interest rate on the Series 2019 Bonds for the year ended June 30, 2023 was 4.50.

In January 2020, The University privately placed the Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds Series 2020 to Fifth Third Commercial Funding, Inc. in the amount of up to \$14,000, collateralized by the University's unrestricted receivables. Bond issuance costs were approximately \$97. The bonds

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

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

bear interest at a variable rate, with interest due monthly. Proceeds from the Series 2020 bond issue were used to fund various capital projects through January 2023, including the Student Union Project and improvements in student residence halls and other buildings on the main campus. Principal advances are requested as costs are incurred. During the year ended June 30, 2022, the University advanced an additional \$13.3 million to finance construction related to the Student Union Project and amended the agreement to extend the availability through January 2023. The University advanced the remaining \$700 during 2023.

In August 2020, the University entered into a mortgage note payable with Fifth Third Bank in the amount of \$4,942, collateralized by the University's Novi building and land. The mortgage bears interest at a variable rate, with interest due monthly. Principal payments commenced on September 1, 2022. Proceeds from the mortgage were used to purchase the new Novi campus which will be primarily used for the optometry program, currently in development.

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

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

During 2020, the University entered into a forward interest rate swap agreement on the Series 2020 bonds for the purpose of managing the risk associated with interest rates on variable rate borrowings. The interest rate swap agreement is considered a derivative financial instrument for reporting purposes. The effective date for the forward interest rate swap is February 1, 2022 at which point the University agreed to exchange, at specified intervals, the calculated difference between fixed- and variable-interest amounts on a \$14,000 declining notional amount. The fixed rate as defined by the interest rate swap agreement is 1.51 percent with interest payments having commenced on March 1, 2022.

Any gains or losses recognized on the interest rate swaps are recognized in current year earnings. Under the 2007 interest rate swap, the University has agreed to exchange, at specified intervals, the calculated difference between fixed- and variable-interest amounts on a declining notional amount, which was \$20,015 at June 30, 2023. The swap had no notional value at June 30, 2024 as a result of the refinancing described below. The fixed rate as defined by the interest rate swap agreement is 3.61 percent.

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

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

The value of the swap instruments represents the estimated benefit or cost to the University to cancel the agreement as of the reporting date and is based on the option-pricing models that consider risks and other market factors. The fair value of the interest rate swaps at June 30, 2023 was recorded in the University's financial statements as a liability of \$230.

Accordingly, the University recognized an unrealized gain of approximately \$1,550 for the year ended June 30, 2023 related to the adjustment of value of the interest rate swap agreements.

On September 28, 2023 the University completed a debt refinancing. The Michigan Finance Authority Limited Obligation Revenue Refunding Bonds, Series 2023, were issued in the amount of \$55 million. The proceeds were used to pay existing debt, including the Series 2019 and 2020 Bonds, Novi Bonds and interest. From the proceeds, the University established a Debt Service Reserve Fund in the amount of \$3.7 million.

The bonds mature in tranches through November 1, 2052 with interest rates ranging from 5.0% to 5.6%.

As a result of the debt refinancing, the interest rate swaps were terminated. The University recognized a gain from the terminations of the interest rate swap agreements, net of settlement payment of approximately \$2,446, in the amount of \$708.

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 7 - Retirement Benefits

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

The University and participants in the defined contribution retirement plan make annual contributions to TIAA-CREF to purchase individual annuities or to invest in tax-deferred savings plans. The University's contribution to the defined contribution plan totaled approximately \$5,246 in 2024 and \$5,482 in 2023.

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

In addition to providing pension benefits, the University pays a portion of the premiums for healthcare benefits provided to certain retired employees who reach retirement age while working for the University. Healthcare benefits for retirees and survivors are provided through insurance agreements, the premiums of which are based in part on the benefits paid. The University's costs are capped at certain amounts per month per person dependent on the age of the eligible participants as defined in the plan agreement. The Plan was unfunded at June 30, 2024 and 2023.

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

Obligations and Funded Status

	Pension Benefits		Other Postretirement Benefits	
	2024	2023	2024	2023
Projected benefit obligation	\$ 4,146	\$ 4,255	\$ 3,374	\$ 3,774
Fair value of plan assets	4,260	4,270	-	-
Funded status at end of year	<u>\$ 114</u>	<u>\$ 15</u>	<u>\$ (3,374)</u>	<u>\$ (3,774)</u>

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 7 - Retirement Benefits (Continued)

Amounts recognized in the balance sheet consist of the following:

	Pension Benefits		Other Postretirement Benefits	
	2024	2023	2024	2023
Other accrued expenses	\$ (114)	\$ (15)	\$ -	\$ -
Accrued postretirement benefits	-	-	3,374	3,774
Total	<u>\$ (114)</u>	<u>\$ (15)</u>	<u>\$ 3,374</u>	<u>\$ 3,774</u>

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

	Pension Benefits		Other Postretirement Benefits	
	2024	2023	2024	2023
Net loss (gain)	\$ 2,006	\$ 2,021	\$ (1,763)	\$ (1,638)
Prior service (credit) cost	(33)	(35)	-	-
Total	<u>\$ 1,973</u>	<u>\$ 1,986</u>	<u>\$ (1,763)</u>	<u>\$ (1,638)</u>

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

	Pension Benefits		Other Postretirement Benefits	
	2024	2023	2024	2023
Net periodic benefit cost	\$ 63	\$ 105	\$ 18	\$ 70
Employer contributions	150	198	292	296
Benefits paid	332	314	292	296

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

	Pension Benefits		Other Postretirement Benefits	
	2024	2023	2024	2023
Net (gain) / loss	\$ 57	\$ (341)	\$ (292)	\$ (731)
Amortization of prior service credit (cost)	2	2	-	-
Amortization of net gain (loss)	(73)	(88)	166	(119)
Total recognized in nonoperating activities	<u>\$ (14)</u>	<u>\$ (427)</u>	<u>\$ (126)</u>	<u>\$ (612)</u>
Total recognized in functional expenses and nonoperating activities	<u>\$ (49)</u>	<u>\$ 324</u>	<u>\$ (108)</u>	<u>\$ (541)</u>

The net loss and prior service credit for the defined benefit pension plan that was amortized into net periodic benefit cost during the year was approximately \$88 and \$2, respectively. No amortization of net loss and prior service credit into net periodic benefit cost is expected over the next fiscal year.

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 7 - Retirement Benefits (Continued)

There was no net loss and prior service cost for the other postretirement plan that was amortized into net periodic benefit cost during the years ended June 30, 2024 and 2023. No amortization of net loss and prior service credit into net periodic benefit cost is expected over the next fiscal year.

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

Assumptions

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

	Pension Benefits		Other Postretirement Benefits	
	2024	2023	2024	2023
Discount rate	5.95%	5.90%	5.25%	4.88%

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

	Pension Benefits		Other Postretirement Benefits	
	2024	2023	2024	2023
Discount rate	5.95%	5.90%	5.25%	4.88%
Expected long-term return on plan assets	5.95%	5.90%	N/A	N/A

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

Pension Plan Assets

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

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

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 7 - Retirement Benefits (Continued)

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

The target allocation of plan assets at the June 30, 2024 and 2023 measurement dates, by asset category, as a percentage, was as follows: 18 percent global and traditional equity securities, 78 percent fixed-income obligations, 2 percent hedge funds, 2 percent other types of investments.

The following tables summarize the pension plan assets measured at fair value as of June 30, 2024 and 2023:

Pension Plan Assets Measured at Fair Value at June 30, 2024

	Level 1	Level 2	Level 3	Balance
Assets - Investments				
Short-term investment funds	\$ 78	\$ 10	\$ -	\$ 88
Common stock - Domestic	115	-	-	115
Debt securities:				
U.S. government/federal agency	-	590	-	590
Corporate bonds	-	2,044	-	2,044
Mortgage- and asset-backed securities	-	-	-	-
Mutual funds - Equities	39	-	-	39
Other	35	-	-	35
Subtotal	<u>\$ 267</u>	<u>\$ 2,644</u>	<u>\$ -</u>	2,911
Investments measured at net asset value (i)				<u>1,349</u>
Total				<u>\$ 4,260</u>

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

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Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 7 - Retirement Benefits (Continued)

Pension Plan Assets Measured at Fair Value at June 30, 2023

	Level 1	Level 2	Level 3	Balance
Assets - Investments				
Short-term investment funds	\$ 85	\$ -	\$ -	\$ 85
Common stock - Domestic	262	-	-	262
Debt securities:				
U.S. government/federal agency	-	546	-	546
Corporate bonds	-	2,060	-	2,060
Mortgage- and asset-backed securities	-	-	-	-
Mutual funds - Equities	35	-	-	35
Other	34	-	-	34
Subtotal	<u>\$ 416</u>	<u>\$ 2,606</u>	<u>\$ -</u>	3,022
Investments measured at net asset value (i)				<u>1,248</u>
Total				<u>\$ 4,270</u>

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

Investments in Entities that Calculate Net Asset Value per Share

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

The tables on the previous page present information about the pension plan assets measured at fair value at June 30, 2024 and 2023 and the valuation techniques used by the University to determine those fair values. See Note 4 for definitions of Levels 1, 2, and 3 of the fair value hierarchy.

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

The University's policy is to recognize transfers between levels of the fair value hierarchy as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of the fair value hierarchy during 2024 and 2023.

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 7 - Retirement Benefits (Continued)

Contributions

The University expects to contribute approximately \$30 to its pension plan and \$275 to its postretirement benefit plan during the year ending June 30, 2024.

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

Years Ending June 30	Pension Benefits	Other Postretirement Benefits
2025	402	275
2026	363	273
2027	358	256
2028	348	263
2029	349	264
2030-2034	1,624	1,285

Note 8 - Insurance Commitments

The University funds a reserve for dental malpractice claims. At June 30, 2024 and 2023, the University owned a bank account administered by a third party with balances of \$551 and \$527, respectively, which is included as cash and cash equivalents and investments. Claims and related costs are paid from the University-owned bank trust account. Estimated claims at June 30, 2024 and 2023 were insignificant. In addition to the reserve, effective January 1, 2009, the University purchased professional liability insurance for dental malpractice risk. The additional insurance has a \$100 deductible per occurrence and a \$5,000 limit per occurrence. The aggregate coverage limit is \$7,000.

The University is a member of the Michigan Independent Colleges and Universities (MICU) Workers' Compensation Self-Insurers Fund. The University records workers' compensation expense at the time its contribution is due in accordance with the MICU Workers' Compensation Trust agreement. Dividends are recorded as income in the year received. Additional provision for workers' compensation expense may be required if claims pending settlement by the fund exceed available fund equity. At June 30, 2024 and 2023, no such additional provision was required.

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 9 - Contingencies

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

Note 10 - Financial Assets and Liquidity Resources

The following table reflects the University's financial assets as of June 30, 2024 and 2023, reduced by amounts not available for general expenditures within one year. Financial assets are unavailable when illiquid or not convertible to cash within one year. Other considerations of non-liquid assets are perpetual endowments and accumulated earnings net of appropriations within one year, amounts restricted by donors for nonoperating activities, amounts limited by the University's Board of Trustees, and student loans receivable. The University considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated endowments, contributions without donor restrictions and contributions with donor restrictions for current operating activities to be available to meet cash needs for general expenditures. The University considers all expenditures related to its operating activities that are incurred in the course of the normal business operations of the University to be general expenditures.

	2024	2023
Financial Assets		
Cash and cash equivalents	\$ 41,008	\$ 37,473
Endowment cash and cash equivalents	7,367	6,520
Accounts receivable, net	10,919	9,928
Contributions receivable, net	3,222	3,239
Notes receivable, net	9,922	12,730
Investments	<u>100,462</u>	<u>86,017</u>
Financial assets at June 30, 2024	<u>172,900</u>	<u>155,907</u>
Less financial assets unavailable for general expenditure within one year:		
Contributions receivable, net, beyond one year	977	1,624
Notes receivable, net, restricted for financial aid purposes	9,922	12,730
Other assets with donor or board restrictions	15,083	12,689
Endowment assets, net of appropriation for next fiscal year of \$3.6M	<u>89,887</u>	<u>79,276</u>
Financial assets unavailable for general expenditure within one year	<u>115,869</u>	<u>106,319</u>
Financial assets available to meet the cash needs for general expenditure within one year	<u>\$ 57,031</u>	<u>\$ 49,588</u>

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 10 - Financial Assets and Liquidity Resources (Continued)

The University's practice is to structure its financial assets to be available as its general expenses, liabilities, and obligations come due. In addition to financial assets available to meet general expenditures over the next year, the University's goal is to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statement of cash flows, which identifies the sources and uses of the University's cash generated by operating activities for the years ending June 30, 2024 and 2023, respectively.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The University maintains sufficient liquidity within the endowment to cover board-designated amounts, funding commitments, and appropriations for spending distributions. The University's endowment funds consist of donor-restricted endowments and a quasi-endowment of \$15,083 and \$12,689 at June 30, 2024 and 2023, respectively. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note 3, the quasi-endowment has a spending rate of 4 percent. \$2,258 and \$2,062 of appropriations from the quasi-endowment will be available within the next 12 months for fiscal year June 30, 2024 and 2023, respectively. Although the University does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

Note 11 - Accounts Receivable

The activity in the allowance for credit losses is as follows:

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 2,100	\$ 1,790
Additions charged to expense	554	1,046
Deductions/write-offs	(431)	(469)
Recoveries	<u>(421)</u>	<u>(267)</u>
Balance - End of year	<u>\$ 1,802</u>	<u>\$ 2,100</u>

University of Detroit Mercy

Notes to Financial Statements Years Ended June 30, 2024 and 2023 (rounded to nearest thousand)

Note 12 – Related Party Transactions

The following is a description of transactions between the University and related parties, including board members of the University:

Contributions Receivable

As of June 30, 2024 pledges receivable from related parties, including board members of the University, totaled \$248,671. As of June 30, 2023 there were no pledges receivable from related parties.

Contributions Revenue

During the years ended June 30, 2024 and 2023, contributions received from related parties, including board members of the University, totaled 388,894 and \$231,000, respectively.