Approved by the Regents
October 21, 2021

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

SUBJECT: The University of Michigan Financial Statements for the Year Ended June 30, 2021

ACTION REQUESTED: Adoption of Financial Statements

The Board of Regents has received the University's consolidated audited financial statements for fiscal year 2021, as well as separate audited financial statements for the University of Michigan Health System, Intercollegiate Athletics, and the Veritas Insurance Corporation. The Finance, Audit and Investment Committee of the Board has also had a discussion with PricewaterhouseCoopers LLP, the University's independent auditors. We recommend adoption of the University's consolidated audited financial statements as submitted.

Respectfully submitted,

Geoffrey S. Chatas
Executive Vice President and
Chief Financial Officer

October 2021

UNIVERSITY OF MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 and 2020
with
REPORT OF INDEPENDENT AUDITORS

THE UNIVERSITY OF MICHIGAN

June 30, 2021 and 2020

Report of Independent Auditors

To the Regents of the University of Michigan

We have audited the accompanying financial statements of the business-type activities and aggregate fiduciary activities of the University of Michigan (the "University"), which comprise the statements of net position and of fiduciary net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, of cash flows, and of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility 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; 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.

Auditors' Responsibility

Our responsibility is to express opinions on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the University'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 University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PricewaterhouseCoopers LLP, 500 Woodward Avenue, Detroit, Michigan 48226
T: (313) 394 6000; www.pwc.com/us

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate fiduciary activities of the University of Michigan as of June 30, 2021 and 2020, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University changed the manner in which it accounts for fiduciary activities in 2021. Our opinion is not modified with respect to this matter.

Other Matter

The accompanying management's discussion and analysis on pages 3 through 29 and the required supplementary information for the pension plan and postemployment benefits on pages 82 through 84 are required by accounting principles generally accepted in the United States of America 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 audits 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.

PricewaterhouseCoopers L.L.P.

October 21, 2021

UNIVERSITY OF MICHIGAN

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position of the University of Michigan (the "University") at June 30, 2021 and 2020 and its activities for the three fiscal years ended June 30, 2021. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning with over 63,500 students and approximately 8,500 faculty members on three campuses in southeast Michigan. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels through 19 schools and colleges, and contributes to the state and nation through related research and public service programs. The University also has a nationally renowned health system which includes the University of Michigan Health System ("UMHS"), the University's Medical School, Michigan Health Corporation (a wholly-owned corporation created for joint venture and managed care initiatives) and UM Health (a wholly-owned corporation created to hold and develop the University's statewide network of hospitals, hospital joint ventures and other hospital affiliations, primarily consisting of Metropolitan Hospital). The University's health system currently includes four hospitals as well as numerous health centers and outpatient clinics.

The University consistently ranks among the nation's top universities by various measures of quality, both in general academic terms and in terms of strength of offerings, in specific academic disciplines and professional subjects. Research is central to the University's mission and a key aspect of its strong reputation among educational institutions. The University is widely recognized for the breadth and excellence of its research enterprise as well as for the exceptional level of cooperation across disciplines, which allows faculty and students to address the full complexity of real-world challenges. The University's health system also has a tradition of excellence in teaching, advancement of medical science and patient care, consistently ranking among the best health care systems in the nation.

The global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, was declared a pandemic by the World Health Organization on March 11, 2020 and a national emergency by the President of the United States on March 13, 2020. The outbreak and related actions taken by federal and state governments in response have impacted several aspects of the University's mission, including those related to instruction, research, patient care and other auxiliary activities.

Financial Highlights

The University's financial position remains strong, with total assets and deferred outflows of $30.2 billion and total liabilities and deferred inflows of $10.7 billion at June 30, 2021, compared to total assets and deferred outflows of $24.0 billion and total liabilities and deferred inflows of $9.5 billion at June 30, 2020. Net position, which represents the residual interest in the University's total assets and deferred outflows after total liabilities and deferred inflows are deducted, totaled $19.5 billion and $14.5 billion at June 30, 2021 and 2020, respectively. Changes in net position represent the University's results of operations and are summarized for the years ended June 30 as follows:

	2021	**2020** (in millions)	**2019**
Operating revenues and educational appropriations	$ 8,831	$ 8,340	$ 8,411
Federal economic relief funds	256	144	
Private gifts for operating activities	184	179	178
Operating and net interest expenses	(9,608)	(9,445)	(9,099)
	(337)	(782)	(510)
Net investment income	5,141	323	810
Endowment, capital gifts and grants, and other	176	182	223
Increase (decrease) in net position	$ 4,980	$ (277)	$ 523

The results of operations reflect the University's emphasis on maintaining its national standards in academics, research and health care, within a competitive recruitment environment for faculty and health care professionals and a period of constrained state appropriations and rising health care, regulatory and facility costs. During 2021 and 2020, the University also faced significant challenges associated with the COVID-19 pandemic, which impacted a broad range of its activities. The University is addressing these risks through aggressive cost cutting and productivity gains designed to help preserve access to affordable higher education and healthcare for Michigan families. To achieve sustainable long-term goals for cost cutting and productivity gains, the University is also strategically utilizing resources to support enterprise-wide information technology projects and other initiatives.

The University's long-term investment strategy combined with its endowment spending policy serves to insulate operations from expected volatility in the capital markets and provides for a stable and predictable level of spending distributions from the endowment. The success of the University's long-term investment strategy is evidenced by strong returns over sustained periods of time and the ability to limit losses in the face of challenging markets.

The University invests its financial assets in pools with distinct risk and liquidity characteristics based on its needs, with a majority of its financial assets invested in two such pools. The University's working capital is primarily invested in relatively short duration, liquid assets, through its Daily and Monthly Portfolios, while the endowment is primarily invested, along with the noncurrent portion of insurance and benefit reserves, in an equity oriented long-term strategy through its Long Term Portfolio.

Using the Basic Financial Statements

The University's financial report includes: the Consolidated Statement of Net Position; the Consolidated Statement of Revenues, Expenses and Changes in Net Position; the Consolidated Statement of Cash Flows; the Statement of Fiduciary Net Position; and the Statement of Changes in Fiduciary Net Position. These basic financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles, which establish standards for external financial reporting for public colleges and universities. The University's business-type activities are reported in the consolidated financial statements, while its fiduciary activities are reported in the fiduciary financial statements.

Consolidated Statement of Net Position

The consolidated statement of net position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows, liabilities and deferred inflows of the University. The difference between total assets and deferred outflows as compared to total liabilities and deferred inflows – net position – is one indicator of the current financial condition of the University, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year. The University's assets, deferred outflows, liabilities, deferred inflows and net position at June 30 are summarized as follows:

	2021	**2020** (in millions)	**2019**
Current assets	$ 4,898	$ 4,010	$ 2,885
Noncurrent assets:			
Endowment, life income and other investments	17,533	12,704	12,660
Capital assets, net	6,187	6,273	6,227
Other	445	518	500
Total assets	29,063	23,505	22,272
Deferred outflows	1,124	514	371
Current liabilities	2,538	2,374	1,708
Noncurrent liabilities	7,688	6,647	5,611
Total liabilities	10,226	9,021	7,319
Deferred inflows	454	471	520
Net position	$ 19,507	$ 14,527	$ 14,804

During 2021, the University adopted GASB Statement No. 84, *Fiduciary Activities* ("GASB 84"), which required the removal of fiduciary activities from the University's consolidated financial statements at July 1, 2019, resulting in a decrease in current assets and current liabilities of $46 million, and a decrease in endowment, life income and other investments and noncurrent liabilities of $174 million as compared to amounts previously reported. As a result of the adoption of this statement, the University's fiduciary activities are now presented within the statement of fiduciary net position and the statement of changes in fiduciary net position.

For purposes of management's discussion and analysis, comparative data for the consolidated statement of net position has been provided by reflecting the adoption of GASB 84 at June 30, 2019.

The University continues to maintain and protect its strong financial foundation. This financial health, as reflected in the University's net position, results from the prudent utilization of financial resources including careful cost controls, preservation of endowment funds, conservative utilization of debt and adherence to a long-range capital plan for the maintenance and replacement of the physical plant.

Current assets consist primarily of cash and cash equivalents, operating and capital investments and accounts receivable and increased $888 million to $4.9 billion at June 30, 2021, as compared to $4.0 billion at June 30, 2020, primarily as a result of the University's continued focus on liquidity in response to uncertainties surrounding the COVID-19 pandemic, as well as increased patient care receivables. Cash, cash equivalents and investments for operating activities totaled $2.9 billion at June 30, 2021, which represents approximately four months of total expenses excluding depreciation.

Deferred outflows represent the consumption of net assets attributable to a future period and are primarily associated with the University's obligations for postemployment benefits, debt and derivative activity, and the defined benefit pension plan for Metropolitan Hospital. Deferred outflows totaled $1.1 billion and $514 million at June 30, 2021 and 2020, respectively.

Current liabilities consist primarily of accounts payable, accrued compensation, unearned revenue, commercial paper, the current portion of bonds payable and net long-term bonds payable subject to remarketing. Current liabilities totaled $2.5 billion and $2.4 billion at June 30, 2021 and 2020, respectively.

Deferred inflows represent the acquisition of net assets attributable to a future period and are associated with the University's obligations for postemployment benefits, Metropolitan Hospital's defined benefit pension plan and irrevocable split-interest agreements. Deferred inflows totaled $454 million and $471 million at June 30, 2021 and 2020, respectively.

Endowment, Life Income and Other Investments

The composition of the University's endowment, life income and other investments at June 30 is summarized as follows:

	2021	2020 (in millions)	2019
Endowment investments	$ 17,023	$ 12,313	$ 12,275
Life income investments	191	145	147
Noncurrent portion of insurance and benefits obligations investments	293	225	216
Other	26	21	22
	$ 17,533	$ 12,704	$ 12,660

The University's endowment funds consist of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain intact and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of restricted gifts or unrestricted funds that have been allocated by the University for long-term investment purposes, but are not limited by donor stipulations requiring the University to preserve principal in perpetuity. Programs supported by endowment funds include scholarships, fellowships, professorships, research efforts and other important programs and activities.

The University uses its endowment funds to support operations in a way that strikes a balance between generating a predictable stream of annual support for current needs and preserving the purchasing power of the endowment funds for future periods. A majority of the endowment is maintained in the University Endowment Fund, a unitized pool which represents a collection of over 12,000 separate (individual) funds, the majority of which are restricted for specific purposes. The University Endowment Fund is invested in the University's Long Term Portfolio, a single diversified investment pool.

The endowment spending rule provides for distributions from the University Endowment Fund to the entities that benefit from the endowment fund. The annual distribution rate is 4.5 percent of the one-quarter lagged seven year moving average fair value of University Endowment Fund shares. This spending rule is one element of an ongoing financial management strategy that has allowed the University to effectively weather the uncertainties of challenging economic environments.

To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Capital gains or income generated above the endowment spending rate are reinvested so that in lean times funds will be available for distribution. In addition, departments may also use withdrawals from funds functioning as endowment to support capital expenditures and operations.

Endowment spending rate distributions totaled $404 million, $384 million and $361 million and withdrawals from funds functioning as endowment totaled $4 million, $7 million and $38 million in 2021, 2020 and 2019, respectively. Total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 3.8 percent, 4.3 percent and 4.5 percent of the current year average fair value of the University Endowment Fund for 2021, 2020 and 2019, respectively. Over the past ten years, total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.6 percent.

The University participates in certain split-interest agreements and currently holds life income funds for beneficiaries of the pooled income fund, charitable remainder trusts and the gift annuity program. These funds generally pay lifetime income to beneficiaries, after which the principal is made available to the University in accordance with donor intentions.

Capital and Debt Activities

One of the critical factors in continuing the quality of the University's academic, research and clinical programs is the development and renewal of capital assets. The University continues to implement its long-range plan to maintain and modernize its existing infrastructure and strategically invest in new construction.

Capital asset additions totaled $488 million in 2021 as compared to $618 million in 2020. Capital asset additions primarily represent renovation and new construction of academic, research and clinical facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were primarily funded with net position and gifts designated for capital purposes of $427 million, as well as debt proceeds of $29 million and state capital appropriations of $32 million.

Projects completed in 2021 include significant new construction and renovation of academic and research facilities.

The new Ford Motor Company Robotics Building brings all parts of the Michigan Robotics enterprise together in one complex. This 134,000 square foot state-of-the-art facility houses classrooms, makerspaces, research and testing laboratories, associated support functions and offices. The building also provides space for its corporate partner, Ford Motor Company, to perform robotics research and engineering activities in collaboration with the University and other industry leaders, and has specialized labs for robot walking, flight testing, rehabilitation robotics, and electronics and software development.

The Edward Henry Kraus Building, which was originally completed in 1915, underwent an extensive renovation of 183,000 square feet as well as construction of an infill addition of 62,000 square feet within the exterior courtyard. This renovation and addition enables the School of Kinesiology to consolidate its programs and operations into one location and allows for future growth.

Laboratory renovations at two of the North Campus Research Complex buildings, which cover 158,000 square feet, will accommodate growth of the Medical School's wet laboratory research over the next decade. A 6,900 square foot infill addition improves connectivity between the buildings and throughout the complex. The project also addressed deferred maintenance including heating, ventilation, air conditioning, electrical and life safety system upgrades, and provided accessibility improvements and new finishes in public spaces.

Renovation and expansion of the Engineering Lab Building on the University's Dearborn campus, which was originally constructed in 1959, facilitates entrepreneurial problem solving, encourages multidisciplinary cooperation in the context of 21st-century engineering instruction, and provides students with new collaboration and project spaces. It also allows for research partnerships with industry, as well as expanded K-12 and community outreach efforts, with a focus on women and minorities. The 123,000 square feet facility includes classrooms, research and teaching laboratories, faculty offices and student support spaces. Replacement of regional boilers and electrical distribution equipment were also part of this project.

Expansion of the William R. Murchie Science Building on the University's Flint campus addresses immediate space limitations, and supports growing demand for instructional, research, and collaborative spaces for the science, technology, engineering and math disciplines, and create engineering-specific instructional and research laboratories. The project added 61,000 square feet and a third wing to the current Murchie building structure.

Construction in progress, which totaled $482 million and $636 million at June 30, 2021 and 2020, respectively, includes important projects for academic instruction, research and patient care, as well as central campus utilities.

The new Central Campus Classroom Building is being constructed to replace the 1964 addition to the Ruthven building. When complete, this new facility will include 100,000 square feet of active learning classrooms, including an auditorium that will seat approximately 550 students, with total building classroom capacity in excess of 1,400 students. The project also includes the 1928 Ruthven building which will be renovated to include a 200 person multipurpose room as well as space to accommodate the University's central administration staff that is currently located in the Fleming Administration Building. This project is scheduled to be completed in fall 2021.

Renovation and expansion of the W.K. Kellogg Institute and Dental Building will create a more welcoming, accessible facility with an improved patient entrance as well as new modern teaching clinics including a special care clinic to treat patients with complex medical conditions and disabilities. An open, flexible research space will be created along with space designed to foster collaboration among faculty and students. This project will also address deferred maintenance including exterior envelope repairs and life safety, electrical, mechanical and plumbing system improvements. This project is scheduled to be completed in summer 2022.

Expansion of the University's Central Power Plant will enhance power reliability and reduce greenhouse gas emissions, in accordance with a recommendation by the 2015 President's Committee on Greenhouse Gas Reduction. The Central Power Plant is a highly efficient, reliable on-campus source of heat and electricity that supports mission-critical functions across the University, including research and the demands of a major regional medical center. The expansion includes a 15 megawatt combustion turbine to increase the amount of energy that can be generated on campus, as well as reduce the amount of coal-based electricity purchased by the University. A cumulative reduction of more than 400,000 metric tons of carbon is expected within the first ten years of operation. This project is scheduled to be completed in fall 2021.

The University is aware of its financial stewardship responsibility and works diligently to manage its financial resources effectively, including the prudent use of debt to finance capital projects. A strong debt rating is an important indicator of the University's success in this area. In 2020, S&P Global affirmed its highest credit rating (AAA) for bonds backed by a broad revenue pledge based on the University's robust enrollment and demand, exceptional student quality, retention and graduation rates, strong reputation of the University's health system, excellent balance sheet, exceptional research presence and manageable debt burden. Moody's also affirmed its highest credit rating (Aaa) based on the University's diversified student demand, sustained philanthropic support, expansive research enterprise, high brand value and reputation of the University's health system, and well-established strategic and budgetary framework.

Management's Discussion and Analysis (Unaudited)—Continued

Long-term debt activity for the years ended June 30 is summarized as follows:

	2021			
	Beginning Balance	Additions	Reductions	Ending Balance
		(in millions)		
Commercial paper	$ 135	$ 165	$ 146	$ 154
Bonds	3,241		81	3,160
	$ 3,376	$ 165	$ 227	$ 3,314

	2020			
	Beginning Balance	Additions	Reductions	Ending Balance
		(in millions)		
Commercial paper	$ 145		$ 10	$ 135
Bonds	2,330	$ 1,026	115	3,241
	$ 2,475	$ 1,026	$ 125	$ 3,376

The University utilizes commercial paper, backed by a general revenue pledge, to provide interim financing for its capital improvement program. Outstanding commercial paper is converted to long-term debt financing as appropriate, within the normal course of business. Outstanding bonds are also supported by the University's general revenue pledge.

During 2020, the University issued $988 million of general revenue bonds with a net original issue premium of $38 million, which included $138 million of fixed rate, tax-exempt bonds, and $850 million of fixed rate, taxable bonds. Total bond proceeds of $1,026 million were utilized to refund existing bonds of $26 million and provide $150 million for capital projects, $848 million for capital projects, refunding of debt and general purposes, and $2 million for debt issuance costs.

The composition of the University's debt at June 30 is summarized as follows:

	2021	**2020**	**2019**
		(in millions)	
Variable rate:			
Commercial paper	$ 154	$ 135	$ 145
Bonds	523	551	566
Fixed rate bonds	2,637	2,690	1,764
	$ 3,314	$ 3,376	$ 2,475

A significant portion of the University's variable rate bonds are subject to remarketing and, in accordance with GASB requirements, such debt is classified as current unless supported by liquidity arrangements such as lines of credit or standby bond purchase agreements which could refinance the debt on a long-term basis. In the event that variable rate bonds are put back to the University by the debt holder, management believes that the use of remarketing agents as well as the University's strong credit rating will ensure that the bonds will be remarketed within a reasonable period of time.

While fixed rate bonds typically have a higher effective rate of interest at the date of issuance as compared to variable rate bonds, they reduce the volatility of required debt service payments and do not require liquidity support such as lines of credit, standby bond purchase agreements or internal liquidity.

Effective interest rates averaged 2.5 percent and 2.9 percent in 2021 and 2020, respectively, including the federal subsidies for interest on taxable Build America Bonds. Interest expense net of federal subsidies received for interest on taxable Build America Bonds totaled $89 million and $80 million in 2021 and 2020, respectively.

Obligations for Postemployment Benefits

Using current actuarial assumptions, and presuming a continuation of the current level of benefits, the University's obligations for postemployment benefits totaled $4.4 billion at June 30, 2021, as compared to $3.5 billion and $3.1 billion at June 30, 2020 and 2019, respectively. The increase in the reported liability at June 30, 2021 was driven primarily by a decrease in the discount rate offset by a reduction in expected health care claims cost due to favorable experience and changes in health care claims trend assumption rates. The increase in the reported liability at June 30, 2020 was driven primarily by a decrease in the discount rate and mortality and longevity improvements, offset by a reduction in expected health care claims cost due to favorable experience. Since a portion of retiree medical services will be provided by the University's health system, this liability is net of the related margin and fixed costs associated with providing those services which totaled $795 million, $629 million and $580 million at June 30, 2021, 2020 and 2019, respectively.

By implementing a series of health benefit initiatives over the past several years, the University has favorably impacted its total liability for postemployment benefits by $2.0 billion at June 30, 2021. These initiatives have included cost sharing changes, elimination of Medicare Part B reimbursements for certain retirees and the adjustment of retirement eligibility criteria.

Net Position

Net position represents the residual interest in the University's assets and deferred outflows after liabilities and deferred inflows are deducted. The composition of the University's net position at June 30 is summarized as follows:

	2021	2020 (in millions)	2019
Net investment in capital assets	$ 3,677	$ 3,767	$ 3,743
Restricted:			
Nonexpendable:			
Permanent endowment corpus	2,625	2,483	2,329
Expendable:			
Net appreciation of permanent endowments	3,684	2,055	2,144
Funds functioning as endowment	2,974	2,260	2,382
Restricted for operations and other	925	852	686
Unrestricted	5,622	3,110	3,520
	$ 19,507	$ 14,527	$ 14,804

Net investment in capital assets represents the University's capital assets net of accumulated depreciation, outstanding principal balances of debt and capital lease liabilities, unexpended bond proceeds and deferred outflows associated with the acquisition, construction or improvement of those assets.

Restricted nonexpendable net position represents the historical value (corpus) of gifts to the University's permanent endowment funds. Restricted expendable net position is subject to externally imposed stipulations governing their use and includes net appreciation of permanent endowments, funds functioning as endowment and net position restricted for operations, facilities and student loan programs. Restricted expendable net position increased 47 percent, or $2.4 billion, to $7.6 billion at June 30, 2021, as compared to a decrease of 1 percent, or $45 million, to $5.2 billion at June 30, 2020. The increase experienced during 2021 was driven primarily by strong investment returns within the University's Long Term Portfolio.

Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for various academic programs, research initiatives and capital projects. Unrestricted net position at June 30, 2021 totaled $5.6 billion and included funds functioning as endowment of $7.7 billion offset by unfunded obligations for postemployment benefits of $3.6 billion. Unrestricted net position at June 30, 2020 totaled $3.1 billion and included funds functioning as endowment of $5.5 billion offset by unfunded obligations for postemployment benefits of $3.4 billion. Unrestricted net position also includes other net resources which totaled $1.5 billion and $1.0 billion at June 30, 2021 and 2020, respectively.

Consolidated Statement of Revenues, Expenses and Changes in Net Position

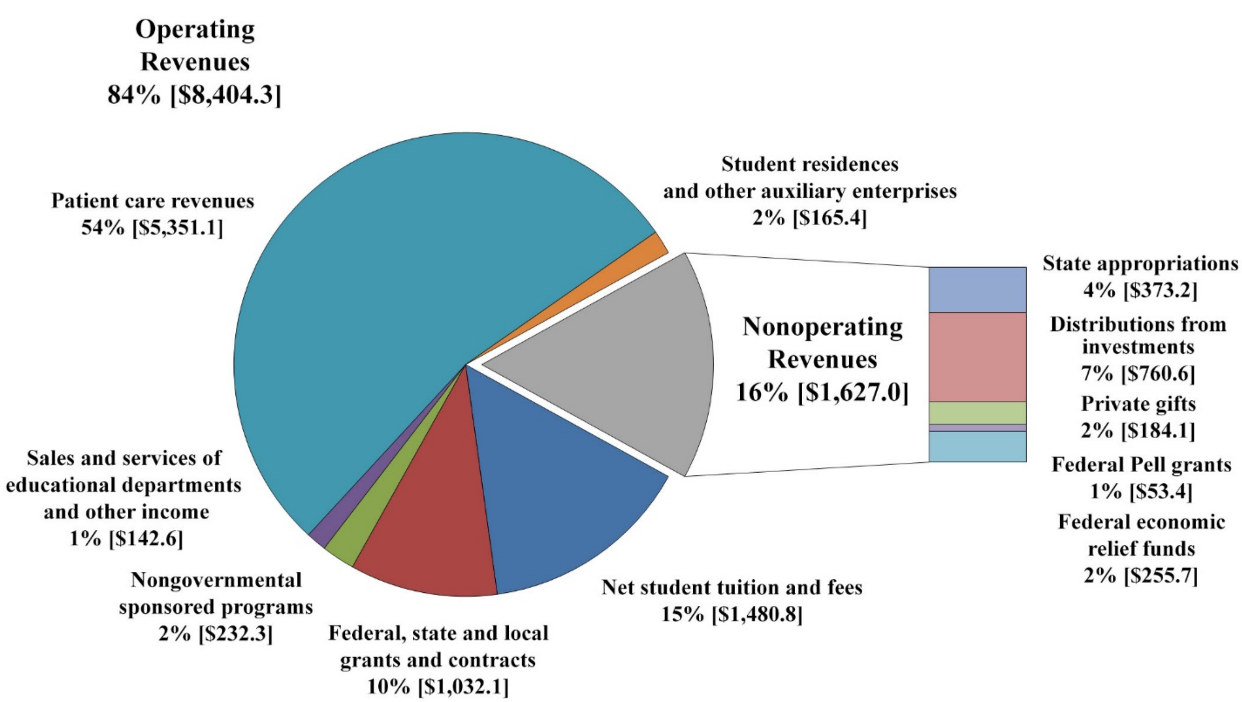
The consolidated statement of revenues, expenses and changes in net position presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. The University's revenues, expenses and changes in net position for the years ended June 30 are summarized as follows:

	2021	2020 (in millions)	2019
Operating revenues:			
Net student tuition and fees	$ 1,480.8	$ 1,455.6	$ 1,366.5
Sponsored programs	1,264.4	1,259.9	1,266.4
Patient care revenues, net	5,351.1	4,767.9	4,845.1
Other	308.0	472.2	511.9
	8,404.3	7,955.6	7,989.9
Operating expenses	9,519.1	9,364.3	9,025.0
Operating loss	(1,114.8)	(1,408.7)	(1,035.1)
Nonoperating and other revenues (expenses):			
State educational appropriations	373.2	331.3	370.4
Federal Pell grants	53.4	53.5	51.2
Federal economic relief funds	255.7	143.8	
Private gifts for operating activities	184.1	178.8	177.8
Net investment income	5,141.3	322.6	810.0
Interest expense	(94.7)	(86.0)	(81.4)
Federal subsidies for interest on Build America Bonds	5.5	5.6	7.0
State capital appropriations	32.1	13.9	
Endowment and capital gifts and grants	151.0	167.6	206.1
Other	(6.6)	0.7	16.9
Nonoperating and other revenues, net	6,095.0	1,131.8	1,558.0
Increase (decrease) in net position	4,980.2	(276.9)	522.9
Net position, beginning of year	14,527.0	14,803.9	14,281.0
Net position, end of year	$ 19,507.2	$ 14,527.0	$ 14,803.9

One of the University's greatest strengths is the diverse streams of revenue that supplement its student tuition and fees, including private support from individuals, foundations and corporations, along with government and other sponsored programs, state appropriations and investment income. The University continues to aggressively seek funding from all possible sources consistent with its mission in order to supplement student tuition and prudently manage the financial resources realized from these efforts to fund its operating activities, which include instruction, patient care and research.

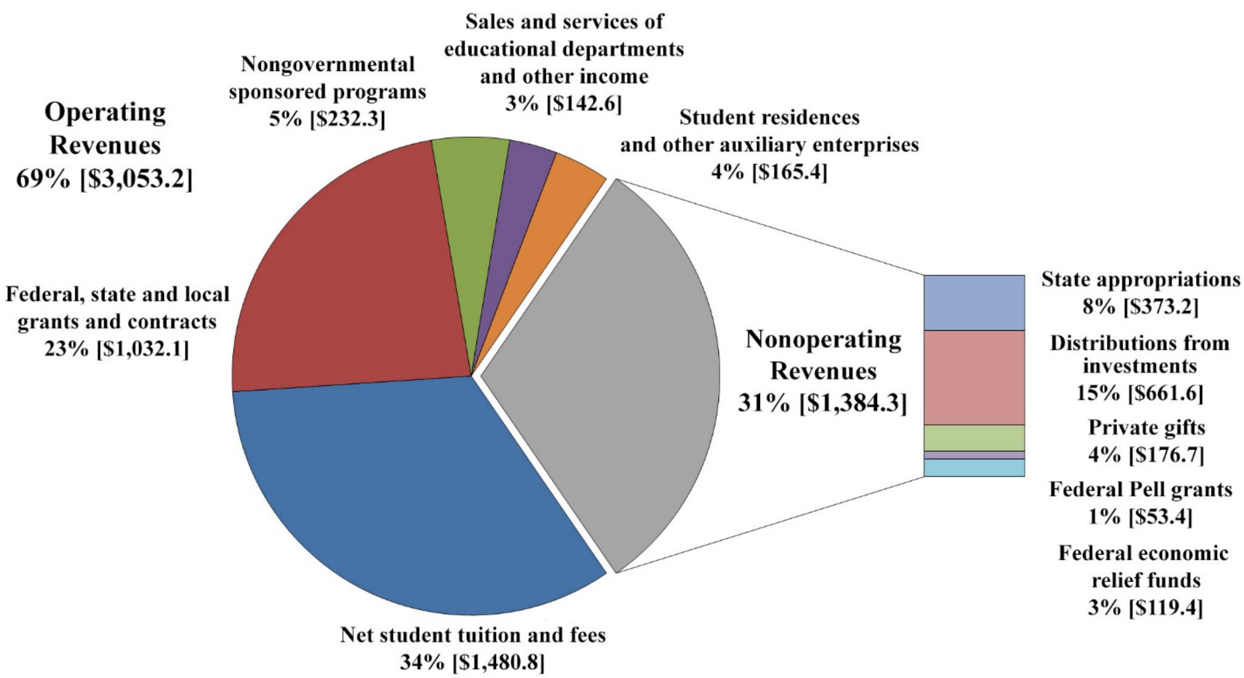
The following is a graphic illustration of revenues by source, both operating and nonoperating, which are used to fund the University's operating activities for the year ended June 30, 2021 (amounts are presented in millions of dollars). Certain recurring sources of the University's revenues are considered nonoperating, as defined by GASB, such as state appropriations, distributions from investments, private gifts and federal Pell grants.

2021 Revenues for Operating Activities



The University measures its performance both for the University as a whole and for the University without its health system and other clinical activities. The exclusion of these activities allows a clearer view of the operations of the schools and colleges, as well as central administration. The following is a graphic illustration of University revenues by source, both operating and nonoperating, which are used to fund operating activities other than the health system and other clinical activities, for the year ended June 30, 2021 (amounts are presented in millions of dollars).

2021 Revenues for Operating Activities
Excluding Revenues from the Health System and Other Clinical Activities



Tuition and state appropriations are the primary sources of funding for the University's academic programs. There is a relationship between the growth or reduction in state support and the University's ability to restrain tuition fee increases. Together, net student tuition and fees and state educational appropriations increased 4 percent, or $67 million, to $1.9 billion in 2021, as compared to 3 percent, or $50 million, to $1.8 billion in 2020.

In 2021, the University's state educational appropriations increased 13 percent, or $42 million, to $373 million reflecting a return to pre-COVID-19 pandemic funding levels. In 2020, the University's state educational appropriations decreased 11 percent, or $39 million, to $331 million primarily as a result of the establishment of an allowance against the University's outstanding state educational appropriations receivable due to uncertainties associated with the COVID-19 pandemic.

For the years ended June 30, net student tuition and fees revenue consisted of the following components:

	2021	2020 (in millions)	2019
Student tuition and fees	$ 1,978.0	$ 1,944.2	$ 1,812.5
Less scholarship allowances	497.2	488.6	446.0
	$ 1,480.8	$ 1,455.6	$ 1,366.5

In 2021, net student tuition and fees revenue increased 2 percent, or $25 million, to $1.5 billion, which reflects an increase of 2 percent, or $34 million, in gross student tuition and fees revenue offset by an increase of 2 percent, or $9 million, in scholarship allowances. Tuition rate increases in 2021 were 1.9 percent for both resident and nonresident undergraduate students and most graduate students on the Ann Arbor campus, with a 1.9 and 3.9 percent tuition rate increase for most resident undergraduate students on the Dearborn and Flint campuses, respectively. During 2021, the University experienced moderate growth in the number of students, as well as a shift in mix from resident to nonresident students.

In 2020, net student tuition and fees revenue increased 7 percent, or $89 million, to $1.5 billion, which reflects an increase of 7 percent, or $132 million, in gross student tuition and fees revenue offset by an increase of 10 percent, or $43 million, in scholarship allowances. Tuition rate increases in 2020 were 1.9 percent for resident undergraduate students, 3.7 percent for nonresident undergraduate students and 3.2 percent for most graduate students on the Ann Arbor campus, with a 3.2 and 5.0 percent tuition rate increase for most resident undergraduate students on the Dearborn and Flint campuses, respectively. During 2020, the University experienced moderate growth in the number of students, as well as a shift in mix from resident to nonresident students.

The University's tuition rate increases have consistently been among the lowest in the state, even in years of significant reductions in state appropriations, which reflects a commitment to affordable higher education for Michigan families. In addition, the University has increased scholarship and fellowship expenses and related allowances to benefit students in financial need. The University's long-term plan includes an ongoing commitment to cost containment and reallocating resources to the highest priorities to provide support for innovative new initiatives to maintain academic excellence and help students keep pace with the evolving needs of society.

While tuition and state appropriations fund a large percentage of University costs, private support is also essential to the University's academic distinction. Private gifts for other than capital and endowment purposes totaled $184 million in 2021, as compared to $179 million in 2020 and $178 million in 2019.

The University receives revenues for sponsored programs from various government agencies and private sources, which normally provide for both direct and indirect costs to perform these sponsored activities, with a significant portion related to federal research. Revenues for sponsored programs remained stable at $1.3 billion in both 2021 and 2020 as the rate of increase during these periods was limited by capacity constraints within the University's research labs which were initiated in response to the COVID-19 pandemic.

Patient care revenues are principally generated within the University's hospitals and ambulatory care facilities. Patient care revenues increased 12 percent, or $583 million, to $5.4 billion in 2021, due primarily to growth in patient volume as well as an increase in revenue per patient case. Patient care revenues decreased 2 percent, or $77 million, to $4.8 billion in 2020, due primarily to a decrease in patient volume resulting from a temporary reduction in operations in response to the COVID-19 pandemic.

For the years ended June 30, patient care revenues by source are summarized as follows:

	2021	**2020** (in millions)	**2019**
University of Michigan Health System	$ 4,682.6	$ 4,152.6	$ 4,212.4
UM Health	507.0	464.3	472.5
Michigan Health Corporation	30.9	36.4	39.1
Other	130.6	114.6	121.1
	$ 5,351.1	$ 4,767.9	$ 4,845.1

The largest component of patient care revenues is generated by UMHS, a national leader in advanced patient care and comprehensive education of physicians and medical scientists. UMHS serves as the principal teaching facility for the University's Medical School and operates three hospitals with 1,043 licensed beds for acute care and psychiatric needs, as well as numerous ambulatory care centers, outpatient clinics and various other health care programs across the state. Substantially all physician services to UMHS patients are provided by the University's Medical School faculty. UMHS also provides educational and clinical opportunities to students of the University's Schools of Nursing, Dentistry, Social Work and Public Health, as well as the College of Pharmacy.

UM Health patient care revenues primarily represent Metropolitan Hospital, a community health care provider in west Michigan, which operates a hospital with 208 licensed beds for acute care, as well as neighborhood outpatient clinics and a growing network of specialty services. The University's affiliation with Metropolitan Hospital positions UM Health to expand research capabilities, primary care, specialty services and the use of complex medical technologies.

Michigan Health Corporation generates revenue through its various joint venture and managed care initiatives, which provide services to patients including dialysis and other health services.

Other patient care revenues include amounts received from governmental and commercial payers associated with initiatives designed to improve accessibility and quality of care for patients, services provided by physicians working at facilities outside of the University and ambulatory care services provided by University Health Service, the School of Dentistry and the School of Nursing.

Contractual arrangements with governmental payers (Medicare and Medicaid) and private insurers impact patient care revenues. The distribution of net patient care service revenue by primary payer source for the years ended June 30 is summarized as follows:

	2021	2020	2019
Medicare	27%	27%	26%
Medicaid	12%	11%	12%
Blue Cross	38%	39%	38%
Other	23%	23%	24%

Federal economic relief funds represent amounts received from the federal government to provide economic assistance to entities that have been negatively impacted by the COVID-19 pandemic. The University recognized revenue of $135 million in both 2021 and 2020 associated with the Provider Relief Fund distributed by the U.S. Department of Health and Human Services. Revenue associated with the Higher Education Emergency Relief Fund distributed by the U.S. Department of Education totaled $77 million in 2021 as compared to $9 million in 2020. Revenue of $42 million associated with the Coronavirus Relief Fund distributed by the U.S. Department of the Treasury was recognized during 2021.

Net investment income totaled $5.1 billion in 2021 as compared to $323 million in 2020 and $810 million in 2019. During 2021 the financial markets experienced strong growth following the impact of the COVID-19 pandemic induced slowdown from the prior year. In 2021, the alternative assets returned 51 percent with venture capital and private equity assets leading the alternative asset class with returns of 78 and 51 percent, respectively. Within the marketable assets class, equities led with a return of 51 percent.

The investment environment in 2020 experienced a significant amount of volatility during the third and fourth quarters due to the impact of the COVID-19 pandemic. During 2020, the alternative asset class had the strongest performance and returned 6 percent for the year. The venture capital and private equity assets led the alternative asset class with returns of 19 percent and 11 percent, respectively.

State capital appropriations help the University improve its academic buildings. Recent capital outlays have supported renovations of the Engineering Lab Building on the Dearborn campus and the William R. Murchie Science Building on the Flint campus.

Gifts and grants for endowment and capital purposes continue to be a significant part of sustaining the University's excellence. Private gifts for permanent endowment purposes totaled $136 million in 2021, as compared to $149 million and $176 million in 2020 and 2019, respectively. Capital gifts and grants totaled $15 million in 2021, as compared to $19 million and $30 million in 2020 and 2019, respectively. In recent years, major gifts have been received in support of the University's wide-ranging capital initiatives which include the health system, Ross School of Business, College of Engineering and Intercollegiate Athletics.

In addition to revenue diversification, the University continues to make cost containment an ongoing priority. This is necessary as the University faces significant financial pressures, particularly in the areas of compensation and benefits, which represent 64 percent of total expenses, as well as in the areas of energy, technology and ongoing maintenance of facilities and infrastructure.

The University's expenses for the years ended June 30 are summarized as follows (amounts in millions):

	2021		2020		2019	
Operating:						
Compensation and benefits	$ 6,137.5	64%	$ 6,049.9	64%	$ 5,769.0	63%
Supplies and services	2,614.4	27	2,574.6	27	2,523.8	28
Depreciation	566.8	6	566.7	6	567.8	6
Scholarships and fellowships	200.4	2	173.1	2	164.4	2
	9,519.1	99	9,364.3	99	9,025.0	99
Nonoperating:						
Interest, net	89.2	1	80.4	1	74.4	1
	$ 9,608.3	100%	$ 9,444.7	100%	$ 9,099.4	100%

The University is committed to recruiting and retaining outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. Compensation and benefits increased 1 percent, or $88 million, to $6.1 billion in 2021 as compared to 5 percent, or $281 million, to $6.0 billion in 2020. Of the 2021 increase, compensation increased less than 1 percent, or $11 million, to $4.6 billion, due primarily to temporary cost saving measures taken in response to the COVID-19 pandemic, and employee benefits increased 5 percent, or $77 million, to $1.5 billion, resulting from an increase in prescription drug costs as well as activity associated with the University's postemployment benefits obligations. For 2020, compensation increased 5 percent, to $4.6 billion, and benefits increased 5 percent, to $1.4 billion.

The University faces external and industry realities that put significant pressure on its ability to reduce compensation costs while remaining competitive. To help address this risk, the University continues to review components of its existing benefits program to find opportunities for potential savings without compromising the ability to offer competitive benefits to all faculty and staff.

Health care benefits are one of the most significant employee benefits. Compared to most employers, the University is in a unique position to utilize internal experts to advise and guide its health care and drug plans. Over the past several years, the University has implemented initiatives to better control its rate of cost increase, encourage employees to choose the lowest cost health care plan that meets their needs and share a larger portion of health care cost increases with employees. These initiatives reflect the reality of the national landscape while remaining true to the commitment we make to our employees for a robust benefits package. Careful stewardship of our health benefit plans, including the use of wellness initiatives, helps maintain our competitive position while preserving funding for the University's core mission.

Supplies and services expenses increased 2 percent, or $40 million, to $2.6 billion in 2021 as compared to an increase of 2 percent, or $51 million, to $2.6 billion in 2020. These increases reflect the growth in patient care related expenses, offset partially by cost containment measures taken in response to the COVID-19 pandemic.

In addition to their natural (object) classification, it is also informative to review operating expenses by function. The University's expenses by functional classification for the years ended June 30 are summarized as follows (amounts in millions):

	2021		2020		2019	
Operating:						
Instruction	$ 1,175.4	12%	$ 1,204.8	13%	$ 1,195.2	13%
Research	853.2	9	862.8	9	857.6	10
Public service	287.9	3	206.4	2	208.7	2
Institutional and academic support	849.5	9	779.9	8	767.0	8
Operations and maintenance of plant	271.9	3	324.1	3	351.6	4
Auxiliary enterprises:						
Patient care	5,114.3	53	4,975.4	53	4,661.5	51
Other	199.7	2	271.1	3	251.2	3
Depreciation	566.8	6	566.7	6	567.8	6
Scholarships and fellowships	200.4	2	173.1	2	164.4	2
	9,519.1	99	9,364.3	99	9,025.0	99
Nonoperating:						
Interest, net	89.2	1	80.4	1	74.4	1
	$ 9,608.3	100%	$ 9,444.7	100%	$ 9,099.4	100%

Instruction expenses decreased 2 percent, or $29 million, in 2021, and increased less than 1 percent, or $10 million, in 2020. This activity reflects the growth in the related revenue sources offset by cost containment efforts.

Research expenses decreased 1 percent, or $10 million, in 2021, as compared to an increase of less than 1 percent, or $5 million, in 2020. The relative stability in both 2021 and 2020, despite the on-going challenges associated with the COVID-19 pandemic, reflects the strength of the University's overall research enterprise. To measure its total volume of research expenditures, the University considers research expenses included in the above table, as well as research related facilities and administrative expenses, research initiative and start-up expenses and research equipment purchases. These amounts totaled $1.58 billion in 2021, and $1.62 billion in both 2020 and 2019.

Patient care expenses increased 3 percent, or $139 million, in 2021, and 7 percent, or $314 million, in 2020, and reflect the impact of additional patient activity and capacity expansion. Increased medical supplies expense resulted from higher patient activity levels, the rising cost of pharmaceuticals and the additional cost of personal protective equipment acquired in response to the COVID-19 pandemic.

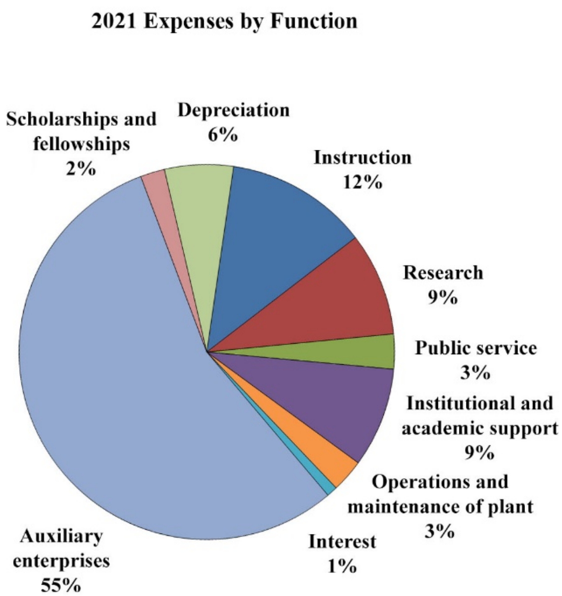
Scholarships and fellowships provided to students totaled $708 million in 2021, as compared to $685 million in 2020 and $635 million in 2019, an increase of 12 percent over the past two years. Tuition, housing and fees revenues are reported net of aid applied to students' accounts, while amounts paid directly to students are reported as scholarships and fellowships expense. Scholarships and fellowships for the years ended June 30 are summarized as follows:

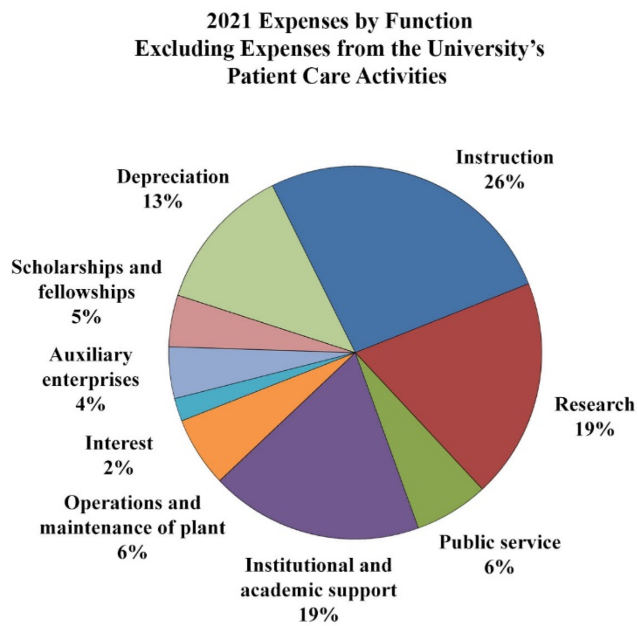
	2021	**2020** (in millions)	**2019**
Paid directly to students	$ 200.4	$ 173.1	$ 164.4
Applied to tuition and fees	497.2	488.6	446.0
Applied to University Housing	10.3	23.1	24.2
	$ 707.9	$ 684.8	$ 634.6

During 2021 and 2020, scholarships and fellowships expense included emergency financial aid grants distributed directly to students in accordance with the terms of the Higher Education Emergency Relief Fund of $26 million and $8 million, respectively.

Management's Discussion and Analysis (Unaudited)—Continued

The following graphic illustrations present total expenses by function, with and without the University's health system and other patient care activities:





Consolidated Statement of Cash Flows

The consolidated statement of cash flows provides additional information about the University's financial results by reporting the major sources and uses of cash. The University's cash flows for the years ended June 30 are summarized as follows:

	2021	2020 (in millions)	2019
Cash received from operations	$ 8,081.4	$ 8,345.6	$ 7,965.9
Cash expended for operations	(8,412.8)	(8,440.6)	(8,283.8)
Net cash used in operating activities	(331.4)	(95.0)	(317.9)
Net cash provided by noncapital financing activities	900.9	1,705.4	767.7
Net cash used in capital and related financing activities	(569.8)	(602.3)	(597.2)
Net cash (used in) provided by investing activities	(271.3)	(130.0)	411.3
Net (decrease) increase in cash and cash equivalents	(271.6)	878.1	263.9
Cash and cash equivalents, beginning of year	1,275.4	397.3	133.4
Cash and cash equivalents, end of year	$ 1,003.8	$ 1,275.4	$ 397.3

Cash received from operations primarily consists of student tuition, sponsored program grants and contracts, and patient care revenues. Significant sources of cash provided by noncapital financing activities, as defined by GASB, include state appropriations, federal Pell grants and private gifts used to fund operating activities.

Economic Factors That May Affect the Future

The University maintains the highest credit ratings of S&P Global (AAA) and Moody's (Aaa). Achieving and maintaining the highest credit ratings provides the University with significant flexibility in securing capital funds on the most competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the University to provide the necessary resources to support a consistent level of excellence in service to students, patients, the research community, the state and the nation.

A crucial element to the University's future continues to be a strong relationship with the state of Michigan. Historically, there has been a connection between the growth or reduction of state support and the University's ability to control tuition increases. Over the past several years, the University has successfully addressed the realities of the state's challenging economy and, pursuant to a long-range plan, continues to work relentlessly to cut and mitigate operational costs in order to remain affordable and preserve access, while protecting the academic enterprise.

The on-going COVID-19 pandemic is expected to continue to impact the state's revenues, which provide the foundation for the University's annual appropriations. Although the State has worked to identify and initiate various cost saving measures in response to the pandemic, the University's budget for 2022 reflects the impact of these economic challenges at the state and local level, and therefore anticipates no change in the level of base state educational appropriations as compared to the prior year. The 2022 budget also anticipates a 1.4 percent tuition rate increase for Ann Arbor campus resident undergraduates and a 6.4 percent increase in centrally awarded financial aid. Nonresident undergraduate tuition rates as well as most graduate and professional rates will increase 1.8 percent. Resident undergraduate tuition rates for the Dearborn campus will increase 1.9 percent, while the Flint campus will see no increase in their resident undergraduate rates.

The University continues to execute its long-range plan to maintain, modernize and expand its complement of older facilities while adding key new facilities for instruction, research, patient care, athletics and residential life. This strategy addresses the University's growth and the continuing effects of technology on teaching, research and clinical activities. Authorized costs to complete construction and other projects totaled $1,130 million at June 30, 2021. Funding for these projects is anticipated to include $1,034 million from internal sources, gifts, grants and proceeds from borrowings, $44 million from the State Building Authority and $52 million from the utilization of unexpended bond proceeds.

The University's health system continues its strategy to expand access to patients, locally and on a statewide basis. In addition to strategic capital and technological investments, the University's health system is also focusing on clinical affiliation arrangements and population management programs designed to expand community access and improve patient, family and provider experiences across the continuum of care. The affiliation arrangements are also expected to enhance clinical research, physician recruitment and support services.

While the University's health system is well positioned to maintain its strong financial condition in the near term, ongoing constraints on revenue are expected due to fiscal pressures from employers and federal and state governments. Lawmakers continue to discuss Medicare and Medicaid changes which may target graduate medical education-related payments and could result in a significant impact on teaching hospitals. In addition, private insurance and managed care contracts historically provide for annual increases in reimbursement rates that met or exceeded the rate of inflation; however, there can be no assurance that such trends will continue. Management believes that much of the payment pressure can be offset by growth in patient volume and continued efforts to contain certain costs.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to preserve endowment capital and insulate the University's operations from temporary market volatility.

As a labor-intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. Moreover, consistent with the national landscape, the University also faces rising costs of health benefits for its employees and retirees. The University has successfully taken and will continue to take proactive steps to respond to these challenges while protecting the quality of the overall benefits package.

A portion of the University's labor force is unionized, with negotiated labor agreements defining terms and conditions of employment. Changes in relations with unions and represented employees, including the negotiation of new agreements, could have a material effect on the University.

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact the University's financial position and its results of operations, including those related to instruction, research, patient care and other auxiliary activities. While the University continues to design and execute plans to mitigate these risks, the extent of the impact to the University will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time.

While it is not possible to predict the ultimate results, management believes that the University's financial position will remain strong.

UNIVERSITY OF MICHIGAN

Consolidated Statement of Net Position

	June 30, 2021	June 30, 2020
	(in thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,003,846	$ 1,275,401
Investments for operating activities	1,912,859	1,519,753
Investments for capital activities	627,926	301,721
Investments for student loan activities	70,481	69,866
Accounts receivable, net	970,600	583,857
Current portion of notes and pledges receivable, net	108,708	98,723
Current portion of other assets	183,656	151,859
Cash collateral held by agent	20,040	8,728
Total Current Assets	4,898,116	4,009,908
Noncurrent Assets:		
Unexpended bond proceeds	52,451	125,905
Endowment, life income and other investments	17,532,653	12,704,098
Notes and pledges receivable, net	260,554	275,714
Other assets	131,951	116,184
Capital assets, net	6,187,063	6,273,008
Total Noncurrent Assets	24,164,672	19,494,909
Total Assets	**29,062,788**	**23,504,817**
Deferred Outflows	**1,124,313**	**514,092**
Liabilities		
Current Liabilities:		
Accounts payable	312,367	333,934
Accrued compensation and other	746,422	550,605
Unearned revenue	557,109	586,252
Current portion of insurance and benefits reserves	269,789	144,827
Current portion of obligations for postemployment benefits	95,581	92,684
Commercial paper and current portion of bonds payable	235,875	215,658
Long-term bonds payable subject to remarketing, net	300,542	441,450
Collateral held for securities lending	20,040	8,728
Total Current Liabilities	2,537,725	2,374,138
Noncurrent Liabilities:		
Accrued compensation	103,563	88,952
Insurance and benefits reserves	170,059	158,604
Obligations for defined benefit pension plan, net	(6,322)	(1,247)
Obligations for postemployment benefits	4,316,565	3,384,804
Obligations under life income agreements	76,995	71,556
Government loan advances	55,585	64,989
Bonds payable	2,777,621	2,719,063
Other liabilities	194,568	160,209
Total Noncurrent Liabilities	7,688,634	6,646,930
Total Liabilities	**10,226,359**	**9,021,068**
Deferred Inflows	**453,562**	**470,841**
Net Position		
Net investment in capital assets	3,677,053	3,767,199
Restricted:		
Nonexpendable	2,625,459	2,483,225
Expendable	7,582,296	5,166,803
Unrestricted	5,622,372	3,109,773
Total Net Position	**$ 19,507,180**	**$ 14,527,000**

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY OF MICHIGAN

Consolidated Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2021	2020
	(in thousands)	
Operating Revenues		
Student tuition and fees	$ 1,977,983	$ 1,944,169
Less scholarship allowances	497,162	488,576
Net student tuition and fees	1,480,821	1,455,593
Federal grants and contracts	1,019,559	1,005,408
State and local grants and contracts	12,577	11,129
Nongovernmental sponsored programs	232,286	243,326
Sales and services of educational departments	140,594	127,353
Auxiliary enterprises:		
Patient care revenues (net of provision for bad debts of $140,672 in 2021 and $119,101 in 2020)	5,351,066	4,767,872
Student residence fees (net of scholarship allowances of $10,260 in 2021 and $23,138 in 2020)	50,334	114,648
Other revenues	115,029	228,034
Student loan interest income and fees	2,057	2,246
Total Operating Revenues	**8,404,323**	**7,955,609**
Operating Expenses		
Compensation and benefits	6,137,455	6,049,913
Supplies and services	2,614,367	2,574,614
Depreciation	566,848	566,694
Scholarships and fellowships	200,431	173,073
Total Operating Expenses	**9,519,101**	**9,364,294**
Operating Loss	(1,114,778)	(1,408,685)
Nonoperating Revenues (Expenses)		
State educational appropriations	373,230	331,330
Federal Pell grants	53,396	53,488
Federal economic relief funds	255,673	143,829
Private gifts for other than capital and endowment purposes	184,108	178,754
Net investment income	5,141,252	322,642
Interest expense	(94,705)	(86,035)
Federal subsidies for interest on Build America Bonds	5,529	5,584
Total Nonoperating Revenues, Net	**5,918,483**	**949,592**
Income (Loss) Before Other Revenues (Expenses)	4,803,705	(459,093)
Other Revenues (Expenses)		
State capital appropriations	32,062	13,853
Capital gifts and grants	14,639	18,682
Private gifts for permanent endowment purposes	136,402	148,932
Other	(6,628)	718
Total Other Revenues, Net	**176,475**	**182,185**
Increase (Decrease) in Net Position	4,980,180	(276,908)
Net Position, Beginning of Year	14,527,000	14,803,908
Net Position, End of Year	**$ 19,507,180**	**$ 14,527,000**

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY OF MICHIGAN

Consolidated Statement of Cash Flows

	Year Ended June 30, 2021	2020
	(in thousands)	
Cash Flows from Operating Activities		
Student tuition and fees	$ 1,487,613	$ 1,448,009
Federal, state and local grants and contracts	1,016,803	1,035,664
Nongovernmental sponsored programs	238,827	256,097
Sales and services of educational departments and other	274,665	309,712
Patient care revenues	4,994,855	5,161,492
Student residence fees	50,936	114,183
Payments to employees	(4,543,478)	(4,548,764)
Payments for benefits	(1,142,841)	(1,240,427)
Payments to suppliers	(2,519,582)	(2,471,802)
Payments for scholarships and fellowships	(200,431)	(173,073)
Student loans issued	(6,430)	(6,523)
Student loans collected	15,662	18,234
Student loan interest and fees collected	2,057	2,246
Net Cash Used in Operating Activities	**(331,344)**	**(94,952)**
Cash Flows from Noncapital Financing Activities		
State educational appropriations	331,523	372,530
Federal Pell grants	53,396	53,488
Federal economic relief funds	249,737	142,164
Private gifts and other receipts	285,710	291,577
Proceeds from issuance of debt		850,025
Interest payments on debt	(16,830)	
Payments for bond refunding and related costs		(1,963)
Student direct lending receipts	312,147	317,320
Student direct lending disbursements	(311,608)	(316,410)
Amounts received for annuity and life income funds	5,979	6,370
Amounts paid to annuitants and life beneficiaries and related expenses	(9,118)	(9,702)
Net Cash Provided by Noncapital Financing Activities	**900,936**	**1,705,399**
Cash Flows from Capital and Related Financing Activities		
State capital appropriations	31,033	10,938
Private gifts and other receipts	37,788	36,347
Proceeds from issuance of capital debt	164,875	175,997
Principal payments on capital debt	(211,690)	(107,946)
Interest payments on capital debt	(91,237)	(101,409)
Federal subsidies for Build America Bonds interest	5,531	9,315
Payments for bond refunding and related costs		(273)
Purchases of capital assets	(507,859)	(626,564)
Proceeds from sales of capital assets	1,739	1,240
Net Cash Used in Capital and Related Financing Activities	**(569,820)**	**(602,355)**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows—Continued

	Year Ended June 30, 2021	2020
	(in thousands)	
Cash Flows from Investing Activities		
Interest and dividends on investments, net	24,323	49,260
Proceeds from sales and maturities of investments	8,341,799	5,472,203
Purchases of investments	(8,710,091)	(5,491,398)
Net decrease (increase) in unexpended capital debt proceeds	73,454	(35,092)
Net decrease (increase) in cash equivalents from noncurrent investments	8,232	(116,546)
Net decrease in fiduciary custodial funds and other	(9,044)	(8,397)
Net Cash Used in Investing Activities	**(271,327)**	**(129,970)**
Net (Decrease) Increase in Cash and Cash Equivalents	(271,555)	878,122
Cash and Cash Equivalents, Beginning of Year	1,275,401	397,279
Cash and Cash Equivalents, End of Year	**$ 1,003,846**	**$ 1,275,401**

	2021	2020
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	$ (1,114,778)	$ (1,408,685)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	566,848	566,694
Changes in assets and liabilities:		
Accounts receivable, net	(331,111)	106,576
Other assets	(46,807)	(16,161)
Accounts payable	(11,484)	49,994
Accrued compensation and other	230,719	93,947
Unearned revenue	(27,462)	272,979
Insurance and benefits reserves	136,417	71,519
Obligations for defined benefit pension plan, net	(5,075)	1,671
Obligations for postemployment benefits	934,658	363,433
Changes in deferred outflows	(615,072)	(147,161)
Changes in deferred inflows	(48,197)	(49,758)
Net Cash Used in Operating Activities	**$ (331,344)**	**$ (94,952)**

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY OF MICHIGAN

Statement of Fiduciary Net Position

	June 30, 2021	June 30, 2020	September 30, 2020	September 30, 2019
	Custodial Funds		Pension Trust Funds	
	(in thousands)			
Assets				
Receivables			$ 220	$ 827
Investments	$ 274,374	$ 213,617	77,486	75,590
Total Assets	**274,374**	**213,617**	**77,706**	**76,417**
Liabilities				
Due to individuals and organizations	50,578	49,858	142	52
Total Liabilities	**50,578**	**49,858**	**142**	**52**
Fiduciary Net Position				
Restricted for:				
Pension			77,564	76,365
Organizations	223,796	163,759		
Total Fiduciary Net Position	**$ 223,796**	**$ 163,759**	**$ 77,564**	**$ 76,365**

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY OF MICHIGAN

Statement of Changes in Fiduciary Net Position

	Year Ended June 30,		**Year Ended September 30,**	
	2021	**2020**	**2020**	**2019**
	Custodial Funds		Pension Trust Funds	
	(in thousands)			
Additions				
Contributions:				
Organizations	$ 6,327	$ 3,522		
Employer			$ 60	$ 900
Total contributions	6,327	3,522	60	900
Net investment income (loss)	54,582	(9,106)	7,079	5,219
Total Additions	**60,909**	**(5,584)**	**7,139**	**6,119**
Deductions				
Benefits paid to participants			5,565	8,470
Administrative expenses			375	400
Withdrawals	872	4,850		
Total Deductions	**872**	**4,850**	**5,940**	**8,870**
Increase (Decrease) in Fiduciary Net Position	60,037	(10,434)	1,199	(2,751)
Fiduciary Net Position, Beginning of Year	163,759		76,365	
Adoption of GASB 84		174,193		79,116
Fiduciary Net Position, Beginning of Year, as Restated	163,759	174,193	76,365	79,116
Fiduciary Net Position, End of Year	**$ 223,796**	**$ 163,759**	**$ 77,564**	**$ 76,365**

The accompanying notes are an integral part of the consolidated financial statements.

Note 1—Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: The University of Michigan (the "University") is a state-supported institution with an enrollment of over 63,500 students on its three campuses. The financial statements include the individual schools, colleges and departments, the University of Michigan Health System, Michigan Health Corporation (a wholly-owned corporation created for joint venture and managed care initiatives), UM Health (a wholly-owned corporation created to hold and develop the University's statewide network of hospitals, hospital joint ventures and other hospital affiliations, primarily consisting of Metropolitan Hospital) and Veritas Insurance Corporation (a wholly-owned captive insurance company). While the University is a political subdivision of the state of Michigan, it is not a component unit of the State in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*. The University is classified as a state instrumentality under Internal Revenue Code Section 115 and a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

Within its consolidated financial statements, the University reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

During 2021, the University adopted GASB Statement No. 84, *Fiduciary Activities*, which required the University to remove fiduciary activities from its consolidated financial statements and present them within the statement of fiduciary net position and statement of changes in fiduciary net position. The University's fiduciary activities represent those resources for which the University acts as a trustee or custodian, including the Metropolitan Hospital pension plan trust which is considered a fiduciary component unit. The adoption of this statement resulted in a decrease in investments for operating activities and deposits of affiliates and others of $46,348,000, and a decrease in endowment, life income and other investments and deposits of affiliates and other of $174,193,000 at July 1, 2019.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation, outstanding principal balances of debt and capital lease liabilities, unexpended bond proceeds and deferred outflows associated with the acquisition, construction or improvement of those assets.
- Restricted:

  Nonexpendable – Net position subject to externally imposed stipulations that it be maintained permanently. Such net position includes the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

  Expendable – Net position subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.
- Unrestricted: Net position not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents. Substantially all unrestricted net position is designated for various academic programs, research initiatives and capital projects.

Summary of Significant Accounting Policies: The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the University's endowment, life income and other investments are included in noncurrent investments as these funds are not used for operating purposes.

Investments are reported in four categories in the statement of net position. Investments reported as endowment, life income and other investments are those funds invested in portfolios that are considered by management to be of a long duration. Investments for student loan and capital activities are those funds that are intended to be used for these specific activities. All other investments are reported as investments for operating activities.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

GASB defines fair value and establishes a framework for measuring fair value that includes a three tiered hierarchy of valuation inputs, placing a priority on those which are observable in the market. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the University's own assumptions about how market participants would value an asset or liability based on the best information available. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The three levels of inputs, of which the first two are considered observable and the last unobservable, are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date
- Level 2 – Other significant observable inputs, either direct or indirect, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or market corroborated inputs
- Level 3 – Unobservable inputs

GASB allows for the use of net asset value ("NAV") as a practical expedient to determine the fair value of nonmarketable investments if the NAV is calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. Investments that use NAV in determining fair value are disclosed separately from the valuation hierarchy as presented in Note 2.

Investments in marketable securities are carried at fair value, as established by the major securities markets. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on the accrual basis. Realized and unrealized gains and losses are reported in investment income.

Investments in nonmarketable limited partnerships are carried at fair value, which is generally established using the NAV provided by the management of the investment partnerships at June 30, 2021 and 2020. The University may also adjust the fair value of these investments based on market conditions, specific redemption terms and restrictions, risk considerations and other factors. As these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year end spot foreign currency exchange rates. Purchases and sales of investments denominated in foreign currencies and related income are translated at spot exchange rates on the transaction dates.

Derivative instruments such as financial futures, forward foreign exchange contracts and interest rate swaps held in investment portfolios, are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. To facilitate trading in financial futures, the University is required to post cash or securities to satisfy margin requirements of the exchange where such futures contracts are listed. The University monitors the required amount of cash and securities on deposit for financial futures transactions and withdraws or deposits cash or securities as necessary.

Accounts receivable are recorded net of an allowance for uncollectible accounts receivable. The allowance is based on management's judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable.

The University receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to give is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising.

Capital assets are recorded at cost or, if donated, at acquisition value at the date of donation. Depreciation of capital assets is provided on a straight-line method over the estimated useful lives of the respective assets, which generally range from three to fifty years. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research or public service, as these collections are neither disposed of for financial gain nor encumbered in any way.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Deferred outflows represent the consumption of net assets attributable to a future period and are primarily associated with the University's obligations for postemployment benefits, debt and derivative activity, and the defined benefit pension plan for Metropolitan Hospital.

Unearned revenue consists primarily of cash received from grant and contract sponsors which has not yet been earned under the terms of the agreement. Unearned revenue also includes amounts received in advance of an event, such as student tuition and advance ticket sales related to future fiscal years. In 2020, the University received amounts from the Centers for Medicare and Medicaid Services under the terms of their Accelerated and Advance Payment Program, which was expanded in response to the COVID-19 pandemic. The unearned portion of these additional advanced payments totaled $261,396,000 and $302,298,000 at June 30, 2021 and 2020, respectively, and will be reported as patient care revenues as the qualifying patient care services are performed.

The University holds life income funds for beneficiaries of the pooled income fund, charitable remainder trusts and the gift annuity program. These funds generally pay lifetime income to beneficiaries, after which the principal is made available to the University in accordance with donor intentions. All life income fund assets, including those held in trust, are recorded at fair value. The present value of estimated future payments due to life income beneficiaries is recorded as a liability.

Deferred inflows represent the acquisition of net assets attributable to a future period and are associated with the University's obligations for postemployment benefits, Metropolitan Hospital's defined benefit pension plan and irrevocable split-interest agreements.

For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Regents to appropriate amounts for endowment spending rule distributions as is considered prudent. The University's policy is to retain net realized and unrealized appreciation with the endowment after spending rule distributions. Net appreciation of permanent endowment funds, which totaled $3,684,197,000 and $2,055,430,000 at June 30, 2021 and 2020, respectively, is recorded in restricted expendable net position. The University's endowment spending rule is further discussed in Note 2.

Student tuition and residence fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Patient care revenues are reported net of contractual allowances and bad debt expenses. Contractual allowances are estimated based on agreements with third-party payers that provide payments for patient care services at amounts different from established rates. These allowances are subject to the laws and regulations governing the federal and state programs and post-payment audits, and adjusted in future periods as final settlements are determined. Patient care services are primarily provided through the University's health system, which includes University Health Service, which offers health care services to students, faculty and staff, and Dental Faculty Associates, which offers dental care services performed by faculty dentists.

Patient care services are provided to patients who meet certain criteria under the University's charity care policies without charge or at amounts less than its established rates. Accordingly, charity care is not reported as revenue in the accompanying statement of revenues, expenses and changes in net position. Charges forgone for charity care services totaled $62,596,000 and $94,292,000 in 2021 and 2020, respectively.

Other auxiliary enterprise revenues primarily represent revenues generated by intercollegiate athletics, parking, student unions and student publications.

The University's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses result from exchange transactions.

Certain significant revenue streams relied upon for operations result from nonexchange transactions and are recorded as nonoperating revenues including state appropriations, federal Pell grants, gifts and investment income.

Federal economic relief funds represent amounts received from the federal government to provide economic assistance to entities that have been negatively impacted by the COVID-19 pandemic. During 2021 and 2020, the University received payments primarily from three programs, the Provider Relief Fund, the Higher Education Emergency Relief Fund and the Coronavirus Relief Fund.

The Provider Relief Fund is administered through the U.S. Department of Health and Human Services and offers funding to hospitals and health care providers to support expenses incurred or revenues lost associated with the COVID-19 pandemic. Funds received are recognized into revenue as the University identifies eligible expenditures or lost revenues which qualify for reimbursement. Revenue recognized under the terms of this program totaled $135,325,000 and $134,670,000 in 2021 and 2020, respectively.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

The Higher Education Emergency Relief Fund is administered through the U.S. Department of Education and was designed to facilitate the distribution of emergency financial aid grants directly to students, as well as to provide funding for institutions negatively impacted by the COVID-19 pandemic. Under the terms of the student portion of this program, revenue is recognized once eligible expenditures associated with the distribution of aid to students have been incurred. For the institutional portions of this program, revenue is recognized as the University identifies eligible expenditures or lost revenues which qualify for reimbursement. Revenue recognized under the terms of this program totaled $77,055,000 and $9,159,000 in 2021 and 2020, respectively.

The Coronavirus Relief Fund is administered through the U.S. Department of the Treasury and provides assistance to state, local and tribal governments to support expenses incurred due to the public health emergency associated with the COVID-19 pandemic. Funds received from the state of Michigan are recognized into revenue as the University identifies eligible expenditures which qualify for reimbursement. Revenue recognized under the terms of this program totaled $42,380,000 in 2021.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The most significant areas that require management estimates relate to self-insurance and benefits obligations.

Note 2—Cash and Investments

Summary: The University maintains centralized management for substantially all of its cash and investments.

Working capital of individual University units is primarily invested in the University Investment Pool ("UIP"). Together with the University's short-term insurance and other benefits reserves, the UIP is invested in the Daily and Monthly Portfolios, which are principally invested in investment-grade money market securities, U.S. government and other fixed income securities, and absolute return strategies.

The University collectively invests substantially all of the assets of its endowment funds along with a portion of its insurance and benefits reserves, charitable remainder trusts and gift annuity program in the Long Term Portfolio. The longer investment horizon of the Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits

Note 2—Cash and Investments—Continued

the use of less liquid alternative investments, providing for equity diversification beyond the stock markets. The Long Term Portfolio includes investments in domestic and non-U.S. stocks and bonds, commingled funds and limited partnerships consisting of venture capital, private equity, real estate, natural resources and absolute return strategies.

The University also separately invests certain endowments and charitable remainder trusts, unexpended bond proceeds and other funds with investment restrictions outside of the Daily, Monthly and Long Term Portfolios.

The University holds invested funds as a result of agency relationships with various groups that are considered fiduciary in nature. Funds received are invested in either UIP, or the University Endowment Fund ("UEF"), a comingled pool invested entirely in the Long Term Portfolio. The University establishes the fair value of the UIP at $1.00 per share and any participant in the pool may purchase or redeem shares at that price. The University determines the fair value of UEF shares at the end of each calendar quarter based on the fair value of the pool. Participants may purchase or redeem UEF shares at fair value at each valuation date, subject to minimum holding and notice requirements.

Given the comingled nature of the underlying pools in which the UIP and UEF invest, unitized shares are not specifically associated with individual investments. Therefore, the University's investment activities as presented within the consolidated statement of cash flows as well as this note are presented gross, with a corresponding adjustment to remove the fiduciary custodial activities that are presented within the statement of fiduciary net position and statement of changes in fiduciary net position.

Authorizations: The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio sets general targets for both equities and fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories.

The endowment spending rule provides for distributions from the UEF to the entities that benefit from the endowment fund. The annual distribution rate is 4.5 percent of the one-quarter lagged seven year moving average fair value of fund shares. To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Distributions are also made from the UIP based on the 90-day U.S. Treasury Bill rate. The University's costs to administer and grow the UEF and UIP are funded by investment returns.

Note 2—Cash and Investments—Continued

Cash and Cash Equivalents and Unexpended Bond Proceeds: Cash and cash equivalents, which totaled $1,003,846,000 and $1,275,401,000 at June 30, 2021 and 2020, respectively, represent cash and short-term money market investments in mutual funds, overnight collective funds managed by the University's custodian or short-term highly liquid investments registered as securities and held by the University or its agents in the University's name. Of its cash and cash equivalents, the University had actual cash balances in its bank accounts in excess of Federal Deposit Insurance Corporation limits in the amount of $72,126,000 and $84,860,000 at June 30, 2021 and 2020, respectively. The University does not require its deposits to be collateralized or insured.

Unexpended bond proceeds, which totaled $52,451,000 and $125,905,000 at June 30, 2021 and 2020, respectively, represent short-term money market investments in mutual funds. These amounts are used solely for the reimbursement of qualifying expenditures for construction projects associated with certain outstanding general revenue bonds issued by the University.

Cash and cash equivalents and unexpended bond proceeds include certain securities that are subject to the leveling requirements defined by GASB. Level 1 securities, which primarily consist of money market funds and U.S. government securities, totaled $926,114,000 and $1,198,773,000 at June 30, 2021 and 2020, respectively. Level 2 securities, which primarily consist of U.S. agencies, totaled $5,500,000 and $59,000,000 at June 30, 2021 and 2020, respectively.

Investments: At June 30, 2021 and 2020, the University's investments, which are held by the University or its agents in the University's name, are summarized as follows:

	2021	**2020**
	(in thousands)	
Cash equivalents, noncurrent	$ 276,168	$ 284,268
Equity securities	752,048	486,404
Fixed income securities	3,010,819	2,075,171
Commingled funds	3,190,302	2,589,411
Nonmarketable alternative investments	13,183,395	9,361,811
Other investments	5,561	11,990
	20,418,293	14,809,055
Less fiduciary custodial funds	274,374	213,617
	$ 20,143,919	$ 14,595,438

Note 2—Cash and Investments—Continued

At June 30, 2021 and 2020, the fair value of the University's investments based on the inputs used to value them is summarized as follows:

	2021				
	Level 1	Level 2	Level 3 (in thousands)	NAV	Total Fair Value
Cash equivalents, noncurrent	$ 276,168	-	-	-	$ 276,168
Equity securities:					
Domestic	155,737		$ 52,154		207,891
Foreign	542,969		1,188		544,157
	698,706	-	53,342	-	752,048
Fixed income securities:					
U.S. Treasury	1,887,542				1,887,542
U.S. government agency		$ 49,513			49,513
Corporate and other		1,068,479	5,285		1,073,764
	1,887,542	1,117,992	5,285	-	3,010,819
Commingled funds:					
Absolute return				$ 2,524,614	2,524,614
Domestic equities	14,060			268,714	282,774
Global equities	49			359,321	359,370
U.S. fixed income	3,092				3,092
Other	20,452				20,452
	37,653	-	-	3,152,649	3,190,302
Nonmarketable alternative investments:					
Venture capital				4,592,803	4,592,803
Absolute return				2,556,764	2,556,764
Private equity			449,800	2,460,896	2,910,696
Real estate			8,658	1,590,549	1,599,207
Natural resources			203,886	1,320,039	1,523,925
	-	-	662,344	12,521,051	13,183,395
Other investments	(2,665)	(1,235)	9,461	-	5,561
	$ 2,897,404	$ 1,116,757	$ 730,432	$ 15,673,700	20,418,293
Less fiduciary custodial funds					274,374
					$ 20,143,919

Note 2—Cash and Investments—Continued

	2020				
	Level 1	Level 2	Level 3 (in thousands)	NAV	Total Fair Value
Cash equivalents, noncurrent	$ 284,268	-	-	-	$ 284,268
Equity securities:					
Domestic	88,599		$ 52,098		140,697
Foreign	344,722		985		345,707
	433,321	-	53,083	-	486,404
Fixed income securities:					
U.S. Treasury	1,405,695				1,405,695
U.S. government agency		$ 31,848			31,848
Corporate and other		626,043	11,585		637,628
	1,405,695	657,891	11,585	-	2,075,171
Commingled funds:					
Absolute return				$ 2,154,259	2,154,259
Domestic equities	9,494			144,541	154,035
Global equities	674			261,379	262,053
U.S. fixed income	3,061				3,061
Other	16,003				16,003
	29,232	-	-	2,560,179	2,589,411
Nonmarketable alternative investments:					
Venture capital				2,673,995	2,673,995
Absolute return				2,174,643	2,174,643
Private equity			279,200	1,701,552	1,980,752
Real estate			8,331	1,347,008	1,355,339
Natural resources			160,993	1,016,089	1,177,082
	-	-	448,524	8,913,287	9,361,811
Other investments	(6)	2,467	9,529	-	11,990
	$ 2,152,510	$ 660,358	$ 522,721	$ 11,473,466	14,809,055
Less fiduciary custodial funds					213,617
					$ 14,595,438

Investments categorized as Level 1 are valued using prices quoted in active markets for those securities. Equity securities categorized as Level 3 represent investments in start-up or venture companies. Fixed income securities categorized as Level 2 represent investments valued using a matrix pricing technique, which values debt securities based on their relationship to a benchmark and the relative spread to that benchmark. Fixed income securities categorized as Level 3 represent debt investments with select venture funded University faculty start-ups. Nonmarketable alternative investments categorized as Level 3 primarily represent direct investments which are valued using models that rely on inputs which are unobservable in the market.

Note 2—Cash and Investments—Continued

The University's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forwards, futures and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net position and is not represented by the contract or notional amounts of the instruments.

Fixed income securities have inherent financial risks, including credit risk and interest rate risk. Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations ("NSROs"), such as S&P Global and Moody's, assign credit ratings to security issues and issuers that indicate a measure of potential credit risk to investors. Fixed income securities considered investment grade are those rated at least BBB by S&P Global and Baa by Moody's. To manage credit risk, the University specifies minimum average and minimum absolute quality NSRO ratings for securities held pursuant to its management agreements.

The University minimizes concentration of credit risk, the risk of a large loss attributed to the magnitude of the investment in a single issuer of fixed income securities, by diversifying its fixed income issues and issuers and holding U.S. Treasury securities which are considered to have minimal credit risk. The University also manages this risk at the account level by limiting each fixed income manager's holding of any non-U.S. government issuer to 5 percent of the value of the investment account.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. Effective duration, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other embedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. The effective duration of a security or portfolio indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The longer the duration, the more sensitive the security or portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income securities was 3.2 years at June 30, 2021 compared to 3.6 years at June 30, 2020. The University manages the effective duration of its fixed income securities at the account level, where fixed income managers generally may not deviate from the duration of their respective benchmarks by more than 25 percent. The Monthly Portfolio held positions in bond futures at June 30, 2021 and 2020, which are used to adjust the duration of cash equivalents and the fixed income portion of the portfolios.

Note 2—Cash and Investments—Continued

The composition of fixed income securities at June 30, 2021 and 2020, along with credit quality and effective duration measures, is summarized as follows:

2021

	U.S. Government	Investment Grade	Non-Investment Grade (in thousands)	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 1,884,675				$ 1,884,675	2.7
U.S. Treasury inflation protected	2,867				2,867	17.1
U.S. government agency	49,513				49,513	5.2
Mortgage backed		$ 40,465	$ 66	$ 10,047	50,578	1.6
Asset backed		111,033		400	111,433	0.8
Corporate and other		845,052	19,927	46,774	911,753	4.5
	$ 1,937,055	$ 996,550	$ 19,993	$ 57,221	$ 3,010,819	3.2

2020

	U.S. Government	Investment Grade	Non-Investment Grade (in thousands)	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 1,396,416				$ 1,396,416	2.1
U.S. Treasury inflation protected	9,279				9,279	8.0
U.S. government agency	31,848				31,848	1.7
Mortgage backed		$ 31,752	$ 299	$ 2,531	34,582	1.9
Asset backed		40,676			40,676	0.9
Corporate and other		527,843	14,431	20,096	562,370	7.8
	$ 1,437,543	$ 600,271	$ 14,730	$ 22,627	$ 2,075,171	3.6

Of the University's fixed income securities, 97 percent and 98 percent were rated investment grade or better at June 30, 2021 and 2020, respectively, and 73 percent and 75 percent of these securities consisted of either U.S. treasury and government agencies or non-U.S. government securities rated AAA/Aaa at June 30, 2021 and 2020, respectively.

Commingled (pooled) funds include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy. These investments are structured to limit the University's risk exposure to the amount of invested capital.

Note 2—Cash and Investments—Continued

Nonmarketable alternative investments consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner. The University's limited partnerships are diversified in terms of manager selection, industry and geographic focus. At June 30, 2021 and 2020, no individual partnership investment represented 5 percent or more of total investments.

Absolute return strategies in the commingled funds and nonmarketable alternative investments classifications include long/short stock programs, merger arbitrage, intra-capital structure arbitrage and distressed debt investments. The goal of absolute return strategies is to provide, in aggregate, a return that is consistently positive and uncorrelated with the overall market.

The University's investments in commingled funds and nonmarketable alternative investments are contractual agreements that may limit the ability to initiate redemptions due to notice periods, lock-ups and gates. Additional information about current redemption terms and outstanding commitments at June 30, 2021 is summarized as follows (amounts in thousands):

	Fair Value	Remaining Life	Outstanding Commitments	Redemption Terms	Redemption Notice
Commingled funds	$ 3,190,302	N/A	$ -	Daily, monthly, quarterly and annually, with varying notice periods	Lock-up provisions range from none to five years
Nonmarketable alternative investments	$ 13,183,395	1-12 years	$ 4,622,311	Ineligible for redemption	N/A

Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Of the University's commingled funds at June 30, 2021 and 2020, 79 percent and 74 percent, respectively, are redeemable within one year, with 65 percent and 55 percent, respectively, redeemable within 90 days under normal market conditions. The remaining amounts are redeemable beyond one year, with redemption of certain funds dependent on disposition of the underlying assets. The University's committed but unpaid obligation to nonmarketable alternative investments is further discussed in Note 14.

Note 2—Cash and Investments—Continued

The University participates in non-U.S. developed and emerging markets through commingled funds invested in non-U.S./global equities and absolute return strategies. Although all of these funds are reported in U.S. dollars, price changes of the underlying securities in local markets as well as changes to the value of local currencies relative to the U.S. dollar are embedded in investment returns. In addition, a portion of the University's equity securities and nonmarketable alternative investments are denominated in foreign currencies, which must be settled in local (non-U.S.) currencies.

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. Forward foreign currency contracts are typically used to manage the risks related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies and are subject to agreements that provide minimum diversification and maximum exposure limits by country and currency.

The value of the University's non-U.S. dollar holdings, net of the value of the outstanding forward foreign exchange contracts, totaled $1,777,448,000 or 9 percent of total investments at June 30, 2021, and $1,377,093,000 or 9 percent of total investments at June 30, 2020, and are summarized as follows:

	2021	2020
	(in thousands)	
Euro	$ 885,763	$ 840,583
British pound sterling	279,092	173,115
Swedish krona	236,595	100,114
Canadian dollar	143,015	43,004
Japanese yen	135,042	129,016
Norwegian krone	51,616	63,875
Other	46,325	27,386
	$ 1,777,448	$ 1,377,093

The Long Term Portfolio and the Monthly Portfolio participate in a short-term, fully collateralized, securities lending program administered by the University's master custodian. Together, the Portfolios had $21,472,000 and $15,989,000 in securities loans outstanding at June 30, 2021 and 2020, respectively. At loan inception, an approved borrower must deliver collateral of cash, securities or letters of credit to the University's lending agent equal to 102 percent of fair

Note 2—Cash and Investments—Continued

value for domestic securities and 105 percent for foreign securities. Collateral positions are monitored daily to ensure that borrowed securities are never less than 100 percent collateralized. At June 30, 2021, collateral of $22,227,000 (104 percent of securities on loan) includes invested cash of $20,040,000 and U.S. government securities of $2,187,000, while at June 30, 2020, collateral of $16,607,000 (104 percent of securities on loan) includes invested cash of $8,728,000 and U.S. government securities of $7,879,000.

Cash collateral held by the University's lending agent, along with the offsetting liability to return the collateral at loan termination, are recorded in the statement of net position. Neither the University nor its securities lending agent has the ability to pledge or sell securities received as collateral unless a borrower defaults. Securities loans may be terminated upon notice by either the University or the borrower.

Note 3—Accounts Receivable

The composition of accounts receivable at June 30, 2021 and 2020 is summarized as follows:

	2021	**2020**
	(in thousands)	
Patient care	$ 778,548	$ 439,345
Sponsored programs	177,384	153,470
State appropriations, educational and capital	71,804	70,732
Student accounts	38,445	43,327
Other	45,947	38,500
	1,112,128	745,374
Less allowance for uncollectible accounts receivable:		
Patient care	131,628	110,131
State educational appropriations		41,664
All other	9,900	9,722
	$ 970,600	$ 583,857

During 2020, the state of Michigan experienced a reduction to its overall revenues due to the economic impact of the COVID-19 pandemic, which created uncertainty regarding the timing and amount of the University's state appropriations payments. In July 2020, the State amended its 2020 appropriations bill to replace $41,664,000 of the University's state educational appropriations with Coronavirus Relief Funds. The University considered this amendment to be a recognized subsequent event relative to contingencies that existed at June 30, 2020, and therefore established a corresponding valuation allowance as of that date.

Note 4—Notes and Pledges Receivable

The composition of notes and pledges receivable at June 30, 2021 and 2020 is summarized as follows:

	2021	2020
	(in thousands)	
Notes:		
Federal student loan programs	$ 54,341	$ 63,134
University student loan funds	14,233	14,777
Other	7,909	5,664
	76,483	83,575
Less allowance for uncollectible notes	3,100	3,134
Total notes receivable, net	73,383	80,441
Gift pledges:		
Capital	94,264	119,205
Operations	212,471	186,723
	306,735	305,928
Less:		
Allowance for uncollectible pledges	7,407	7,488
Unamortized discount to present value	3,449	4,444
Total pledges receivable, net	295,879	293,996
Total notes and pledges receivable, net	369,262	374,437
Less current portion	108,708	98,723
	$ 260,554	$ 275,714

The principal repayment and interest rate terms of federal and University loans vary considerably. The allowance for uncollectible notes only applies to University funded loans and the University portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to the University under the Perkins and various health professions loan programs.

Note 4—Notes and Pledges Receivable—Continued

Payments on pledges receivable at June 30, 2021 are expected to be received in the following years ended June 30 (in thousands):

2022	$ 92,921
2023	57,687
2024	65,712
2025	32,844
2026	21,050
2027 and after	36,521
	$ 306,735

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $129,158,000 and $140,439,000 at June 30, 2021 and 2020, respectively, are not recognized as assets in the accompanying financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met due to uncertainties with regard to their realizability and valuation.

Note 5—Capital Assets

Capital assets activity for the years ended June 30, 2021 and 2020 is summarized as follows:

	2021			
	Beginning Balance	Additions (in thousands)	Retirements	Ending Balance
Land	$ 153,218	$ 1,897	$ 4	$ 155,111
Land improvements	163,626	5,671	1,176	168,121
Infrastructure	264,778	96		264,874
Buildings	9,608,386	516,904	55,670	10,069,620
Construction in progress	635,515	(153,610)		481,905
Equipment	2,241,083	91,249	99,717	2,232,615
Library materials	699,201	25,471		724,672
	13,765,807	487,678	156,567	14,096,918
Less accumulated depreciation	7,492,799	566,848	149,792	7,909,855
	$ 6,273,008	$ (79,170)	$ 6,775	$ 6,187,063

	2020			
	Beginning Balance	Additions (in thousands)	Retirements	Ending Balance
Land	$ 153,310		$ 92	$ 153,218
Land improvements	160,301	$ 3,666	341	163,626
Infrastructure	264,757	21		264,778
Buildings	9,412,876	224,134	28,624	9,608,386
Construction in progress	413,207	222,308		635,515
Equipment	2,242,493	143,259	144,669	2,241,083
Library materials	674,491	24,710		699,201
	13,321,435	618,098	173,726	13,765,807
Less accumulated depreciation	7,094,466	566,694	168,361	7,492,799
	$ 6,226,969	$ 51,404	$ 5,365	$ 6,273,008

The decrease in construction in progress of $153,610,000 in 2021 represents the amount of capital expenditures for new projects of $359,238,000 net of assets placed in service of $512,848,000. The increase in construction in progress of $222,308,000 in 2020 represents the amount of capital expenditures for new projects of $501,330,000 net of assets placed in service of $279,022,000.

Note 6—Long-term Debt

Long-term debt at June 30, 2021 and 2020 is summarized as follows:

	2021	2020
	(in thousands)	
Commercial paper:		
Tax-exempt, variable rate (0.11%)*	$ 149,305	$ 133,585
Taxable, variable rate (0.08%)*	4,220	1,720
General revenue bonds:		
Series 2020A, 4.00% to 5.00% through 2050	138,430	138,430
unamortized premium	35,589	37,469
Series 2020B, taxable, 1.004% to 2.562% through 2050	850,025	850,025
Series 2019A, 5.00% through 2036	132,140	140,470
unamortized premium	20,674	23,721
Series 2019B, taxable, 2.706% to 3.416% through 2029	13,765	15,280
Series 2019C, 4.00% through 2049	61,725	61,725
unamortized premium	5,443	5,696
Series 2018A, 4.00% to 5.00% through 2048	130,025	132,640
unamortized premium	15,915	16,941
Series 2017A, 4.00% to 5.00% through 2047	420,990	434,505
unamortized premium	60,910	66,527
Series 2015, 4.00% to 5.00% through 2046	280,950	287,170
unamortized premium	38,791	41,662
Series 2014A, 4.25% to 5.00% through 2044	70,425	72,375
unamortized premium	5,201	5,621
Series 2014B, taxable, 2.922% to 3.516% through 2024	2,945	3,890
Series 2013A, 2.50% to 5.00% through 2029	40,780	42,180
unamortized premium	1,005	1,209
Series 2012A, variable rate (0.02%)* through 2036	50,000	50,000
Series 2012B, variable rate (0.01%)* through 2042	65,000	65,000
Series 2012D-1, variable rate (0.01%)* through 2025 with partial swap to fixed through 2025	48,915	52,870
Series 2012D-2, variable rate (0.02%)* through 2030 with partial swap to fixed through 2026	49,025	53,750
Series 2012E**, variable rate (0.30%)* through 2033	82,020	94,015
Series 2010A, taxable Build America Bonds, 4.926% to 5.593% through 2040	163,110	163,110
Series 2010D, taxable Build America Bonds, 3.606% to 5.333% through 2041	148,205	149,755
Series 2009B, variable rate (0.10%)* through 2039	118,710	118,710
Series 2008A, variable rate (0.01%)* through 2038	57,085	57,085
Series 2008B, variable rate (0.02%)* through 2028 with partial swap to fixed through 2026	52,715	59,035
	3,314,038	3,376,171
Less:		
Commercial paper and current portion of bonds payable	235,875	215,658
Long-term bonds payable subject to remarketing, net	300,542	441,450
	$ 2,777,621	$ 2,719,063

* Denotes variable rate at June 30, 2021
** Denotes variable rate bonds not subject to remarketing

Note 6—Long-term Debt—Continued

Certain variable rate bonds have remarketing features which allow bondholders to put debt back to the University. Accordingly, these variable rate bonds are classified as current unless supported by liquidity agreements, such as lines of credit or standby bond purchase agreements, which can refinance the debt on a long-term basis. The classification of the University's variable rate bonds payable subject to remarketing at June 30, 2021 and 2020 is summarized as follows:

	2021	**2020**
	(in thousands)	
Variable rate bonds payable subject to remarketing	$ 441,450	$ 456,450
Less:		
Current principal maturities	15,645	15,000
Long-term liquidity agreements:		
Unsecured lines of credit	125,263	
Long-term bonds payable subject to remarketing, net	$ 300,542	$ 441,450

The University's available lines of credit totaled $1,247,085,000 and were entirely unused at both June 30, 2021 and 2020.

In connection with certain issues of variable rate debt, the University has entered into floating-to-fixed interest rate swaps to convert all or a portion of the associated variable rate debt to synthetic fixed rates to protect against the potential of rising interest rates. The fair value, significant terms and other information about the University's interest rate swaps is discussed in Note 7.

Note 6—Long-term Debt—Continued

Long-term debt activity for the years ended June 30, 2021 and 2020 is summarized as follows:

	2021			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Commercial paper	$ 135,305	$ 164,875	$ 146,655	$ 153,525
Bonds	3,240,866		80,353	3,160,513
	$ 3,376,171	$ 164,875	$ 227,008	$ 3,314,038

	2020			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Commercial paper	$ 145,240		$ 9,935	$ 135,305
Bonds	2,329,697	$ 1,026,022	114,853	3,240,866
Other	91		91	
	$ 2,475,028	$ 1,026,022	$ 124,879	$ 3,376,171

The University maintains a combination of variable and fixed rate debt supported by general revenues, with effective interest rates that averaged 2.5 percent and 2.9 percent in 2021 and 2020, respectively, including federal subsidies for interest on taxable Build America Bonds.

The University utilizes commercial paper to provide interim financing for its capital improvement program. The Board of Regents has authorized the issuance of up to $300,000,000 in commercial paper backed by a general revenue pledge. Outstanding commercial paper debt is converted to long-term debt financing, as appropriate, within the normal course of business.

During 2020, the University issued $988,455,000 of General Revenue Bonds with a net original issue premium of $37,567,000, which included $138,430,000 of fixed rate, tax-exempt bonds Series 2020A and $850,025,000 of fixed rate, taxable bonds Series 2020B. Total bond proceeds of $1,026,022,000 were utilized to refund existing bonds of $26,023,000 and provide $149,700,000 for capital projects, $848,063,000 for capital projects, refunding of debt and general purposes, and $2,236,000 for debt issuance costs.

Note 6—Long-term Debt—Continued

Deferred outflows associated with the University's refunding activity totaled $4,064,000 and $6,078,000 at June 30, 2021 and 2020, respectively, which will be amortized into interest expense over the remaining life of the refunded bonds.

Debt obligations are generally callable by the University and mature at various dates through fiscal 2050. Principal maturities, including interest on debt obligations, based on scheduled bond maturities for the next five years and in subsequent five-year periods are as follows:

	Principal	Interest* (in thousands)	Total
2022	$ 220,430	$ 97,256	$ 317,686
2023	81,010	95,361	176,371
2024	95,170	92,725	187,895
2025	198,705	89,470	288,175
2026	99,510	85,184	184,694
2027-2031	590,455	360,003	950,458
2032-2036	515,230	267,940	783,170
2037-2041	791,295	172,355	963,650
2042-2046	182,325	75,876	258,201
2047-2050	356,380	35,712	392,092
Total payments	3,130,510	$ 1,371,882	$ 4,502,392
Plus unamortized premiums	183,528		
	$ 3,314,038		

* Interest on variable rate debt is estimated based on rates in effect at June 30, 2021; amounts do not reflect federal subsidies to be received for Build America Bonds interest

Note 6—Long-term Debt—Continued

The University maintains certain unsecured lines of credit and standby bond purchase agreements that, in accordance with GASB requirements, do not qualify to support the noncurrent classification of variable rate bonds payable subject to remarketing. If all of the variable rate bonds subject to remarketing were put back to the University and these existing unsecured lines of credit and standby bond purchase agreements were not extended upon their current expiration dates, the total principal payments due in 2022 would decrease to $204,785,000, total principal payments due in 2023 would increase to $103,775,000, total principal payments due in 2024 would decrease to $67,850,000, total principal payments due in 2025 would increase to $366,408,000 and total principal payments due in 2026 would increase to $283,732,000. Accordingly, principal payments due in subsequent years would be reduced to $521,995,000 in 2027 through 2031, $376,390,000 in 2032 through 2036, $677,945,000 in 2037 through 2041 and $171,250,000 in 2042 through 2046. Principal payments due in 2047 through 2050 would not change. There would not be a material impact on annual interest payments due to the low variable rate of interest on these bonds.

Note 7—Derivative Instruments

Derivatives held by the University are recorded at fair value in the statement of net position. For hedging derivative instruments that are effective in significantly reducing an identified financial risk, the corresponding change in fair value is deferred and included in the statement of net position. For all other derivative instruments, changes in fair value are reported as investment income or loss.

Note 7—Derivative Instruments—Continued

Derivative instruments held by the University at June 30, 2021 and 2020 are summarized as follows:

	2021	
	Notional Amount	Fair Value
	(in thousands)	
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 97,399	$ (432)
Foreign currency forwards:		
Euro	193,416	(8,305)
New Zealand dollar	144,792	4,769
Swedish krona	165,644	(4,624)
Canadian dollar	83,602	(4,456)
Japanese Yen	240,261	3,250
Australian dollar	140,630	3,241
All other currencies	889,389	10,842
	1,857,734	4,717
Other	25,134	248
	$ 1,980,267	$ 4,533
Floating-to-fixed interest rate swaps on debt	$ 48,815	$ (4,982)
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 60,760	$ (4,739)

	2020	
	Notional Amount	Fair Value
	(in thousands)	
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 29,957	$ (6)
Foreign currency forwards:		
Turkish lira	29,798	(8,074)
Brazil real	7,959	5,592
Norwegian krone	73,382	3,050
Indian rupee	30,362	(2,995)
Czech koruna	14,518	2,156
Mexican peso	10,890	(2,035)
All other currencies	542,244	4,431
	709,153	2,125
Other	14,082	(462)
	$ 753,192	$ 1,657
Floating-to-fixed interest rate swaps on debt	$ 52,760	$ (7,201)
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 71,795	$ (7,187)

Note 7—Derivative Instruments—Continued

The University utilizes bond futures in its investment portfolios to adjust the duration of cash equivalents and fixed income securities, while foreign currency forward contracts are utilized to settle securities and transactions denominated in foreign currencies and manage foreign exchange risk. Other derivative instruments in the University's investment portfolios consist primarily of interest rate swaps, credit default swaps and total return swaps used to carry out investment and portfolio strategies.

In connection with certain issues of variable rate debt, the University has entered into floating-to-fixed interest rate swaps to convert all or a portion of the associated variable rate debt to synthetic fixed rates to protect against the potential of rising interest rates. The fair value of these swaps generally represent the estimated amount that the University would pay to terminate the swap agreements at the statement of net position date, taking into account current interest rates and creditworthiness of the underlying counterparty. The valuation inputs used to determine the fair value of these instruments are considered Level 2, as they rely on observable inputs other than quoted market prices. The notional amount represents the underlying reference of the instrument and does not represent the amount of the University's settlement obligations.

At June 30, 2021 and 2020, the fair value of floating-to-fixed interest rate swaps associated with the University's variable rate debt is ($9,721,000) and ($14,388,000), respectively, and is included in the statement of net position as a component of other liabilities. The deferred outflows associated with the fair value of swaps deemed effective cash flow hedges totaled $3,550,000 and $5,474,000 at June 30, 2021 and 2020, respectively.

The change in fair value of derivative instruments, which includes realized gains and losses on positions closed, for the years ended June 30, 2021 and 2020 is summarized as follows:

	2021	**2020**
	(in thousands)	
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 25,502	$ 25,144
Foreign currency forwards	13,688	53,557
Other	731	(28,758)
	$ 39,921	$ 49,943
Floating-to-fixed interest rate swaps on debt	$ 2,219	$ 234
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 2,448	$ (927)

Note 7—Derivative Instruments—Continued

The University's interest rate swaps, along with their associated variable rate debt and significant terms, are summarized below.

The floating-to-fixed interest rate swap associated with the Series 2008B General Revenue Bonds has a notional amount of $36,000,000 and $42,320,000 at June 30, 2021 and 2020, respectively, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. The University makes payments based on a fixed rate of 3.105 percent and receives variable rate payments from the swap counterparty based on 68 percent of the One-Month USD LIBOR, until the swap terminates in April 2026. The University has the option to terminate the swap upon five business days written notice and payment of the fair market compensation for the value of the swap. This swap is considered an effective hedge at June 30, 2021 and 2020 and has a fair value of ($3,017,000) and ($4,560,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 2012D-2 General Revenue Bonds has a notional amount of $24,760,000 and $29,475,000 at June 30, 2021 and 2020, respectively, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. The University makes payments based on a fixed rate of 3.229 percent and receives variable rate payments from the swap counterparty based on 68 percent of the One-Month USD LIBOR, until the swap terminates in December 2025. The University has the option to terminate the swap upon five business days written notice and payment of the fair market compensation for the value of the swap. This swap is considered an effective hedge at June 30, 2021 and 2020 and has a fair value of ($1,722,000) and ($2,627,000), respectively.

The first floating-to-fixed interest rate swap associated with the Series 2012D-1 General Revenue Bonds has a notional amount of $44,670,000 at both June 30, 2021 and 2020, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. The University makes payments based on a fixed rate of 4.705 percent and receives variable rate payments from the swap counterparty based on the floating Securities Industry and Financial Markets Association ("SIFMA") Municipal Index through the final maturity dates of the underlying bonds in December 2024. The counterparty has the option of terminating the swaps if for any 180-day period the average variable rate is more than 7.0 percent. During 2020, this swap was determined to be ineffective and was reclassified from an effective cash flow hedge to an investment derivative instrument. This swap has a fair value of ($4,886,000) and ($6,858,000) at June 30, 2021 and 2020, respectively.

The second floating-to-fixed interest rate swap associated with the Series 2012D-1 General Revenue Bonds has a notional amount of $4,145,000 and $8,090,000 at June 30, 2021 and 2020, respectively, covering a portion of the principal outstanding and the notional amount decreases

Note 7—Derivative Instruments—Continued

as principal on the underlying bonds is repaid. The University makes payments based on a fixed rate of 4.685 percent and receives variable rate payments based on the floating SIFMA Municipal Index through the final maturity dates of a portion of the underlying bonds in December 2021. The counterparty has the option of terminating the swaps if for any 180-day period the average variable rate is more than 7.0 percent. During 2020, this swap was determined to be ineffective and was reclassified from an effective cash flow hedge to an investment derivative instrument. This swap has a fair value of ($96,000) and ($343,000) at June 30, 2021 and 2020, respectively.

Using rates in effect at June 30, 2021, the projected cash flows for the floating-to-fixed interest rate swaps deemed effective cash flow hedges, along with the debt service requirements of the associated variable rate debt, are summarized as follows:

	Variable Rate Bonds		Swap Payments,	Total
	Principal	Interest	Net	Payments
		(in thousands)		
2022	$ 11,490	$ 19	$ 1,741	$ 13,250
2023	11,925	17	1,362	13,304
2024	12,410	15	971	13,396
2025	12,940	12	559	13,511
2026	12,045	10	157	12,212
2027-2030	40,930	13		40,943
	$ 101,740	$ 86	$ 4,790	$ 106,616

By using derivative financial instruments to hedge exposures to changes in interest rates, the University is exposed to termination risk and basis risk. There is termination risk with floating-to-fixed interest rate swaps as the University or swap counterparty may terminate a swap if the other party fails to perform under the terms of the contract or its credit rating falls below investment grade. Termination risk is the risk that the associated variable rate debt no longer carries a synthetic fixed rate and if at the time of termination a swap has a negative fair value, the University is liable to the counterparty for payment equal to the swap's fair value. The University is also exposed to basis risk as a portion of the variable payments paid to the University by the counterparties are based on a percentage of LIBOR. Basis risk is the risk that changes in the relationship between SIFMA and LIBOR may impact the synthetic fixed rate of the variable rate debt. At June 30, 2021 and 2020, the University is not exposed to credit risk as the swaps have negative fair values.

The University is subject to collateral requirements with its counterparties on certain derivative instrument positions. To meet trading margin requirements for bond futures, the University had cash and U.S. government securities with a fair value of $7,477,000 and $366,000 at June 30, 2021 and 2020, respectively, on deposit with its futures broker as collateral.

Note 8—Self-Insurance

The University is self-insured for medical malpractice, workers' compensation, directors' and officers' liability, property damage, auto liability and general liability through Veritas Insurance Corporation. The University is also self-insured for various employee benefits through internally maintained funds.

Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at present value, discounted at a rate of 5 percent.

Changes in the total reported liability for insurance and benefits obligations for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021	2020
	(in thousands)	
Balance, beginning of year	$ 303,431	$ 231,912
Claims incurred and changes in estimates	948,519	825,721
Claim payments	(812,102)	(754,202)
Balance, end of year	439,848	303,431
Less current portion	269,789	144,827
	$ 170,059	$ 158,604

Note 9—Pension Plan

Metropolitan Hospital has a noncontributory, single-employer defined benefit pension plan, which covered substantially all employees prior to being frozen at December 31, 2007. The plan generally provides benefits based on each employee's years of service and final average earnings, as defined, and does not provide any automatic or ad-hoc cost of living adjustments. The Metropolitan Hospital Board of Directors has the authority to establish and amend benefit provisions of the plan.

The annual pension expense and net pension liability is actuarially calculated using the entry age normal level percent of pay method. Metropolitan Hospital has elected to measure the net pension liability one year prior to the fiscal year end reporting date and amounts measured at June 30, 2020 and 2019 were determined based on an actuarial valuation at October 1, 2019 and 2018, respectively. There are no significant changes known which would impact the net pension liability between the measurement date and the reporting date, other than typical plan experience.

For purposes of the June 30, 2020 and 2019 measurement dates, the number of plan participants consisted of the following:

	2020	**2019**
Active participants	493	545
Vested terminated participants	810	867
Retirees, beneficiaries and disabled participants	465	405
	1,768	1,817

Note 9—Pension Plan—Continued

Changes in the reported net pension liability for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021		
	Total Pension Liability	Plan Fiduciary Net Position (in thousands)	Net Pension Liability
Balance, beginning of year	$ 75,964	$ 77,211	$ (1,247)
Interest cost	4,687		4,687
Changes in assumptions	(3,540)		(3,540)
Differences between expected and actual plan experience	(1,662)		(1,662)
Benefit payments	(7,714)	(7,714)	-
Contributions from the employer		900	(900)
Net investment income:			
Expected investment earnings		4,797	(4,797)
Differences between expected and actual investment earnings		(1,137)	1,137
Balance, end of year	$ 67,735	$ 74,057	$ (6,322)

	2020		
	Total Pension Liability	Plan Fiduciary Net Position (in thousands)	Net Pension Liability
Balance, beginning of year	$ 74,209	$ 77,127	$ (2,918)
Interest cost	4,957		4,957
Changes in assumptions	3,713		3,713
Differences between expected and actual plan experience	(124)		(124)
Benefit payments	(6,791)	(6,791)	-
Contributions from the employer		1,244	(1,244)
Net investment income:			
Expected investment earnings		5,205	(5,205)
Differences between expected and actual investment earnings		426	(426)
Balance, end of year	$ 75,964	$ 77,211	$ (1,247)

The plan fiduciary net position as a percentage of the total pension liability was 109 percent and 102 percent at June 30, 2021 and 2020, respectively.

Note 9—Pension Plan—Continued

Significant actuarial assumptions used at the June 30, 2020 and 2019 measurement dates are as follows:

	2020	2019
Discount rate	7.0%	6.5%
Inflation	2.0%	2.0%
Investment rate of return	7.0%	6.5%
Mortality table	Pri-2012, Scale MP-2019	RP-2014 Employee and Healthy Annuitant, Scale MP-2018

Discount rates are based on the expected rate of return on pension plan investments. The projection of cash flows used to determine the single discount rate for each fiscal year end assumed that employer contributions will be made based on the minimum contribution projection under provisions of ERISA and the Pension Protection Act of 2006, including MAP-21, for future years. Based on the stated assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the future benefit payments of the current plan members for all projection years. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments of 7.0 percent and 6.5 percent at June 30, 2020 and 2019, respectively, was determined using the expected future rates of return for the target asset allocation of the portfolio. The target allocation and best estimate geometric rates of return by asset class are summarized as follows:

	2020		2019	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	25.0%	7.9%	25.0%	6.4%
U.S. mid cap	10.5%	8.6%	10.5%	7.2%
U.S. small cap	6.5%	9.1%	6.5%	7.8%
International developed	14.0%	6.2%	14.0%	5.1%
Emerging market	9.0%	5.7%	9.0%	5.2%
STRIPs	7.0%	4.6%	7.0%	4.5%
Corporate 10+ year	28.0%	4.6%	28.0%	4.9%

Note 9—Pension Plan—Continued

A one-percentage point change in the discount rate would impact the reported net pension liability at June 30, 2021 and 2020 as follows:

	2021		2020	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	(in thousands)			
Net pension liability	$ 7,463	$ (6,250)	$ 8,757	$ (7,292)

The components of pension (income) expense for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021	2020
	(in thousands)	
Interest cost	$ 4,687	$ 4,957
Expected investment earnings	(4,797)	(5,205)
Amortization of deferred outflows and deferred inflows	(1,139)	817
	$ (1,249)	$ 569

Deferred outflows and deferred inflows related to the reported net pension liability at June 30, 2021 and 2020 are summarized as follows:

	2021		2020	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
	(in thousands)			
Changes in assumptions	$ 526	$ 2,021	$ 2,119	$ 44
Differences between expected and actual plan experience		966	217	70
Differences between expected and actual investment earnings	1,377	988	701	2,069
	1,903	3,975	3,037	2,183
Contributions made after measurement date	891		900	
	$ 2,794	$ 3,975	$ 3,937	$ 2,183

Note 9—Pension Plan—Continued

Deferred outflows and deferred inflows related to changes in assumptions and differences between expected and actual experience will be recognized into expense in the following years ended June 30 based upon the average future work life expectancy of plan participants (in thousands):

2022	$ (2,081)
2023	(361)
2024	142
2025	228
	$ (2,072)

The inputs used to determine the fair value of the plan's investments reported at June 30, 2021 and 2020 are summarized as follows:

	2021			
	Level 1	Level 2 (in thousands)	NAV	Total Fair Value
Equity securities	$ 49,482			$ 49,482
Fixed income securities		$ 24,326		24,326
Nonmarketable alternative investments			$ 249	249
	$ 49,482	$ 24,326	$ 249	$ 74,057

	2020			
	Level 1	Level 2 (in thousands)	NAV	Total Fair Value
Equity securities	$ 52,917			$ 52,917
Fixed income securities		$ 22,818		22,818
Nonmarketable alternative investments			$ 1,476	1,476
	$ 52,917	$ 22,818	$ 1,476	$ 77,211

Note 10—Postemployment Benefits

The University provides retiree health and welfare benefits, primarily medical, prescription drug, dental and life insurance coverage, to eligible retirees and their eligible dependents. Substantially all full-time regular University employees may become eligible for these benefits if they reach retirement age while working for the University. For employees retiring on or after January 1, 1987, contributions toward health and welfare benefits are shared between the University and the retiree and can vary based on date of hire, date of retirement, age and coverage elections.

The University also provides income replacement benefits, retirement savings contributions, and health and life insurance benefits to substantially all regular University employees that are enrolled in a University sponsored long-term disability plan and qualify, based on disability status while working for the University, to receive basic or expanded long-term disability benefits. Contributions toward the expanded long-term disability plan are shared between the University and employees and vary based on years of service, annual base salary and coverage elections. Contributions toward the basic long-term disability plan are paid entirely by the University.

These postemployment benefits are provided through single-employer plans administered by the University. The Executive Vice Presidents of the University have the authority to establish and amend benefit provisions of the plans.

Actuarial projections of postemployment benefits are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided and announced future changes at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

The University's reported liability for postemployment benefits obligations is calculated using the entry age normal level percent of pay method. The University has elected to measure the total postemployment liability one year prior to the fiscal year end reporting date and amounts measured at June 30, 2020 and 2019 were determined based on an actuarial valuation at January 1, 2020 and 2019, respectively. There are no significant changes known which would impact the total postemployment liability between the measurement date and the reporting date, other than typical plan experience.

Note 10—Postemployment Benefits—Continued

For purposes of the June 30, 2020 and 2019 measurement dates, the number of plan participants consisted of the following:

	2020		**2019**	
	Retiree Health and Welfare	Long-term Disability	Retiree Health and Welfare	Long-term Disability
Active employees	44,746	38,181	43,380	37,042
Retirees receiving benefits	11,125		10,785	
Surviving spouses	883		898	
Participants receiving disability benefits		555		560
	56,754	38,736	55,063	37,602

Note 10—Postemployment Benefits—Continued

Changes in the reported total liability for postemployment benefits obligations for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 3,172,947	$ 304,541	$ 3,477,488
Service cost	118,293	33,632	151,925
Interest cost	114,122	11,299	125,421
Changes in assumptions	713,614	17,606	731,220
Differences between expected and actual plan experience	26,070	(7,294)	18,776
Benefit payments	(61,750)	(30,934)	(92,684)
Balance, end of year	4,083,296	328,850	4,412,146
Less current portion	62,869	32,712	95,581
	$ 4,020,427	$ 296,138	$ 4,316,565

	2020		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 2,815,041	$ 299,014	$ 3,114,055
Service cost	102,097	32,018	134,115
Interest cost	111,804	12,219	124,023
Changes in assumptions	156,047	(1,270)	154,777
Differences between expected and actual plan experience	44,773	(6,543)	38,230
Benefit payments	(56,815)	(30,897)	(87,712)
Balance, end of year	3,172,947	304,541	3,477,488
Less current portion	61,750	30,934	92,684
	$ 3,111,197	$ 273,607	$ 3,384,804

Since a portion of retiree medical services will be provided by the University's health system, the reported liability for postemployment benefits obligations is net of the related margin and fixed costs associated with providing those services which totaled $794,964,000 and $628,624,000 at June 30, 2021 and 2020, respectively.

Note 10—Postemployment Benefits—Continued

The University's liability for postemployment benefits obligations is not reduced by the anticipated Medicare Retiree Drug Subsidy for future periods. This subsidy would reduce the total postemployment benefits liability by approximately $443,000,000 and $353,000,000 at June 30, 2021 and 2020, respectively.

Assets used to fund postemployment benefits are not maintained in a separate legal trust. The University has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. The University's reported postemployment benefits obligations at June 30, 2021 and 2020 as a percentage of covered payroll of $4,255,709,000 and $4,214,627,000 were 104 percent and 83 percent, respectively.

Significant actuarial assumptions used at the June 30, 2020 and 2019 measurement dates are as follows:

	2020	**2019**
Discount rate*	2.21%	3.50%
Inflation rate	2.00%	2.00%
Immediate/ultimate administrative trend rate	0.0%/3.0%	0.0%/3.0%
Immediate/ultimate medical trend rate	6.0%/4.5%	6.0%/4.5%
Immediate/ultimate Rx trend rate	7.25%/4.5%	7.5%/4.5%
Increase in compensation rate**	0.0%/0.0%/3.75%	4.00%
Mortality table***	PUB-2010 Teachers Head Count Table, Scale MP-2019	PUB-2010 Teachers Head Count Table, Scale MP-2018
Average future work life expectancy (years):		
Retiree health and welfare	9.04	9.03
Long-term disability	11.46	11.34

* Bond Buyer 20-year General Obligation Municipal Bond Index as of the last publication of the measurement period

** Beginning with the June 30, 2020 measurement date, estimates are provided for faculty, staff and union employees

*** Based on the University's study of mortality experience from 2015-2019

Note 10—Postemployment Benefits—Continued

A one-percentage point change in the discount rate and assumed health care cost trend rates would impact the reported total liability for postemployment benefits obligations at June 30, 2021 and 2020 as follows:

	2021		2020	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	(in thousands)			
Discount rate:				
Retiree health and welfare	$ 948,617	$ (726,846)	$ 692,685	$ (534,811)
Long-term disability	$ 12,530	$ (10,140)	$ 10,615	$ (10,820)
Health care cost trend rates:				
Retiree health and welfare	$ (807,936)	$ 1,102,842	$ (588,152)	$ 793,519
Long-term disability	$ (17,191)	$ 17,486	$ (10,598)	$ 10,829

The components of postemployment benefits expense for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021		
	Retiree Health and Welfare	Long-term Disability	Total
	(in thousands)		
Service cost	$ 118,293	$ 33,632	$ 151,925
Interest cost	114,122	11,299	125,421
Amortization of deferred outflows and deferred inflows	82,332	3,346	85,678
	$ 314,747	$ 48,277	$ 363,024

	2020		
	Retiree Health and Welfare	Long-term Disability	Total
	(in thousands)		
Service cost	$ 102,097	$ 32,018	$ 134,115
Interest cost	111,804	12,219	124,023
Amortization of deferred outflows and deferred inflows	508	2,446	2,954
	$ 214,409	$ 46,683	$ 261,092

Note 10—Postemployment Benefits—Continued

Deferred outflows and deferred inflows related to the reported total liability for postemployment benefits obligations at June 30, 2021 and 2020 are summarized as follows:

	2021		2020	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
	(in thousands)			
Changes in assumptions	$ 905,690	$ 329,105	$ 300,209	$ 384,678
Differences between expected and actual plan experience	111,758	16,253	102,910	10,669
	1,017,448	345,358	403,119	395,347
Benefit payments made after measurement date	95,581		92,684	
	$ 1,113,029	$ 345,358	$ 495,803	$ 395,347

Deferred outflows and deferred inflows related to changes in assumptions and the differences between expected and actual plan experience will be recognized into expense in the following years ended June 30 based upon the average future work life expectancy of plan participants (in thousands):

2022	$ 85,678
2023	85,678
2024	85,678
2025	85,678
2026	73,656
2027 and beyond	255,722
	$ 672,090

Note 11—Retirement Plan

The University has a defined contribution retirement plan for all qualified employees through TIAA and Fidelity Management Trust Company ("FMTC") mutual funds. All regular and supplemental instructional and primary staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA, or accounts with FMTC, and are fully vested.

For payroll covered under the plan, eligible employees generally contribute 5 percent of their pay and the University generally contributes 10 percent of employees' pay to the plan. The University contribution commences after an employee has completed one year of employment. Participants may elect to contribute additional amounts to the plans within specified limits that are not matched by University contributions. Contributions and covered payroll under the plan (excluding participants' additional contributions) for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021	**2020**
	(in thousands)	
University contributions	$ 264,244	$ 324,186
Employee contributions	$ 170,622	$ 169,014
Payroll covered under plan	$ 4,255,709	$ 4,214,627
Total payroll	$ 4,400,615	$ 4,389,523

Note 12—Net Position

The composition of net position at June 30, 2021 and 2020 is summarized as follows:

	2021	2020
	(in thousands)	
Net investment in capital assets	$ 3,677,053	$ 3,767,199
Restricted:		
Nonexpendable:		
Permanent endowment corpus	2,625,459	2,483,225
Expendable:		
Net appreciation of permanent endowments	3,684,197	2,055,430
Funds functioning as endowment	2,973,422	2,259,664
Restricted for operations and other	924,677	851,709
Unrestricted	5,622,372	3,109,773
	$ 19,507,180	$ 14,527,000

Unrestricted net position is not subject to externally imposed stipulations; however, it is subject to internal restrictions. For example, unrestricted net position may be designated for specific purposes by action of management or the Board of Regents. At June 30, 2021 and 2020, substantially all of the unrestricted net position has been designated for various academic programs, research initiatives and capital projects.

Note 13—Federal Direct Lending Program

The University distributed $311,608,000 and $316,410,000 during the years ended June 30, 2021 and 2020, respectively, for student loans through the U.S. Department of Education ("DoED") Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements. The statement of net position includes a receivable of $1,065,000 and $1,604,000 at June 30, 2021 and 2020, respectively, for DoED funding received subsequent to distribution.

Note 14—Commitments and Contingencies

Authorized expenditures for construction and other projects unexpended at June 30, 2021 were $1,130,427,000. Of these expenditures, the University expects that $1,033,751,000 will be funded by internal sources, gifts, grants and proceeds from borrowings; $44,225,000 by the State Building Authority and the remaining $52,451,000 will be funded using unexpended bond proceeds.

Under the terms of various limited partnership agreements approved by the Board of Regents or University officers, the University is obligated to make periodic payments for advance commitments to venture capital, private equity, real estate, natural resources and absolute return strategies. At June 30, 2021, the University had committed, but not paid, a total of $4,622,311,000 in funding for these alternative investments. Based on historical capital calls and discussions with those managing the limited partnerships, outstanding commitments for such investments are anticipated to be paid in the following years ended June 30 (in thousands):

2022	$ 1,703,560
2023	1,078,304
2024	594,724
2025	464,645
2026	285,849
2027 and beyond	495,229
	$ 4,622,311

These commitments are generally able to be called prior to an agreed commitment expiration date and therefore may occur earlier or later than estimated.

The University has entered into capital and operating leases for certain space and equipment, which expire at various dates through 2039. Outstanding commitments for these leases are expected to be paid in the following years ended June 30:

	Capital (in thousands)	Operating
2022	$ 8,310	$ 46,027
2023	8,392	40,038
2024	8,280	35,771
2025	8,482	31,992
2026	8,619	21,435
2027-2031	45,572	46,828
2032-2036	38,376	16,984
2037-2039	9,936	
	135,967	$ 239,075
Less amount representing interest	58,076	
Present value of minimum lease payments	$ 77,891	

Note 14—Commitments and Contingencies—Continued

Operating lease expenses totaled $48,247,000 and $49,215,000 in 2021 and 2020, respectively.

Substantial amounts are received and expended by the University under federal and state programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, patient care and other programs. The University believes that any liabilities arising from such audits will not have a material effect on its financial position.

The University is a party to various pending legal actions and other claims in the normal course of business, and is of the opinion that the outcome of these proceedings will not have a material adverse effect on its financial position.

The University has been served with complaints (or waived service) in cases brought by plaintiffs who allege that Robert Anderson, a former University doctor who died in 2008, sexually assaulted them decades ago. The extent of the impact to the University's financial position and results of operations arising from these complaints cannot be fully determined at this time.

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact the University's financial position and its results of operations, including those related to instruction, research, patient care and other auxiliary activities. While the University continues to design and execute plans to mitigate these risks, the extent of the impact to the University will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time.

Note 15—Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021				
	Compensation and Benefits	Supplies and Services	Depreciation (in thousands)	Scholarships and Fellowships	Total
Instruction	$ 1,092,866	$ 82,550			$ 1,175,416
Research	616,727	236,466			853,193
Public service	191,972	95,896			287,868
Academic support	310,667	49,516			360,183
Student services	107,156	24,979			132,135
Institutional support	191,449	165,771			357,220
Operations and maintenance of plant	93,937	177,968			271,905
Auxiliary enterprises	3,532,681	1,781,221			5,313,902
Depreciation			$ 566,848		566,848
Scholarships and fellowships				$ 200,431	200,431
	$ 6,137,455	$ 2,614,367	$ 566,848	$ 200,431	$ 9,519,101

	2020				
	Compensation and Benefits	Supplies and Services	Depreciation (in thousands)	Scholarships and Fellowships	Total
Instruction	$ 1,074,171	$ 130,602			$ 1,204,773
Research	603,920	258,893			862,813
Public service	137,962	68,472			206,434
Academic support	294,759	65,199			359,958
Student services	106,563	25,959			132,522
Institutional support	209,173	78,203			287,376
Operations and maintenance of plant	91,458	232,618			324,076
Auxiliary enterprises	3,531,907	1,714,668			5,246,575
Depreciation			$ 566,694		566,694
Scholarships and fellowships				$ 173,073	173,073
	$ 6,049,913	$ 2,574,614	$ 566,694	$ 173,073	$ 9,364,294

Note 16—UM Health

Condensed financial information for UM Health, a blended component unit, before the elimination of certain intra-University transactions, at and for the years ended June 30, 2021 and 2020 is as follows:

	2021	2020
	(in thousands)	
Condensed Statement of Net Position		
Assets:		
Current assets	$ 126,853	$ 128,493
Noncurrent assets	296,484	265,182
Total assets	423,337	393,675
Deferred outflows	2,589	5,535
Liabilities:		
Current liabilities	87,493	86,184
Noncurrent liabilities	210,574	220,892
Total liabilities	298,067	307,076
Deferred inflows	6,288	4,662
Net position:		
Net investment in capital assets	61,043	31,229
Restricted:		
Nonexpendable	682	682
Expendable	14,853	14,252
Unrestricted	44,993	41,309
Total net position	$ 121,571	$ 87,472
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Operating revenues	$ 508,348	$ 465,138
Operating expenses other than depreciation expense	459,556	439,535
Depreciation expense	22,459	21,195
Operating income	26,333	4,408
Nonoperating (expenses) revenues, net	(2,855)	9,144
Other expenses, net	(2,379)	(4,572)
Net revenues before transfers	21,099	8,980
Transfers from other University units	13,000	
Increase in net position	34,099	8,980
Net position, beginning of year	87,472	78,492
Net position, end of year	$ 121,571	$ 87,472
Condensed Statement of Cash Flows		
Net cash provided by operating activities	$ 37,892	$ 71,492
Net cash provided by noncapital financing activities	2,463	36,339
Net cash used in capital and related financing activities	(56,575)	(44,128)
Net cash provided by (used in) investing activities	4,939	(1,220)
Net (decrease) increase in cash and cash equivalents	(11,281)	62,483
Cash and cash equivalents, beginning of year	68,660	6,177
Cash and cash equivalents, end of year	$ 57,379	$ 68,660

UNIVERSITY OF MICHIGAN

Required Supplementary Information (Unaudited)

Pension Plan

Changes in the reported net pension liability for the years ended June 30 are summarized as follows (amounts in thousands):

	2021	2020	2019	2018	2017
Total Pension Liability					
Interest cost	$ 4,687	$ 4,957	$ 4,930	$ 5,013	$ 4,482
Changes in assumptions	(3,540)	3,713	(273)	(822)	(24,906)
Differences between expected and actual plan experience	(1,662)	(124)	1,361	(767)	2,067
Benefit payments	(7,714)	(6,791)	(4,489)	(4,712)	(4,089)
Net change in total pension liability	(8,229)	1,755	1,529	(1,288)	(22,446)
Total pension liability, beginning of year	75,964	74,209	72,680	73,968	96,414
Total pension liability, end of year	$ 67,735	$ 75,964	$ 74,209	$ 72,680	$ 73,968
Plan Fiduciary Net Position					
Benefit payments	$ (7,714)	$ (6,791)	$ (4,489)	$ (4,712)	$ (4,089)
Contributions from the employer	900	1,244	1,047	2,171	2,903
Net investment income:					
Expected investment earnings	4,797	5,205	5,234	4,848	3,166
Differences between expected and actual investment earnings	(1,137)	426	(1,168)	3,664	1,316
Net change in plan fiduciary net position	(3,154)	84	624	5,971	3,296
Plan fiduciary net position, beginning of year	77,211	77,127	76,503	70,532	67,236
Plan fiduciary net position, end of year	$ 74,057	$ 77,211	$ 77,127	$ 76,503	$ 70,532
Net pension liability, end of year	$ (6,322)	$ (1,247)	$ (2,918)	$ (3,823)	$ 3,436
Plan fiduciary net position as a percentage of the total pension liability	109%	102%	104%	105%	95%

Pension Plan—Continued

Employer contributions in relation to actuarially determined contributions for the years ended June 30 are as follows:

	Employer Contributions*	Actuarially Determined Contributions (in thousands)	(Deficient) Excess Contributions
2021	$ 891	$ 2,133	$ (1,242)
2020	$ 900	$ 1,336	$ (436)
2019	$ 1,244	$ 393	$ 851
2018	$ 1,047	$ 1,622	$ (575)
2017	$ 2,171	$ 1,754	$ 417

* Reflects no employer contributions after April 30 of the respective fiscal year

Significant methods and assumptions used to calculate the actuarially determined contributions for the years ended June 30 are as follows:

Actuarially determined contributions — The plan is subject to funding requirements under the provisions of ERISA and the Pension Protection Act of 2006 (including MAP-21, HATFA and BBA). The actuarially determined contributions represent the IRC Section 430 minimum required contributions.

Contributions in relation to actuarially determined contributions — Under IRC Section 430, the due date to pay minimum required contributions for the plan year is generally 8½ months after the end of the plan year. For the plan years ended September 30, contributions are due by June 15 of the following year.

Actuarial cost method — Unit Credit method

Asset valuation method — 24-month smoothed value of assets

Interest rate

	First Segment Rate	Second Segment Rate	Third Segment Rate	Effective Rate
2021	3.74%	5.35%	6.11%	5.57%
2020	3.92%	5.52%	6.29%	5.73%
2019	4.16%	5.72%	6.48%	5.94%
2018	4.16%	5.72%	6.48%	5.93%
2017	4.43%	5.91%	6.65%	6.13%

Mortality — Tables prescribed by the Secretary of Treasury.

Postemployment Benefits

The historical reconciliation of the reported total liability for postemployment benefits obligations for the years ended June 30 is summarized as follows (amounts in thousands):

	2021	2020
Service cost	$ 151,925	$ 134,115
Interest cost	125,421	124,023
Changes in assumptions	731,220	154,777
Differences between expected and actual plan experience	18,776	38,230
Benefit payments	(92,684)	(87,712)
Net change	$ 934,658	$ 363,433
Total liability, end of year	$ 4,412,146	$ 3,477,488
Covered employee payroll	$ 4,255,709	$ 4,214,627
Total liability as a percentage of covered employee payroll	104%	83%

	2019	2018	2017
Service cost	$ 141,933	$ 143,787	$ 122,073
Interest cost	121,800	94,153	108,561
Changes in assumptions	(383,315)	(107,874)	255,041
Differences between expected and actual plan experience	17,535	52,721	14,028
Benefit payments	(87,638)	(77,374)	(72,302)
Net change	$ (189,685)	$ 105,413	$ 427,401
Total liability, end of year	$ 3,114,055	$ 3,303,740	$ 3,198,327
Covered employee payroll	$ 4,013,983	$ 3,792,553	$ 3,568,918
Total liability as a percentage of covered employee payroll	78%	87%	90%

Discount rates used in determining the reported total liability for postemployment benefits obligations at June 30 are as follows:

2021	2.21%
2020	3.50%
2019	3.87%
2018	3.58%
2017	2.85%
2016	3.80%

UNIVERSITY OF MICHIGAN HEALTH SYSTEM

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 and 2020
with
REPORT OF INDEPENDENT AUDITORS

UNIVERSITY OF MICHIGAN HEALTH SYSTEM

June 30, 2021 and 2020

Page(s)

Report of Independent Auditors

To the Regents of the University of Michigan

We have audited the accompanying financial statements of the University of Michigan Health System ("UMHS"), which, as discussed in Note 1, consists of certain departments of the University of Michigan, which comprise the statements of net position as of June 30, 2021, and 2020, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended

Management's Responsibility 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; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to UMHS'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 UMHS's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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pwc

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Michigan Health System which consists of certain departments of the University of Michigan, as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of UMHS present only the net position, revenues, expenses and changes in net position, and cash flows of that portion of the financial reporting entity of the University of Michigan that is attributable to the transactions of UMHS. They do not purport to, and do not, present fairly the financial position of the University of Michigan as of June 30, 2021 and 2020, and the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

The accompanying management's discussion and analysis on pages 3 through 17 is required by accounting principles generally accepted in the United States of America 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.

PricewaterhouseCoopers LLP

October 21, 2021

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position of the University of Michigan Health System ("UMHS") at June 30, 2021 and 2020 and its activities for the three fiscal years ended June 30, 2021. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

UMHS is a part of the University of Michigan (the "University"), and is one of four University units that together comprise Michigan Medicine. Along with UMHS, Michigan Medicine includes the University of Michigan Medical School ("Medical School"), Michigan Health Corporation (a wholly owned corporation created for joint venture and managed care initiatives) and UM Health (a wholly owned corporation created to hold and develop Michigan Medicine's statewide network of hospitals, hospital joint ventures and other hospital affiliations, primarily consisting of Metropolitan Hospital). Michigan Medicine maintains a tradition of excellence in teaching, advancement of medical science and patient care, consistently ranking among the best health care systems in the nation. The leadership and management of Michigan Medicine are provided by the University's Executive Vice President for Medical Affairs.

Michigan Medicine entities have a tripartite mission focusing on clinical, research and medical and biomedical educational activities. As part of the clinical mission, UMHS operates a 1,043 licensed bed acute care and psychiatric facility, several ambulatory care centers and various other health care programs across Michigan. UMHS serves as the principal teaching facility for the Medical School. Substantially all physician services to UMHS patients are provided by the University of Michigan Medical Group ("UMMG"). The UMMG comprises the Medical School faculty and activities provided by the UMMG are included within UMHS in order to comprehensively present all activity related to the clinical mission of Michigan Medicine. UMHS also provides educational and clinical opportunities to students of the University's Schools of Nursing, Dentistry, Pharmacy, Social Work and Public Health.

UMHS continued to be impacted by the global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. During 2021, UMHS experienced several surges in COVID-19. UMHS carefully monitored the surges and made incremental adjustments to operations to be able to treat both COVID-19 and non-COVID-19 patients, minimizing the impact of reducing elective procedures and patient visits. UMHS also remained committed to patients and launched several COVID-19 vaccination clinics and has administered over 100,000 vaccines through June 30, 2021. In 2020, UMHS temporarily closed certain operations, as well as reduced surgical procedures and outpatient diagnostic and treatment services, and physician patient visits, due to the actions taken by federal and state governments and out of concern for the safety of patients and the workforce. As a result, the COVID-19 pandemic contributed to a loss of net patient service revenues during 2020.

Michigan Medicine and UMHS have been recognized by several external organizations. During 2021, this recognition included the following:

- Named to the U.S. News & World Report Honor Roll as the 11th best adult hospital in the nation, as well as Best Hospital in Michigan and Detroit Metro area and receiving top tier national rank in 13 adult specialties. This is the 29th consecutive year UMHS has been nationally recognized by U.S. News & World Report for strong across-the-board performance.
- C.S. Mott Children's Hospital is the top-ranked children's hospital in the state of Michigan and one of the best in the country. It is also the only children's hospital in Michigan to be nationally ranked in all ten pediatric specialties, according to U.S. News & World Report.
- C.S. Mott Children's Hospital was named one of the most innovative children's hospitals in the country by Parents Magazine as a creative problem solver.
- Earned the No. 23 spot in Newsweek's list of "World's Best Hospitals". Michigan Medicine also came in eighth in the United States. Newsweek also named Michigan Medicine as one of the world's best specialized hospitals in cardiology, endocrinology and oncology.
- Named one of the world's best smart hospitals by Newsweek, which recognizes achievements in digital surgery, digital imaging, artificial intelligence, telehealth, and electronic medical records.
- Named the "Best of the Best" by the Detroit Free Press in the "Best Hospital" category.
- Named to Becker's Hospital Review's annual list of the "100 Great Hospitals in America".
- Michigan Medicine earned a five-star rating from the Centers for Medicare and Medicaid Services for overall hospital quality. The methodology utilizes ratings in areas such as mortality, safety of care, readmission, patient experience and timely and effective care.
- Michigan Medicine was named one of the top employers in the state of Michigan by Forbes.
- For the 19th consecutive cycle and since the inception of the award, Michigan Medicine earned an "A" from the nonprofit Leapfrog Group patient safety organization based on performance on a wide array of patient safety measures.
- The Medical School ranked as one of the top medical schools in the country for training in research, primary care, surgery, internal medicine, women's health and family medicine by U.S. News & World Report.
- Named one of the "Best and Brightest" companies to work for in the nation by the National Association of Business Resources for commitment to excellence in human resources and employee enrichment.
- Michigan Medicine received the designation as a "top performer" in the Health Care Equality Index by the Human Rights Campaign, based on the ability to deliver LGBTQ+ inclusive policies and services for patients, visitors and employees.

Financial Highlights

UMHS's operating results for the years ended June 30 are summarized as follows:

	2021	2020	2019
		(in millions)	
Operating revenues	$ 4,753.3	$ 4,225.4	$ 4,279.5
Operating income (loss)	$ 108.1	$ (191.1)	$ 127.9
Increase (decrease) in net position	$ 576.6	$ (293.6)	$ (9.6)

Operating revenues increased in 2021 due to strong revenue per patient case and growth in patient activity. UMHS experienced growth compared to 2020, which experienced decreased patient activity due to the COVID-19 pandemic. Operating expenses increased in 2021, due to costs associated with increased patient activity and expenses related to the COVID-19 pandemic for both patients and employees. Net position, which represents the residual interest in UMHS's assets and deferred outflows after liabilities and deferred inflows are deducted, increased $576.6 million in 2021, driven by positive operating and investment performance, partially offset by transfers to the Medical School.

Using the Financial Statements

UMHS's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board principles.

Statement of Net Position

The statement of net position presents the financial position of UMHS at the end of the fiscal year and includes all assets, deferred outflows, liabilities, and deferred inflows of UMHS. The difference between total assets and deferred outflows as compared to total liabilities and deferred inflows – net position – is one indicator of the current financial condition of UMHS, while the change in net position is an indication of whether the overall financial condition improved or worsened during the year. UMHS's assets, deferred outflows, liabilities, deferred inflows and net position at June 30 are summarized as follows:

	2021	**2020**	**2019**
		(in millions)	
Current assets	$ 1,251.4	$ 961.9	$ 715.2
Noncurrent assets:			
Unexpended debt proceeds	40.4	48.0	0.8
Investments	1,921.4	1,444.4	1,523.6
Capital assets, net	1,258.7	1,395.4	1,451.0
Other	39.2	41.4	25.9
Total assets	4,511.1	3,891.1	3,716.5
Deferred outflows	319.2	129.1	82.0
Current liabilities	572.0	618.4	261.5
Noncurrent liabilities:			
Long-term debt	971.4	1,013.6	963.2
Obligations for postemployment benefits	954.6	670.4	559.6
Other	111.8	63.9	56.8
Total liabilities	2,609.8	2,366.3	1,841.1
Deferred inflows	72.3	82.4	92.3
Net position	$ 2,148.2	$ 1,571.5	$ 1,865.1

Current assets consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents on deposit with the University totaled $543.1 million and $578.8 million at June 30, 2021 and 2020, respectively. The net decrease in cash and cash equivalents is primarily attributable to amounts received in 2020 associated with the Centers for Medicare & Medicaid Services ("CMS") Accelerated and Advance Payment ("AAP") program related to the COVID-19 pandemic.

Accounts receivable from patient care services is recorded at the estimated net realizable amount due from patients, third-party payers and others for services rendered. Accounts receivable from net patient care services totaled $584.6 million and $277.1 million at June 30, 2021 and 2020, respectively, with the increase being driven primarily by improved patient and pharmacy volumes, compared to 2020, which experienced decreased patient activity due to the COVID-19 pandemic.

Inventory and other current assets totaled $117.5 million and $94.5 million at June 30, 2021 and 2020, respectively. The increase in 2021 is primarily due to an increase in pharmacy and material services inventory.

Unexpended debt proceeds totaled $40.4 million and $48.0 million at June 30, 2021 and 2020, respectively. No new debt was borrowed from the University during 2021.

Investments, consisting principally of long-term assets held in the University Endowment Fund, totaled $1.9 billion and $1.4 billion at June 30, 2021 and 2020, respectively. Investments increased in 2021, primarily due to strong market performance.

Total cash, cash equivalents and investments, excluding unexpended debt proceeds, amounted to $2.5 billion at June 30, 2021, which represents 201 days of operating expenses (excluding depreciation and non-cash postemployment benefits expense) as compared to $2.0 billion and 170 days at June 30, 2020. The increase in 2021 is primarily attributable to strong operating and market performance, as well as the receipt of federal economic relief funding related to the COVID-19 pandemic.

Net capital assets, defined as gross capital assets less accumulated depreciation, totaled $1.3 billion and $1.4 billion in 2021 and 2020, respectively. Capital additions totaled $61.6 million in 2021, which included investments in clinical expansion as well as facility and infrastructure improvements. The decrease in 2021 was driven by a pause in many capital projects, related to the sustainable improvements put into place to help manage the challenges presented by the COVID-19 pandemic.

The University has approved a line of credit not to exceed $125.0 million between UMHS and Metropolitan Hospital over a five-year period, to better achieve the goals and objectives of providing accessible, quality patient care and performing approved investments. In 2020, UMHS established the line of credit for Metropolitan Hospital in the amount of $45.0 million. At both June 30, 2021 and 2020, the outstanding balance on the line of credit was $19.0 million and is reported within other noncurrent assets in the statement of net position.

Deferred outflows represent the consumption of net assets attributable to a future period and are primarily driven by activity associated with the portion of the University's obligations for postemployment benefits allocated to UMHS. Deferred outflows totaled $319.2 million and $129.1 million at June 30, 2021 and 2020, respectively.

Current liabilities include accrued compensation, accounts payable, unearned revenue, amounts payable to other University units, the current portion of both obligations for postemployment benefits and outstanding debt, and third-party settlements and reserves. Third-party settlements and reserves totaled $47.4 million and $60.4 million at June 30, 2021 and 2020, respectively. The decrease is due to activity related to prior year estimates as well as the establishment of current year positions.

Unearned revenue totaled $213.3 million and $279.4 million at June 30, 2021 and 2020, respectively. The decrease is primarily attributable to the partial repayment of funds received under the CMS AAP program. At June 30, 2021, $49.9 million of the CMS AAP program is classified as long-term and is reported within other noncurrent liabilities.

Total outstanding debt amounted to $1,013.6 million and $1,053.1 million at June 30, 2021 and 2020, respectively, with effective interest rates that averaged 3.7 percent at both June 30, 2021 and 2020. UMHS borrowed $89.9 million from the University during 2020, payable over 30 years at an average interest rate between 4.1 and 5.1 percent to provide funding for The Pavilion inpatient tower construction and the Brighton Center for Specialty Care projects.

Obligations for postemployment benefits totaled $979.2 million and $694.5 million at June 30, 2021 and 2020, respectively, of which $24.6 million and $24.0 million is current. The liability represents the actuarially determined present value of certain medical and dental insurance, prescription drug coverage, group life insurance and long-term disability benefits to eligible retirees and their eligible dependents. The increase in the reported liability at June 30, 2021 was driven primarily by a decrease in the discount rate, partially offset by a reduction in the expected health care claims cost due to favorable experience and changes in health care claims trend assumption rates.

Deferred inflows represent the acquisition of net assets attributable to a future period and are primarily driven by activity associated with the portion of the University's obligations for postemployment benefits allocated to UMHS. Deferred inflows totaled $72.3 million and $82.4 million at June 30, 2021 and 2020, respectively.

Net position represents the residual interest in UMHS's assets and deferred outflows after liabilities and deferred inflows are deducted. The composition of UMHS's net position at June 30 is summarized as follows:

	2021	**2020** (in millions)	**2019**
Net investment in capital assets	$ 256.4	$ 401.8	$ 422.9
Restricted:			
Nonexpendable	13.3	11.5	10.2
Expendable	77.7	66.6	56.8
Unrestricted	1,800.8	1,091.6	1,375.2
	$ 2,148.2	$ 1,571.5	$ 1,865.1

Net investment in capital assets represents UMHS's capital assets net of accumulated depreciation, unexpended debt proceeds, and outstanding principal balances of debt and capital lease liabilities attributable to the acquisition, construction or improvement of those assets.

Restricted nonexpendable net position includes the historical value (corpus) of gifts to UMHS's permanent endowment funds, as well as certain investment earnings stipulated by the donor to be reinvested permanently. Restricted expendable net position is subject to externally imposed stipulations governing their use and includes net appreciation of permanent endowments not stipulated by the donor to be reinvested permanently.

Unrestricted net position is not subject to externally imposed stipulations and may be designated for specific purposes by action of management or the Board of Regents. Substantially all unrestricted net position is designated for patient care and capital programs.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents UMHS's results of operations. UMHS's revenues, expenses and other changes in net position for the years ended June 30 are summarized as follows:

	2021	2020 (in millions)	2019
Operating revenues	$ 4,753.3	$ 4,225.4	$ 4,279.5
Operating expenses	4,645.2	4,416.5	4,151.6
Operating income (loss)	108.1	(191.1)	127.9
Total nonoperating and other revenues, net	641.6	78.6	58.9
Income (loss) before transfers	749.7	(112.5)	186.8
Transfers to other University units, net	(173.1)	(181.1)	(196.4)
Increase (decrease) in net position	$ 576.6	$ (293.6)	$ (9.6)

Operating Revenues

Revenues from patient care services represented 98.5 percent and 98.3 percent of operating revenues at June 30, 2021 and 2020, respectively. The majority of net patient care revenue is received under contractual arrangements with governmental payers (Medicare and Medicaid) and private insurers. Net patient care revenue increased in 2021, driven primarily by an increase in patient and pharmacy volumes, compared to 2020, which experienced decreased patient activity due to the COVID-19 pandemic. A summary of patient activity statistics for the years ended June 30 is as follows:

				% Change	
	2021	2020	2019	2021	2020
Inpatient discharges	46,477	46,398	49,471	0.2%	-6.2%
Patient days	312,090	306,358	318,446	1.9%	-3.8%
Observation cases	16,595	16,005	18,557	3.7%	-13.8%
Surgeries	56,715	51,422	59,735	10.3%	-13.9%
Outpatient visits	2,739,963	2,458,816	2,756,441	11.4%	-10.8%
Adjusted cases	190,488	183,190	208,481	4.0%	-12.1%

Adjusted cases, which is an aggregate acuity adjusted activity measurement combining inpatient discharges and outpatient case activity, increased 4.0 percent and decreased 12.1 percent in 2021 and 2020, respectively.

Operating Expenses

UMHS's operating expenses for the years ended June 30 are summarized as follows:

	2021	2020 (in millions)	2019
Compensation	$ 1,406.6	$ 1,391.8	$ 1,290.1
Benefits	495.4	483.8	449.8
Expenses reimbursed by other Michigan Medicine units	(0.7)	(3.2)	(3.2)
Supplies	1,126.5	1,007.8	915.2
Depreciation	197.2	201.1	207.6
Medical School faculty and other services	729.8	661.3	659.7
Michigan Medicine Administrative Services	286.5	295.2	278.7
Other operating expenses	403.9	378.7	353.7
	$ 4,645.2	$ 4,416.5	$ 4,151.6

While total operating expenses increased in 2021, expense management continues to be a focus of UMHS leadership, specifically in the areas of compensation and supplies expense. Due to the financial implications of the COVID-19 pandemic, Michigan Medicine leadership designed and implemented an economic recovery plan to create sustainable improvements that enhance value and financial results in both clinical and administrative areas. Beginning in May of 2020 and throughout 2021, UMHS implemented the economic recovery plan. The plan included several expense reductions such as hiring and salary freezes, leadership salary reductions, furloughs and reductions in force, and the suspension of the retirement match for six months for certain employee populations.

Compensation and benefits totaled $1.9 billion at both June 30, 2021 and 2020, and represents 40.9 percent and 42.5 percent of total operating expenses, respectively. The growth in 2021 is primarily driven by an increase in postemployment benefits expense, while the growth in 2020 is primarily related to hiring due to increases in patient activity volumes prior to the COVID-19 pandemic.

Supplies expense totaled $1.1 billion and $1.0 billion at June 30, 2021 and 2020, respectively. The increase reflects growth in patient volumes, new therapies, increased costs of prescription drugs and infusion treatments, as well as increased expenses for vaccines and personal protective equipment related to the COVID-19 pandemic.

Medical School faculty and other services expense amounted to $729.8 million and $661.3 million at June 30, 2021 and 2020, respectively. The increase in both 2021 and 2020 is primarily due to increased service payments, driven by growth in professional revenue. Michigan Medicine Administrative Services expense totaled $286.5 million and $295.2 million at June 30, 2021, and 2020, respectively. The decrease in 2021 is due to the implementation of the economic recovery plan. The increase in 2020 is primarily due to funding new information technology initiatives and programs within Michigan Medicine.

Other operating expenses totaled $403.9 million and $378.7 million at June 30, 2021 and 2020, respectively. The increase in 2021 is primarily due to contract services costs associated with pharmacy growth and contract nursing. The increase in 2020 is primarily due to maintenance and facility costs associated with capacity expansion, as well as increased routine maintenance expense.

Nonoperating and Other Revenues (Expenses)

UMHS's nonoperating and other revenues (expenses) for the years ended June 30 are summarized as follows:

	2021	2020 (in millions)	2019
Federal economic relief funds	$ 133.6	$ 116.9	
Interest expense	(39.7)	(39.0)	$ (40.3)
Net investment income (loss)	539.9	(12.9)	92.5
Private gifts for other than capital and permanent endowment purposes	5.2	11.1	5.2
Capital and permanent endowment gifts and other	2.6	2.5	1.5
	$ 641.6	$ 78.6	$ 58.9

UMHS received Provider Relief Funds from the Coronavirus Aid, Relief, and Economic Security ("CARES") Act related to the COVID-19 pandemic. This is recognized as federal economic relief funds and totaled $131.9 million and $116.9 million for the years ended June 30, 2021 and 2020, respectively. Provider Relief Funds are intended to compensate health care providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid, provided that UMHS can attest to and comply with program terms and conditions. UMHS also received federal funding through the state of Michigan as a result of the Coronavirus Relief Bill. The funding is recognized as federal economic relief funds and totaled $1.5 million at June 30, 2021. The relief funding is dedicated to expanding the capacity and capabilities of healthcare providers to treat COVID-19 patients.

Substantially all UMHS investments are held in University investment pools, which generate both income distributions and unrealized gains and losses. Income distributions consist primarily of payments from the University Endowment Fund based on the University's endowment spending rule. Additionally, investments held in the University Endowment Fund are recorded at fair value based on the net asset value of the investment pool. Any unrealized change in the value of these investments is included as a component of net investment income. Overall positive investment performance in 2021 contributed to the increase in UMHS's net position.

Net investment income (loss) for the years ended June 30 is summarized as follows:

	2021	2020 (in millions)	2019
Income distributions and other investment income	$ 65.4	$ 67.9	$ 65.7
Net increase (decrease) in the fair value of investments	474.5	(80.8)	26.8
Net investment income (loss)	$ 539.9	$ (12.9)	$ 92.5

Transfers with Other University of Michigan Units

UMHS makes equity transfers to the Medical School and other University units. These transfers are generally in support of the Medical School's academic and research missions. UMHS reports these transfers as changes in net position, separately from the excess of revenues over expenses. Transfers with other University units for the years ended June 30 are summarized as follows:

	2021	2020 (in millions)	2019
Transfers to:			
Medical School academic and non-patient care purposes	$ (159.4)	$ (171.7)	$ (195.3)
Other University units	(17.8)	(13.3)	(6.6)
	(177.2)	(185.0)	(201.9)
Transfers from:			
Medical School			1.6
Other University units	4.1	3.9	3.9
	4.1	3.9	5.5
Transfers to other University units, net	$ (173.1)	$ (181.1)	$ (196.4)

Transfers to other University units decreased in 2021, primarily driven by decreased payments to the Medical School for academic and non-patient care purposes. During 2021, UMHS also transferred $13.0 million to UM Health for a non-controlling membership interest in PHP Holdings, LLC. The membership interest in the provider-sponsored health plan was acquired by the University from Sparrow Health System. This contribution is reflected as a transfer to other University units in the statement of revenues, expenses and changes in net position.

Statement of Cash Flows

The statement of cash flows provides additional information about UMHS's financial results by reporting the major sources and uses of cash. UMHS's cash flows for the years ended June 30 are summarized as follows:

	2021	2020 (in millions)	2019
Cash received from operations	$ 4,426.2	$ 4,611.6	$ 4,309.9
Cash expended for operations	(4,357.4)	(4,153.0)	(3,923.7)
Net cash provided by operating activities	68.8	458.6	386.2
Net cash used in noncapital financing activities	(32.2)	(49.8)	(189.8)
Net cash used in capital and related financing activities	(142.6)	(123.7)	(255.1)
Net cash provided by investing activities	70.3	19.2	83.4
Net (decrease) increase in cash and cash equivalents	(35.7)	304.3	24.7
Cash and cash equivalents, beginning of year	578.8	274.5	364.9
University of Michigan Medical Group			(115.1)
Cash and cash equivalents, beginning of year, as restated	578.8	274.5	249.8
Cash and cash equivalents, end of year	$ 543.1	$ 578.8	$ 274.5

Cash received from operations primarily consists of net patient care revenues. The decrease in cash received from operations compared to 2020 is primarily due the funding recived from the CMS AAP program in 2020 related to the COVID-19 pandemic. Net cash used in noncapital financing activities primarily consists of transfers from UMHS to the Medical School in support of the Medical School's academic and research missions offset by federal economic relief funds related to the CARES Act. Net cash used in capital and related financing activities primarily consists of purchases of capital assets and proceeds from issuance of capital debt. Net cash provided by investing activities primarily consists of realized investment income.

Economic Factors That May Affect the Future

In support of Michigan Medicine's tripartite mission, the Board of Regents approved plans for the construction of The Pavilion, a 690,000 square foot clinical inpatient tower with an estimated cost of $920 million. In October 2019, UMHS began construction on The Pavilion. Following the outbreak of the COVID-19 pandemic in the spring of 2020, construction was paused from May 2020 through March 2021. Work on The Pavilion resumed in spring 2021 and is estimated to be open for patient care by fall 2025. The Pavilion will accommodate an inpatient care program with 264 single-occupancy patient rooms and 23 surgical and interventional radiology suites. This patient care expansion supports the clinical strategy of Michigan Medicine, increasing capacity to accommodate tertiary and quaternary care needs. Relocation of existing clinical services from the University Hospital will also allow for future redesign and growth for patient programs remaining in that facility. The Pavilion design will emphasize sustainability with the expectation to achieve Leadership in Energy and Environmental Design Platinum certification, exceeding current energy efficiency standards.

In January 2021, work was completed on a new parking structure which added approximately 1,000 new spaces. While funded by the University, this parking structure will benefit the patients, families, staff and faculty of Michigan Medicine.

UMHS remains committed to expanding access to more patients, a strategy which also includes optimizing utilization of existing facilities across the continuum of care. In April 2020, UMHS expanded its telehealth program to provide virtual care for patients from their home, with the goal of providing safe and effective care to patients.

In addition to improving capacity through facility, technology, quality, safety and efficiency, UMHS also prioritized development and progress on clinical affiliations and population management programs. In September 2020, the University expanded its affiliation with St. Joseph Mercy Chelsea hospital, relocating 16 beds to establish a 24-bed inpatient rehabilitation program, allowing for the placement of more complex medical and surgical patients at the University Hospital.

The University has approved a master affiliation agreement with Sparrow Health System, paving the way for ongoing collaboration. In August 2019, the University approved a pediatric services affiliation with Sparrow, in relation to the master affiliation, to collaboratively operate the Sparrow Pediatric Services to better serve the community. In July 2020, the University approved another affiliation with Sparrow and acquired a membership interest in PHP Holdings, LLC, to enhance and expand provider-sponsored health insurance in the state of Michigan.

The University, along with Trinity Health and Henry Ford Health System, is a member of Metropolitan Detroit Area Hospital Services, Inc. ("MDAHS"), a Michigan nonprofit membership corporation. The primary purpose of this organization is to construct and operate a centralized laundry facility for nonprofit hospitals. MDAHS built a new 105,000 square foot state-of-the-art laundry processing facility that became operational in June 2020 and provides Michigan Medicine with linen services at a lower cost and higher quality than its previous internal operations at an aged facility which has been demolished.

Michigan Medicine continued to foster other existing affiliations with area hospitals and networks to enhance patient care, clinical research, physician recruitment and support services. Michigan Medicine collaborated with affiliated partners Mid-Michigan Health, Metropolitan Hospital and others, to continue to provide accessible, quality patient care. These clinical affiliation agreements and population management programs are designed to expand community access and improve patient, family and provider experiences across the continuum of care.

Federal and state lawmakers continue to discuss further Medicare and Medicaid changes which may target graduate medical education-related payments, causing a potentially significant impact on teaching hospitals like UMHS. Private insurance and managed care contracts historically provide for annual increases in reimbursement rates that meet or exceed the rate of inflation; however, there can be no assurance that such trends will continue.

The state of Michigan previously operated a no-fault auto insurance system that required all auto insurance policies to include unlimited lifetime medical benefits in the event of catastrophic injuries. In May 2019, the governor of Michigan signed a bill to reform this no-fault auto insurance system. The legislation allows drivers to choose the level of personal injury protection coverage they wish to purchase and creates a new fee schedule for medical providers that caps the reimbursement rates charged to auto insurers for medical care to a percentage of Medicare rates. This expected change in reimbursement is anticipated to impact UMHS's financial results beginning in July 2021. Given these challenges, management continues to explore and implement strategies to contain or reduce expense growth.

As a labor-intensive organization, UMHS's most significant operating expense is compensation and benefits, and management has resource strategies in place to attract and retain high quality staff. In July 2020, UMHS signed a three-year agreement with the University of Michigan House Officer Association. In August 2020, the Union of Physicians Assistant at Michigan Medicine was formed and represents approximately 400 physician assistants across the institution. The union ratified a three-year agreement with Michigan Medicine in June 2021. In December 2020, nurses represented by the University of Michigan Professional Nurses Council agreed to extend the current agreement with Michigan Medicine to June 2022, which was previously set to expire in June 2021. A large portion of UMHS's labor force is unionized and changes in relations with unions and represented employees, including the negotiation of new agreements, could have a material effect on UMHS's future financial results.

Management believes that UMHS is poised to succeed in an environment where quality, appropriateness and innovation are rewarded. As part of Michigan Medicine, UMHS has a multi-year track record of a high degree of integration and alignment with the Medical School. This alignment and integration allows UMHS to partner with highly talented physicians and in particular, physicians practicing in specialty areas, thereby providing a greater opportunity for future growth. This competitive advantage, coupled with a solid financial position and record of investment in clinical capacity and information technology, favorably positions UMHS to execute the emerging strategic initiatives listed above.

UMHS participates in debt issuances originated by the University, which maintains the highest credit ratings of S&P Global (AAA) and Moody's (Aaa). These ratings allow UMHS to secure capital funds as needed on extremely competitive terms to further enhance the patient experience. The continued stability of these credit ratings is important to the long-term strategic direction of UMHS.

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact UMHS's financial position and its results of operations. The extent of the impact to UMHS will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time.

Although there are many risks and uncertainties, management believes UMHS is well positioned to maintain its strong financial condition in the era of the COVID-19 pandemic and health care reform.

UNIVERSITY OF MICHIGAN HEALTH SYSTEM

Statement of Net Position

	June 30, 2021	June 30, 2020
	(in thousands)	
Assets		
Current Assets:		
Cash and cash equivalents on deposit with the University	$ 543,066	$ 578,754
Accounts receivable, net	584,615	277,148
Receivable from other University units	377	6,021
Current portion of pledges receivable, net	5,869	5,454
Inventory and other current assets	117,484	94,521
Total Current Assets	1,251,411	961,898
Noncurrent Assets:		
Unexpended debt proceeds on deposit with the University	40,428	47,961
Investments on deposit with the University	1,921,409	1,444,391
Pledges receivable, net	6,292	8,516
Other assets	32,926	32,925
Capital assets, net	1,258,684	1,395,452
Total Noncurrent Assets	3,259,739	2,929,245
Total Assets	**4,511,150**	**3,891,143**
Deferred Outflows	**319,175**	**129,061**
Liabilities		
Current Liabilities:		
Accrued compensation	143,571	115,655
Accounts payable and accrued expenses	98,322	94,713
Unearned revenue	213,303	279,361
Payable to other University units	2,624	4,800
Current portion of obligations for postemployment benefits	24,586	24,047
Current portion of long-term debt	42,227	39,487
Third-party settlements and reserves	47,396	60,355
Total Current Liabilities	572,029	618,418
Noncurrent Liabilities:		
Long-term debt	971,372	1,013,599
Payable to other University units	14,299	13,354
Obligations for postemployment benefits	954,587	670,418
Other	97,543	50,436
Total Noncurrent Liabilities	2,037,801	1,747,807
Total Liabilities	**2,609,830**	**2,366,225**
Deferred Inflows	**72,342**	**82,441**
Net Position		
Net investment in capital assets	256,426	401,796
Restricted:		
Nonexpendable	13,287	11,540
Expendable	77,675	66,581
Unrestricted	1,800,765	1,091,621
Total Net Position	**$ 2,148,153**	**$ 1,571,538**

The accompanying notes are an integral part of the financial statements.

UNIVERSITY OF MICHIGAN HEALTH SYSTEM

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2021	2020
	(in thousands)	
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $125,516 in 2021 and $99,481 in 2020)	$ 4,682,630	$ 4,152,615
Other revenue	70,642	72,841
Total Operating Revenues	**4,753,272**	**4,225,456**
Operating Expenses		
Compensation and benefits	1,901,342	1,872,405
Supplies, services and other	1,530,350	1,386,532
Depreciation	197,224	201,115
Michigan Medicine Administrative Services	286,535	295,175
Medical School faculty and other services	729,758	661,301
Total Operating Expenses	**4,645,209**	**4,416,528**
Operating Income (Loss)	108,063	(191,072)
Nonoperating Revenues (Expenses)		
Federal economic relief funds	133,563	116,858
Interest expense	(39,734)	(39,049)
Net investment income (loss)	539,862	(12,914)
Private gifts for other than capital and permanent endowment purposes	5,227	11,113
Total Nonoperating Revenues, Net	**638,918**	**76,008**
Income (Loss) Before Other Revenues (Expenses) and Transfers	746,981	(115,064)
Other Revenues (Expenses)		
Capital and permanent endowment gifts	3,664	2,611
Loss on disposal of capital assets	(891)	(17)
Total Other Revenues, Net	**2,773**	**2,594**
Income (Loss) Before Transfers	749,754	(112,470)
Transfers to other University units, net	(173,139)	(181,059)
Increase (Decrease) in Net Position	576,615	(293,529)
Net Position, Beginning of Year	1,571,538	1,865,067
Net Position, End of Year	**$ 2,148,153**	**$ 1,571,538**

The accompanying notes are an integral part of the financial statements.

UNIVERSITY OF MICHIGAN HEALTH SYSTEM

Statement of Cash Flows

	Year Ended June 30, 2021	2020
	(in thousands)	
Cash Flows from Operating Activities		
Received from patient care services	$ 4,350,482	$ 4,540,436
Received from non-patient sources	68,557	73,383
Expenses reimbursed by (to) other University units	7,186	(2,241)
Payments to employees	(1,784,990)	(1,795,504)
Payments to suppliers	(1,408,895)	(1,257,459)
Payments to other University units	(1,163,538)	(1,100,065)
Net Cash Provided by Operating Activities	**68,802**	**458,550**
Cash Flows from Noncapital Financing Activities		
Federal economic relief funds	132,096	118,325
Private gifts and other receipts	5,825	12,554
Transfers to other University units, net	(170,143)	(180,702)
Net Cash Used in Noncapital Financing Activities	**(32,222)**	**(49,823)**
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets, net	(63,372)	(140,749)
Interest payments	(43,230)	(41,222)
Proceeds from issuance of capital debt		89,919
Principal payments on capital debt and capital lease obligations	(37,926)	(33,168)
Private gifts and other receipts	4,876	1,883
Transfers to other University units for capital projects	(2,996)	(357)
Net Cash Used in Capital and Related Financing Activities	**(142,648)**	**(123,694)**
Cash Flows from Investing Activities		
Investment income	65,386	67,913
Net increase in noncurrent investments and other assets	(2,539)	(1,580)
Decrease (increase) in unexpended capital debt proceeds	7,533	(47,144)
Net Cash Provided by Investing Activities	**70,380**	**19,189**
Net (Decrease) Increase in Cash and Cash Equivalents	(35,688)	304,222
Cash and Cash Equivalents on Deposit with the University, Beginning of Year	578,754	274,532
Cash and Cash Equivalents on Deposit with the University, End of Year	**$ 543,066**	**$ 578,754**

The accompanying notes are an integral part of the financial statements.

UNIVERSITY OF MICHIGAN HEALTH SYSTEM

Statement of Cash Flows—Continued

	Year Ended June 30, 2021	2020
	(in thousands)	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ 108,063	$ (191,072)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	197,224	201,115
Changes in assets and liabilities:		
Accounts receivable, net	(307,467)	73,302
Receivable from other University units	5,644	(24,850)
Inventory and other current assets	(22,963)	(7,696)
Accrued compensation	27,916	19,896
Accounts payable and accrued expenses	4,814	21,503
Unearned revenue	(14,734)	274,530
Payable to other University units	(1,231)	6,863
Third-party settlements and reserves	(12,959)	30,154
Obligations for postemployment benefits	284,708	111,810
Changes in deferred outflows	(190,114)	(47,105)
Changes in deferred inflows	(10,099)	(9,900)
Net Cash Provided by Operating Activities	**$ 68,802**	**$ 458,550**

The accompanying notes are an integral part of the financial statements.

Note 1—Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: The Regents of the University of Michigan (the "University") have the ultimate responsibility for the University of Michigan Health System ("UMHS") and, as part of the University, the assets, deferred outflows, liabilities, deferred inflows, revenues, expenses and changes in net position of UMHS are included in the consolidated financial statements of the University. UMHS serves as the principal teaching facility for the University of Michigan Medical School ("Medical School"), and the majority of physician services to UMHS patients are provided by Medical School faculty. As part of the University, UMHS is exempt from income taxes under Internal Revenue Code Sections 501(c)(3) and 115.

UMHS is an operating unit of Michigan Medicine. Along with UMHS, Michigan Medicine includes the Medical School, Michigan Health Corporation (a wholly owned corporation created for joint venture and managed care initiatives) and UM Health (a wholly owned corporation created to hold and develop Michigan Medicine's statewide network of hospitals, hospital joint ventures and other hospital affiliations, primarily consisting of Metropolitan Hospital).

UMHS and the Medical School maintain various agreements to address the financial design and integration of their patient care activities. Revenue from hospital services and professional revenue from physicians is recorded by UMHS. Patient care expenses other than physician compensation are recorded by UMHS, while physician compensation is recorded by the Medical School. UMHS makes payments to the Medical School for faculty services provided to UMHS related to faculty participation in the direction and supervision of clinical and graduate medical education programs.

The financial statements 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"). UMHS reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation, unexpended debt proceeds, and outstanding principal balances of debt and capital lease liabilities attributable to the acquisition, construction or improvement of those assets.
- Restricted:

  Nonexpendable – Net position subject to externally imposed stipulations that it be maintained permanently. Such net position includes the corpus portion (historical value) of gifts to UMHS's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

  Expendable – Net position subject to externally imposed stipulations that can be fulfilled by actions of UMHS pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of UMHS's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.
- Unrestricted: Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents. Substantially all unrestricted net position is designated for patient care and capital programs.

Summary of Significant Accounting Policies: For purposes of the statement of cash flows, UMHS considers all highly liquid investments purchased with a maturity of three months or less, to be cash equivalents. Cash equivalents generally represent investments in the University Investment Pool ("UIP"), a short-term commingled pool managed by the University that can be readily liquidated to pay contractual liabilities.

Accounts receivable consists primarily of patient activity and is recorded net of allowances for uncollectible accounts receivable, which totaled $116,570,000 and $97,872,000 at June 30, 2021 and 2020, respectively. The allowance is based on management's judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

UMHS receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to give is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising.

Inventories consist primarily of medical and surgical, pharmaceutical and other supplies. Inventories are stated at the lower of cost or market, with the cost determined on the first-in, first-out basis.

Investments on deposit with the University represent investments in the University Endowment Fund ("UEF"), a commingled pool which is invested entirely in the Long Term Portfolio, a diversified, equity-oriented investment pool managed by the University. The fair market value of UEF shares is determined at the end of each calendar quarter based on the fair value of the pool. Participants may purchase or redeem UEF shares at fair market value at each valuation date, subject to minimum holding and notice requirements.

Capital assets are recorded at cost or, if donated, at acquisition value at the date of donation. All capital assets other than land are depreciated using the straight-line method of depreciation over the following asset lives:

Buildings and leasehold improvements	3 to 50 years
Infrastructure and land improvements	3 to 25 years
Equipment and software	3 to 16 years

UMHS accrues paid time off ("PTO") leave for employees based upon length of service and employee classification. Accrued PTO leave benefits are paid at the employee's regular hourly rate when used, paid as part of the PTO sellback program, or paid upon termination of employment, reduction in force, or start of a leave of absence.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Unearned revenue consists primarily of cash received from grants which has not yet been earned under the terms of the agreement. During 2020, the Centers for Medicare and Medicaid Services expanded the existing Accelerated and Advance Payment Program in response to the COVID-19 pandemic. The program allowed UMHS to request up to six months of advance Medicare payments. After one year past the receipt of the advance payment, claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within 29 months from the receipt of the advance payments. The unearned portion of these advanced payments totaled $236,665,000 and $273,847,000 at June 30, 2021 and 2020, respectively. At June 30, 2021, $49,858,000 of the advanced payment is classified as long-term and is recognized within other noncurrent liabilities. These advanced payments will be reported as patient care revenues as the qualifying patient care services are performed.

UMHS's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net position are those that generally result from exchange transactions such as payments or expenditures related to patient care services provided. Nearly all of UMHS's revenues and expenses are the result of exchange transactions.

Federal economic relief funds represent funding received from the federal government primarily as a result of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The CARES Act was signed into law in March 2020 in order to provide economic assistance for businesses and individuals that had been negatively impacted by the COVID-19 pandemic. During 2021 and 2020, UHMS received payments from the Provider Relief Fund portion of the CARES Act which is administered through the U.S. Department of Health and Human Services and provides funding to hospitals and health care providers to support expenses incurred or revenues lost associated with the COVID-19 pandemic. Funds received are recognized into revenue as UMHS identifies eligible expenditures or lost revenues which qualify for reimbursement. Revenue recognized under the terms and conditions of this program totaled $131,862,000 and $116,858,000 in 2021 and 2020, respectively.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

UMHS has agreements with third-party payers that provide for payments to UMHS at amounts that differ from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for service rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in the future periods as final settlements are determined.

UMHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. As UMHS does not pursue collection of amounts once determined to qualify as charity care, they are not reported as revenues in the accompanying statement of revenues, expenses and changes in net position.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The most significant areas that require management estimates relate to valuation of accounts receivable and contractual arrangements with third-party payers and reimbursement.

Note 2—Cash and Investments

Cash and investments at June 30, 2021 and 2020 are summarized as follows:

	2021	2020
	(in thousands)	
Cash and cash equivalents – University Investment Pool	$ 543,066	$ 578,754
Investments:		
University Endowment Fund	1,921,374	1,444,357
Other investments	35	34
Total investments	1,921,409	1,444,391
Total cash, cash equivalents and investments	$ 2,464,475	$ 2,023,145

The University maintains centralized management for substantially all cash and investments of UMHS. Cash reserves and relatively short duration assets are invested in the UIP, while longer term assets held in the UEF are invested in the University's Long Term Portfolio. The UIP is principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. The longer investment horizon of the Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets.

The UEF consists of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain intact and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by UMHS for long-term investment purposes, but are not limited by donor stipulations requiring UMHS to preserve principal in perpetuity. Substantially all of the amounts invested by UMHS in this pool are funds functioning as endowment.

The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio, in which the UEF invests, sets general targets for both equities and fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories. At June 30, 2021 and 2020, the Long Term Portfolio consisted of cash equivalents (2 percent and 2 percent), fixed income securities (5 percent and 8 percent), U.S. and non-U.S. equities (4 percent and 4 percent), commingled funds (18 percent and 19 percent) and nonmarketable alternative investments (71 percent and 67 percent).

Note 2—Cash and Investments—Continued

Commingled (pooled) funds held in the Long Term Portfolio include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Commingled funds are primarily invested in non-U.S./global equities and absolute return strategies, but also include exposure to domestic fixed income and equity securities. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy; however, these investments are structured to limit the University's risk exposure to the amount of invested capital.

Nonmarketable alternative investments held in the Long Term Portfolio consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. These limited partnerships include venture capital, private equity, real estate, natural resources and absolute return strategies. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner.

The Long Term Portfolio holds investments denominated in foreign currencies and forward foreign exchange contracts used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies. Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Long Term Portfolio's non-U.S. dollar exposure amounted to 9 percent and 11 percent of the portfolio at June 30, 2021 and 2020, respectively.

The University's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forwards, futures and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net position and is not represented by the contract or notional amounts of the instruments.

Note 2—Cash and Investments—Continued

UMHS receives quarterly distributions from the UEF based on the University's endowment spending rule. The annual distribution rate is 4.5 percent of the one-quarter lagged seven year moving average fair value of fund shares. To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Monthly distributions are also made from the UIP to UMHS based on the 90-day U.S. Treasury Bill rate. The University's costs to administer and grow the UEF and UIP are funded by investment returns.

Withdrawals may be made quarterly from the UEF, with notice given to the University one month prior to the end of the preceding quarter, based upon University policy, generally after a five-year investment period. Withdrawals may be made from the UIP on a daily basis.

GASB defines fair value and establishes a framework for measuring fair value that includes a three tiered hierarchy of valuation inputs, placing a priority on those which are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The three levels of inputs, of which the first two are considered observable and the last unobservable, are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date
- Level 2 – Other significant observable inputs, either direct or indirect, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or market corroborated inputs
- Level 3 – Unobservable inputs

A significant portion of the underlying investments of the University's commingled pools include nonmarketable alternative investments and certain commingled funds described earlier in this note that are priced by managers using net asset value. The proprietary valuation techniques and unobservable pricing assumptions used by these managers to estimate fair value may have a significant impact on the resulting fair value determination of these investments. However, UMHS uses Level 2 inputs to measure the fair value of its investments in the University's commingled pools described in Note 1 and within this note, since shares may be purchased or sold subject to holding and notice requirements at the fair market values determined by the University.

Note 3—Pledges Receivable

The composition of pledges receivable at June 30, 2021 and 2020 is summarized as follows:

	2021	**2020**
	(in thousands)	
Gift pledges outstanding:		
Capital	$ 4,390	$ 5,643
Operations	8,092	8,735
	12,482	14,378
Less:		
Allowance for uncollectible pledges	272	319
Unamortized discount to present value	49	89
Total pledges receivable, net	12,161	13,970
Less current portion	5,869	5,454
	$ 6,292	$ 8,516

Payments on pledges receivable at June 30, 2021 are expected to be received in the following years ended June 30 (in thousands):

2022	$ 6,016
2023	2,027
2024	1,851
2025	1,331
2026	1,257
	$ 12,482

Note 4—Capital Assets

Capital assets activity for the years ended June 30, 2021 and 2020 is summarized as follows:

	2021			
	Beginning Balance	Additions	Retirements	Ending Balance
	(in thousands)			
Land	$ 29,732		$ 4	$ 29,728
Land improvements	30,355	$ 441	861	29,935
Buildings	2,216,029	27,104	36,679	2,206,454
Equipment	676,236	16,167	55,688	636,715
IT Infrastructure	313,927	13,790	23,816	303,901
Construction in progress	61,875	4,140		66,015
	3,328,154	61,642	117,048	3,272,748
Less accumulated depreciation	1,932,702	197,224	115,862	2,014,064
	$ 1,395,452	$ (135,582)	$ 1,186	$ 1,258,684

	2020			
	Beginning Balance	Additions	Retirements	Ending Balance
	(in thousands)			
Land	$ 29,824		$ 92	$ 29,732
Land improvements	30,052	$ 644	341	30,355
Buildings	2,192,563	50,391	26,925	2,216,029
Equipment	702,353	49,991	76,108	676,236
IT Infrastructure	328,600	14,211	28,884	313,927
Construction in progress	30,520	31,355		61,875
	3,313,912	146,592	132,350	3,328,154
Less accumulated depreciation	1,862,957	201,115	131,370	1,932,702
	$ 1,450,955	$ (54,523)	$ 980	$ 1,395,452

The increase in construction in progress of $4,140,000 in 2021 represents the amount of capital expenditures for new projects of $61,642,000 net of capital assets placed in service of $57,502,000. The increase in construction in progress of $31,355,000 in 2020 represents the amount of capital expenditures for new projects of $146,592,000 net of capital assets placed in service of $115,237,000. Retirements of $117,048,000 and $132,350,000 in 2021 and 2020, respectively, are primarily related to fully depleted clinical equipment and information technology assets no longer in service.

Note 4—Capital Assets—Continued

Capital assets, net includes assets under capital leases of $23,146,000 and $24,598,000 at June 30, 2021 and 2020, respectively. These assets are principally comprised of the Northville Health Center building and equipment under capital lease.

Note 5—Long-term Debt

Long-term debt at June 30, 2021 and 2020 is summarized as follows:

	2021	**2020**
	(in thousands)	
Payable to the University:		
2020, 4.05% to 5.05% through 2050	$ 71,000	$ 71,000
unamortized premium	17,923	18,870
2018, 4.05% to 5.05% through 2048	46,020	46,865
unamortized premium	5,585	5,945
2017, 4.05% to 5.05% through 2047	97,765	99,590
unamortized premium	13,120	14,330
2012, 4.71% through 2025	44,760	44,760
2012, 3.23% to 3.25% through 2030	49,025	53,750
2012, 2.60% to 3.25% through 2033	70,830	82,825
2012, 3.65% through 2038	64,940	64,940
2012, 2.00% to 5.00% through 2042	56,710	56,710
2012, 2.00% to 5.00% through 2032	26,495	29,165
unamortized premium	1,081	1,168
2010, 0.68% to 5.00% through 2041	107,095	107,095
unamortized discount	(309)	(330)
2010, 3.20% to 3.64% through 2040	141,470	141,470
unamortized discount	(417)	(456)
2010, 2.00% to 5.00% through 2027	74,090	83,935
unamortized premium	2,252	3,013
2009, 2.00% to 5.00% through 2039	123,690	127,925
unamortized premium	474	516
	1,013,599	1,053,086
Less current portion	42,227	39,487
	$ 971,372	$ 1,013,599

Note 5—Long-term Debt—Continued

Long-term debt activity for the years ended June 30, 2021 and 2020 is summarized as follows:

	2021			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Payable to the University	$ 1,053,086	$ -	$ 39,487	$ 1,013,599

	2020			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Payable to the University	$ 997,760	$ 89,919	$ 34,593	$ 1,053,086

During 2020, UMHS received proceeds of $89,919,000 from the University primarily to provide funding for The Pavilion and the Brighton Center for Specialty Care projects.

Principal maturities, including interest on debt obligations, based on scheduled bond maturities for the next five years and in subsequent five-year periods are as follows:

	Principal	Interest (in thousands)	Total
2022	$ 38,720	$ 39,561	$ 78,281
2023	40,825	37,818	78,643
2024	45,110	36,019	81,129
2025	47,135	34,110	81,245
2026	45,860	32,539	78,399
2027-2031	232,820	134,274	367,094
2032-2036	242,420	90,710	333,130
2037-2041	190,495	42,829	233,324
2042-2046	61,925	15,890	77,815
2047-2050	28,580	2,893	31,473
	973,890	$ 466,643	$ 1,440,533
Plus unamortized premiums, net	39,709		
	$ 1,013,599		

Note 5—Long-term Debt—Continued

UMHS participates in the University's debt stabilization program and is charged interest at a composite fixed rate based on available fixed rate debt instruments at the time the internal loan from the University is created. Periodically, the University reviews payments made under the fixed rate schedules as compared to actual interest payments made by the University to outside debt holders and may utilize excess interest paid by units to support future strategic projects. UMHS maintains fixed rate debt with an effective interest rate that averaged 3.7 percent in both 2021 and 2020.

Note 6—Third-Party Payment and Reimbursement

A substantial portion of UMHS's revenue is received under contractual arrangements with Medicare, Medicaid and Blue Cross and Blue Shield of Michigan. Payments from these third-party payers are based on a combination of prospectively determined rates and retrospectively settled amounts. Many of the payment calculations require the use of estimates. Final settlement of the amount due to UMHS or payable to the payers is subject to the laws and regulations governing the federal and state programs and post-payment audits, which may result in further adjustments by the payers. Management believes that reasonable provisions for anticipated adjustments have been made in the financial statements.

Certain adjustments made by third parties in previously settled cost reports are being appealed. Recoveries are recognized in the financial statements as adjustments to prior year settlements at the time the appeals are resolved. Settlement balances are reported net, along with any reserve balances, as third-party settlements and reserves in the statement of net position. The significant settlements from prior periods that resolved in 2021 were related to 2017 for government payers and resulted in amounts payable of $1,767,000, and non-government payers from 2019 that resulted in amounts payable of $15,684,000.

During 2020, UMHS continued to receive regular interim payments from commercial payers despite lower volumes due to the COVID-19 pandemic. At June 30, 2020, $47,859,000 associated with this funding was recorded as a liability under third-party settlements and reserves. During 2021, UMHS received decreased interim payments from commercial payers to account for the continued regular interim payments in 2020. Due to the decreased interim payments, UMHS no longer recognized a liability at June 30, 2021 related to the continued interim payments in 2020 under third-party settlements and reserves.

Note 6—Third-Party Payment and Reimbursement—Continued

UMHS also provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since UMHS does not pursue collection of amounts once determined to qualify as charity care, they are not reported as revenues in the accompanying statement of revenues, expenses and changes in net position. Patient charges classified and written off under UMHS's charity care policy for the years ended June 30, 2021 and 2020 were $60,240,000 and $92,400,000, respectively. Bad debt provisions for the years ended June 30, 2021 and 2020 were $125,516,000 and $99,481,000, respectively.

The distribution of net patient care service revenue by primary payer source for the years ended June 30, 2021 and 2020 is as follows:

	2021	**2020**
Medicare	26.3%	25.9%
Medicaid	11.4%	11.6%
Blue Cross	40.5%	40.8%
Other	21.8%	21.7%

Note 7—Transactions with Other University of Michigan Units

UMHS has amounts receivable from and payable to other University units at June 30, 2021 and 2020 as follows:

	2021 (in thousands)	**2020**
Amounts receivable from other University units:		
Metropolitan Hospital	$ 19,196	$ 19,196
Other	$ 181	$ 5,826
Amounts payable to other University units:		
Medical School	$ 2,624	
Michigan Medicine Administrative Services	$ 14,299	$ 13,354
Other		$ 4,800

Note 7—Transactions with Other University of Michigan Units—Continued

In 2020, a line of credit of $45,000,000 was established between UMHS and Metropolitan Hospital to better achieve the goals and objectives of providing accessible, quality patient care and performing approved investments. At June 30, 2021 and 2020, amounts receivable from other University units primarily consists of the draw on the line of credit by Metropolitan Hospital.

Amounts payable consists principally of UMHS's portion of expenses incurred by the Michigan Medicine Administrative Services organization to accrue compensated absences.

UMHS had various other transactions with University units for the years ended June 30, 2021 and 2020 which are summarized as follows:

	2021	2020
	(in thousands)	
Operating (expenses) revenues:		
Clinical services provided by the Medical School	$ (729,758)	$ (661,301)
Amounts received from the Medical School to reimburse UMHS for expenses related to Medical School revenue and operating support, net	705	3,118
Services provided by other University units	(81,654)	(78,276)
Services provided to other University units	838	491
Insurance premium payments	(64,360)	(53,167)
Services provided by Michigan Medicine Administrative Services	(286,535)	(295,175)
Rent and other		(10)
Equity transfers to:		
Medical School academic and other non-patient care purposes, net	(159,370)	(171,686)
Other University units, net	(13,769)	(9,373)

UMHS's operations are dependent on services received from the Medical School and the University's Executive Vice President for Medical Affairs ("EVPMA") office, including the majority of the physician services that are provided to UMHS patients. Accordingly, UMHS recognizes expense for these services in operating expenses. UMHS incurred $729,758,000 and $661,301,000 of expense for services provided by the Medical School in 2021 and 2020, respectively. UMHS is also reimbursed for the salary cost of UMHS employees that perform professional services related to the Medical School. These reimbursements are recorded as a reduction to compensation and benefits expense on the statement of revenues, expenses and changes in net position, and totaled $705,000 and $3,118,000 in 2021 and 2020, respectively.

Note 7—Transactions with Other University of Michigan Units—Continued

In the course of normal operations, UMHS both provides and receives services from other University units. Services received include benefits administration, grounds maintenance, parking services, information technology, security services, payroll and human resources. UMHS included \$81,654,000 and \$78,276,000 in operating expenses for these services during 2021 and 2020, respectively. Services provided by UMHS include those of University Occupational Health Services and risk management administration. To compensate UMHS for these services, various University units reimbursed UMHS \$838,000 and \$491,000 during 2021 and 2020, respectively, which is included as a reduction to total operating expenses.

Operating expenses include UMHS's share of the initial premiums charged by the University's captive insurance provider, The Veritas Insurance Corporation ("Veritas"), for liability, property and casualty insurance, including worker's compensation. The premiums are based on the present value, using a discount rate of 5 percent, of the ultimate losses as estimated by an independent actuary. Medical Professional Liability premiums and premium credits are held solely by UMHS. Liabilities for excess ultimate losses beyond initial coverage provided by Veritas are reflected within the statements of UMHS.

Certain UMHS administrative functions are performed by a shared Michigan Medicine Administrative Services environment that combines similar functions from the Medical School and EVPMA office. Functions that are centralized include finance, legal, development, information technology and other services that can be provided from a single office to each part of the Michigan Medicine organization in a cost-effective manner. Costs incurred by the Michigan Medicine Administrative Services environment are allocated to each participating organization based upon effort expended for each function. In 2021 and 2020, \$286,535,000 and \$295,175,000, respectively, of operating expense was allocated to UMHS for the performance of these functions.

UMHS conducts equity transfers to and receives equity transfers from other University units. These equity transfers are generally made in support of the research and academic missions and are made at the discretion of UMHS leadership.

In 2016, a ten-year internal arrangement between UMHS and the Medical School was established to provide financial support for strategic investments and to increase faculty engagement and integration within the clinical mission. In 2017, the Medical School transferred funds of \$129,733,000 to UMHS, which were invested in the University's Long Term Portfolio. In exchange for this investment, UMHS distributes transfers back to the Medical School equal to the University's endowment distribution rate applied to the investment on an annual basis, with additional distributions occurring based on various metrics related to the financial performance of the clinical mission. Under this arrangement, UMHS transferred \$50,669,000 and \$10,593,000 to the Medical School during 2021 and 2020, respectively.

Note 8—Postemployment Benefits

UMHS participates in the University's postemployment benefits plan which provides retiree health and welfare benefits, primarily medical, prescription drug, dental and life insurance coverage, to eligible retirees and their eligible dependents. Substantially all of UMHS's regular employees may become eligible for these benefits if they reach retirement age while working for UMHS. For employees retiring on or after January 1, 1987, contributions toward health and welfare benefits are shared between UMHS and the retiree, and can vary based on date of hire, date of retirement, age and coverage elections.

The University also provides income replacement benefits, retirement savings contributions, and health and life insurance benefits to substantially all regular UMHS employees who are enrolled in a University sponsored long-term disability plan and qualify, based on disability status while working for UMHS, to receive basic or expanded long-term disability benefits. Contributions toward the expanded long-term disability plan are shared between UMHS and employees and vary based on years of service, annual base salary and coverage elections. Contributions toward the basic long-term disability plan are paid entirely by UMHS.

These postemployment benefits are provided through single-employer plans administered by the University. The Executive Vice Presidents of the University have the authority to establish and amend benefit provisions of these plans.

Actuarial projections of postemployment benefits are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided and announced future changes at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

The University's reported liability for postemployment benefits obligations was calculated using the entry age normal level percent of pay method. UMHS's annual postemployment benefits expense and liability represents an allocation of UMHS's relative share of the University's expense and liability, based on the method in which the retiree benefits are funded. The funding method is based upon a percentage of salary dollars of active employees who qualify for retiree benefits.

Note 8—Postemployment Benefits—Continued

Changes in the reported total liability for UMHS's postemployment benefits obligations for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 653,547	$ 40,918	$ 694,465
Net benefits expense	82,660	2,162	84,822
Increase in deferred outflows	187,915	1,872	189,787
Decrease (increase) in deferred inflows	10,905	(806)	10,099
Balance, end of year	935,027	44,146	979,173
Less current portion	19,439	5,147	24,586
	$ 915,588	$ 38,999	$ 954,587

	2020		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 542,772	$ 39,883	$ 582,655
Net benefits expense	53,210	2,698	55,908
Increase (decrease) in deferred outflows	46,660	(658)	46,002
Decrease (increase) in deferred inflows	10,905	(1,005)	9,900
Balance, end of year	653,547	40,918	694,465
Less current portion	19,112	4,935	24,047
	$ 634,435	$ 35,983	$ 670,418

At June 30, 2021 and 2020, deferred outflows reported in the statement of net position include benefit payments made after the measurement date of $19,439,000 and $19,112,000, respectively. UMHS has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. UMHS's reported postemployment benefits obligations at June 30, 2021 and 2020 as a percentage of covered payroll of $1,385,292,000 and $1,356,687,000 were 71 percent and 51 percent, respectively.

Note 8—Postemployment Benefits—Continued

Significant actuarial assumptions used at the June 30, 2020 and 2019 measurement dates are as follows:

	2020	2019
Discount rate*	2.21%	3.50%
Inflation rate	2.00%	2.00%
Immediate/ultimate administrative trend rate	0.0%/3.0%	0.0%/3.0%
Immediate/ultimate medical trend rate	6.0%/4.5%	6.0%/4.5%
Immediate/ultimate Rx trend rate	7.25%/4.5%	7.5%/4.5%
Increase in compensation rate**	0.0%/0.0%/3.75%	4.00%
Mortality table***	PUB-2010 Teachers Head Count Table, Scale MP-2019	PUB-2010 Teachers Head Count Table, Scale MP-2018
Average future work life expectancy (years):		
Retiree health and welfare	9.04	9.03
Long-term disability	11.46	11.34

* Bond Buyer 20-year General Obligation Municipal Bond Index as of the last publication of the measurement period

** Beginning with the June 30, 2020 measurement date, estimates are provided for faculty, staff and union employees

*** Based on the University's study of mortality experience from 2015-2019

Note 9—Retirement Plan

UMHS participates in the University's retirement plan, a defined contribution retirement plan through TIAA and Fidelity Management Trust Company ("FMTC") mutual funds. All staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA, or accounts with FMTC, and are fully vested.

Beginning January 2020, eligible employees may contribute 5 percent of their pay with UMHS contributing an amount equal to 10 percent of each employee's pay to the plan. Prior to January 2020, eligible employees could contribute either 4.5 or 5 percent of their pay, depending on their position, with UMHS contributing an amount equal to 9 or 10 percent of each employee's pay to the plan. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by UMHS contributions. Contributions and covered payroll under the plan (excluding additional participant contributions) for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021	2020
	(in thousands)	
UMHS contributions	$ 81,154	$ 103,365
Employee contributions	$ 42,309	$ 53,889
Payroll covered under plan	$ 1,385,292	$ 1,356,687
Total payroll	$ 1,414,515	$ 1,400,406

Due to the impact of the COVID-19 pandemic, contributions made to the plan by UMHS were suspended for non-bargained for staff from July 2020 to December 2020. Employees were able to continue to make regular and additional contributions to the plan during that time.

Note 10—Commitments and Contingencies

UMHS has entered into capital and operating leases for certain buildings and equipment, which expire at various dates through 2039. Outstanding commitments for these leases are expected to be paid in the following years ended June 30:

	Capital	Operating
	(in thousands)	
2022	$ 3,045	$ 23,248
2023	2,999	20,270
2024	2,861	19,598
2025	3,004	19,176
2026	3,004	11,049
2027-2031	15,322	21,591
2032-2036	16,089	8,687
2037-2039	9,936	
	56,260	$ 123,619
Less amount representing interest	25,888	
Present value of minimum lease payments	$ 30,372	

Operating lease expenses, which include leases with other University units, totaled $33,282,000 and $31,331,000 in 2021 and 2020, respectively.

Capital lease obligations consist primarily of a 25-year lease involving the 100,000 square foot building, 10 acres of land and site improvements that house the Northville Health Center facility.

UMHS is a party to various pending legal actions and other claims in the normal course of business, and is of the opinion that the outcome of these proceedings will not have a material adverse effect on its financial position.

During 2021 and 2020, UMHS received Provider Relief Fund payments under the CARES Act. Terms and conditions surrounding the recognition of these funds may be subject to change and could require UMHS to repay a portion of amounts received. UMHS believes that any liabilities arising from such changes will not have a material effect on its financial position.

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact UMHS's financial position and its results of operations. The extent of the impact to UMHS will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time.

THE VERITAS INSURANCE CORPORATION

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 and 2020
with
REPORT OF INDEPENDENT AUDITORS

THE VERITAS INSURANCE CORPORATION

June 30, 2021 and 2020

Report of Independent Auditors

To the Board of Directors of
The Veritas Insurance Corporation

We have audited the accompanying financial statements of The Veritas Insurance Corporation (the "Corporation"), a component unit of the University of Michigan, which comprise the statement of net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectivity comprise the Corporation'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 the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of The Veritas Insurance Corporation as of June 30, 2021 and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The accompanying management's discussion and analysis on pages 3 through 11 is required by accounting principles generally accepted in the United States of America 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 audits 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.

PricewaterhouseCoopers LLP

October 21, 2021

THE VERITAS INSURANCE CORPORATION

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position of The Veritas Insurance Corporation (the "Corporation") at June 30, 2021 and 2020 and its activities for the three fiscal years ended June 30, 2021. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Corporation, a wholly-owned subsidiary of the University of Michigan (the "University"), provides insurance coverage to the University. The University is the sole shareholder of the Corporation. As part of the University, the assets, liabilities, revenues, expenses and changes in net position of the Corporation are included in the consolidated financial statements of the University.

The Corporation provides direct insurance for medical professional liability, property damage, general liability (including hospital general liability) and educators' legal liability (including directors' and officers' liability). Indemnification is also provided for the University's workers' compensation and auto liability coverages.

The Corporation's insurance policies generally feature aggregate loss limits. For policies incepted in 2021 and 2020, the annual aggregate loss limits were \$70.0 million for medical professional liability and \$7.5 and \$5.0 million, respectively, for property damage, while general liability, educators' legal liability and auto liability coverages were limited by a combined annual aggregate loss limit of \$12.0 million.

The Corporation writes, on a direct basis, additional excess liability coverage for medical professional liability on a claims made basis. This policy is fully reinsured by multiple insurance providers. In addition, the Corporation writes, on a direct basis, basket aggregate umbrella liability coverage; a portion of which is reinsured by Munich Reinsurance America, Inc.

Financial Highlights

For the year ended June 30, 2021, the Corporation's net position increased by $83.4 million to $94.1 million. Operating activities increased net position by $25.7 million, while net investment income increased net position by $57.7 million.

Strong investment returns and additional premiums of $15.0 million approved by the Board of Directors (the "Board"), are the primary drivers of the $83.4 million increase in net position.

As a result of unfavorable loss experience, capital and surplus were not sufficient to provide premium credits in 2021.

The global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, was declared a pandemic by the World Health Organization on March 11, 2020 and a national emergency by the President of the United States on March 13, 2020. The COVID-19 pandemic impact is currently being monitored and addressed through a combination of mitigation and recovery strategies.

Using the Financial Statements

The financial statements report information about the Corporation as a whole using accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board, which have also been used in the preparation of the Annual Statement filed with the Vermont Department of Financial Regulation. Financial statements include the Statement of Net Position, which provides information about the Corporation's financial condition at the end of the fiscal year; the Statement of Revenues, Expenses and Changes in Net Position, which presents information regarding the results of operations and changes in net position for the year; the Statement of Cash Flows, which displays information pertaining to cash receipts and disbursements during the year; and the notes to the financial statements. These statements collectively present the financial condition of the Corporation at June 30, 2021 and 2020, and its revenues, expenses and changes in net position and cash flows for the years then ended.

Statement of Net Position

The statement of net position presents the financial position of the Corporation at the end of the fiscal year and includes all assets and liabilities of the Corporation. The difference between total assets and total liabilities – net position – is one indicator of the current financial condition of the Corporation, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year. The Corporation's assets, liabilities and net position at June 30 are summarized as follows:

	2021	2020 (in millions)	2019
Cash equivalents and investments	$ 316.0	$ 239.9	$ 226.4
Other assets	51.4	5.7	2.2
Total assets	367.4	245.6	228.6
Reserves for losses and loss adjustment expenses	267.7	223.8	169.7
Other liabilities	5.6	11.1	6.4
Total liabilities	273.3	234.9	176.1
Unrestricted net position	$ 94.1	$ 10.7	$ 52.5

The assets of the Corporation totaled $367.4 million at June 30, 2021, an increase of $121.8 million as compared to the prior year, driven primarily by increases in investments, unpaid losses that are recoverable, and unpaid losses receivable from the University.

The major components of assets at June 30, 2021 were $250,000 in cash equivalents, $152.8 million in the University's Daily and Monthly Portfolios and $162.9 million in the University's Long Term Portfolio. The major components of assets at June 30, 2020 were $250,000 in cash equivalents, $112.6 million in the University's Daily and Monthly Portfolios and $127.0 million in the University's Long Term Portfolio. The asset allocations for both 2021 and 2020 are consistent with the asset allocation target ranges adopted by the Board.

The major components of liabilities are reserves for losses and loss adjustment expenses ("LAE"). At June 30, 2021, reserves for losses and LAE totaled $267.7 million, an increase of $43.9 million, or 19.6 percent from the prior year. Of this amount, $123.9 million related to reserves on known claims and $143.8 million related to incurred but not reported reserves. The Corporation's reserves for losses and LAE are based upon management's best estimates, claim adjusters' determinations and actuarial valuations, discounted at a rate of 5 percent for both 2021 and 2020. The increase in reserves for losses and LAE is primarily due to higher losses incurred compared to payout of claims in 2021.

Management's Discussion and Analysis (Unaudited)—Continued

The activity in the reserves for losses and LAE for the years ended June 30 is summarized as follows:

	2021	2020 (in millions)	2019
Reserves for losses and LAE, beginning of year	$ 223.8	$ 169.7	$ 164.8
Less reinsurance recoverable on unpaid losses	5.3	1.3	1.1
Net reserves for losses and LAE, beginning of year	218.5	168.4	163.7
Incurred losses and LAE related to:			
Current year	62.0	63.2	53.0
Prior years	(12.6)	36.8	5.5
Total incurred losses and LAE	49.4	100.0	58.5
Total paid losses and LAE	(45.2)	(49.9)	(53.8)
Net reserves for losses and LAE, end of year	222.7	218.5	168.4
Receivables from the University for unpaid losses	43.2		
Reinsurance recoverable on unpaid losses	1.8	5.3	1.3
Reserves for losses and LAE, end of year	$ 267.7	$ 223.8	$ 169.7

Reserves for losses and LAE by line of business at June 30 are summarized as follows:

	2021	2020	2019
Medical professional liability	78.2%	82.1%	80.9%
Workers' compensation	5.5	6.8	8.6
Educators' legal liability	4.4	5.2	5.1
Property damage	1.9	1.5	2.6
Basket aggregate liability and excess insurance	0.6	2.6	1.4
Auto liability	0.4	0.4	0.5
General liability	8.9	1.3	0.8
Hospital premises liability	0.1	0.1	0.1
	100.0%	100.0%	100.0%

The Corporation may return funds to the University, its policyholder, for favorable loss experience and investment returns in the form of premium credits. The Board declares premium credits based on unrestricted net position in excess of adopted goals. In 2021, one-fourth of the excess net position can be distributed as premium credits subject to an annual review. In 2020, one-third of the excess net position could be distributed as premium credits subject to an annual review. The premium credits are accrued in the financial statements during the year in which they are declared and paid to the University in the subsequent year's premium renewals as credits. No premium credits were declared during the years ended June 30, 2021 and 2020.

Net position is unrestricted and totaled $94.1 million and $10.7 million at June 30, 2021 and 2020, respectively. This is in excess of the $250,000 minimum unimpaired paid-in capital and surplus required by the state of Vermont. The increase in 2021 is due primarily to investment income of $57.7 million and additional premiums of $15.0 million.

The Corporation's net position distribution policy includes the potential for premium credits and allows for a one-time dividend when audited balances of net position are such that the reserve to net position ratio is lower than 1:1 in 2021 and 2:1 in 2020. All dividends are subject to approval by the Vermont Department of Financial Regulation.

Statement of Revenues, Expenses and Changes in Net Position

The Corporation's revenues, expenses and changes in net position for the years ended June 30 are summarized as follows:

	2021	**2020** (in millions)	**2019**
Direct written premiums	$ 78.0	$ 54.2	$ 51.5
Change in unearned premiums	(0.7)	0.7	(0.7)
Ceded written premiums expired	(1.7)	(1.2)	(1.0)
Total operating revenues	75.6	53.7	49.8
Losses and loss adjustment expenses	49.4	100.0	58.5
Other operating expenses	0.5	0.3	0.3
Total operating expenses	49.9	100.3	58.8
Operating income (loss)	25.7	(46.6)	(9.0)
Nonoperating revenues	57.7	4.8	12.2
Increase (decrease) in net position	$ 83.4	$ (41.8)	$ 3.2

The Corporation's operating revenues totaled $75.6 million in 2021, compared to $53.7 million in 2020, an increase of $21.9 million, or 40.8 percent. The increase is primarily due to an increase in premiums written. The direct written premium contributions from the University are based on actuarially projected needs using loss data valued six to ten months prior to the inception of the policy. This loss data is adjusted for loss trend and exposure changes which include a factor for inflation. Based on these projections, the direct written premiums needed for 2021 were $8.8 million higher than 2020. In 2021 the Board approved additional premiums of $15.0 million to mitigate unfavorable claims development.

Gross written premiums net of premium credits by line of business for the years ended June 30 are summarized as follows:

	2021	2020	2019
Medical professional liability	75.2%	70.5%	66.4%
Workers' compensation	6.8	8.9	10.7
Educators' legal liability	5.9	6.7	8.0
Property damage	7.8	8.9	9.2
Basket aggregate liability and excess insurance	2.0	2.2	3.5
Auto liability	0.7	1.0	1.5
General liability	1.5	1.7	0.5
Hospital premises liability	0.1	0.1	0.2
	100.0%	100.0%	100.0%

Incurred losses and LAE for the years ended June 30 are summarized as follows:

	2021	2020 (in millions)	2019
Incurred losses and LAE related to:			
Current year	$ 62.0	$ 63.2	$ 53.0
Prior years	(12.6)	36.8	5.5
Total incurred losses and LAE	$ 49.4	$ 100.0	$ 58.5

In 2021, total incurred losses and LAE decreased $50.6 million, or 50.6 percent, to $49.4 million. The decrease is primarily due to a combination of decreased exposures and severity resulting in a decrease in current policy year incurred losses to $62.0 million and prior policy year favorable claims development of $12.6 million.

In 2021, favorable prior year loss development totaling $12.6 million is mainly attributable to Medical Professional Liability ("MPL"). For MPL, prior year ultimate losses decreased by $19.1 million mainly due to the impact of an indemnification agreement signed with the University and lower claims emergence than actuarially expected for most policy years. General Liability ("GL") losses decreased by $1.7 million due to favorable development greater than actuarially expected for policy year 1998/99. Educators' Legal Liability ("ELL") losses increased by $2.9 million due to unfavorable development greater than actuarially expected for policy year 2019/20. Basket Aggregate losses increased by $5.3 million due to unfavorable development greater than actuarially expected for policy year 2019/20.

In 2020, unfavorable prior year loss development totaling $36.8 million is mainly attributable to MPL. For MPL, prior year ultimate losses increased by $27.3 million mainly due to a $10.0 million contingent provision as well as higher claims emergence than actuarially expected for policy years 2017/18, 2018/19, and 2019/20. ELL losses increased by $7.4 million due to unfavorable development greater than actuarially expected for policy years 1998/99, 2017/18, 2018/19, and 2019/20. GL losses increased by $1.9 million due to unfavorable development greater than actuarially expected for policy year 1998/99. Workers' Compensation losses increased by $1.2 million mainly due to unfavorable development greater than actuarially expected for policy year 2018/19. Other lines of business in aggregate saw favorable development of $1.0 million.

Nonoperating revenues, representing net investment income, increased $52.9 million to $57.7 million in 2021, as compared to $4.8 million in 2020. This increase was primarily a result of strong investment returns within the University's Daily and Monthly Portfolios, and the University's Long Term Portfolio compared to the prior year.

Statement of Cash Flows

The statement of cash flows provides additional information about the Corporation's financial results by reporting the major sources and uses of cash. The Corporation's cash flows for the years ended June 30 are summarized as follows:

	2021	2020 (in millions)	2019
Cash received from operations	$ 78.0	$ 54.3	$ 51.5
Cash expended for operations	(59.6)	(45.6)	(55.6)
Net cash provided by (used in) operating activities	18.4	8.7	(4.1)
Net cash (used in) provided by investing activities	(18.4)	(8.7)	4.1
Net change in cash equivalents	$ -	$ -	$ -

The primary source of cash received from operations is the collection of premiums. Premiums collected totaled $78.0 million, $54.2 million and $51.5 million in 2021, 2020 and 2019, respectively. The $23.7 million increase in cash received from operations in 2021 is primarily due to a $23.8 million increase in premiums collected. The increase was primarily due to an increase in actuarially developed premium expectations for 2021 compared to the prior year and additional premiums collected of $15.0 million.

Cash expended for operating activities, which primarily represents payment of losses and LAE, ceded reinsurance premiums and other underwriting expenses, totaled $59.6 million in 2021, as compared to $45.6 million in 2020. The increase in 2021 is due to increased payments for losses and LAE in the current year.

Cash used in investing activities increased $9.7 million in 2021, due primarily to a higher volume of investment purchases compared to the prior year.

Economic Factors That May Affect the Future

The Corporation faces several factors which directly or indirectly affect its financial position and operations. State and federal regulations relating to insurance liabilities could change. In addition, the insurance marketplace is competitive and the Corporation's ability to place coverage in the insurance market and purchase reinsurance may change.

The Corporation employs an investment strategy that balances asset allocation between current and noncurrent investments. Current assets are invested in the University's Daily and Monthly Portfolios, while noncurrent assets are invested in the University's Long Term Portfolio. The strategy seeks to maximize total return at the appropriate level of risk over a time horizon commensurate with payment patterns of the Corporation's loss retentions. However, investment results looking forward are subject to future market conditions and volatility.

The Corporation discounts reserves for losses based on expected investment returns and actuarially determined payment patterns. A discount rate of 5 percent was used for 2021, 2020 and 2019. This estimate may change based on periodic assessments of investment strategies, actual returns and future market conditions. Each year the discount rate is reviewed with the Board and the University's Treasurer's Office.

The Corporation acquires certain reinsurance and excess insurance coverage in the commercial market. In recent years, the Corporation has been able to access adequate levels of commercial reinsurance and excess insurance at moderate premium costs. However, insurance industry results due to underwriting performance, investment returns, and major accidents and disasters could impact the cost of, and the Corporation's value assessment of, commercial risk transfer options in the future.

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact the Corporation's financial position and its results of operations. While the Corporation continues to design and execute plans to mitigate these risks, the extent of the impact will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time.

THE VERITAS INSURANCE CORPORATION

Statement of Net Position

	June 30, 2021	June 30, 2020
Assets		
Current Assets:		
Cash equivalents	$ 250,000	$ 250,000
Investments on deposit with the University	152,830,844	112,620,107
Losses receivable from the University	43,240,596	4,296
Prepaid premium tax	8,838	9,912
Prepaid reinsurance premiums	388,781	260,442
Reinsurance recoverable on paid losses	5,916,956	230
Total Current Assets	202,636,015	113,144,987
Noncurrent Assets:		
Investments on deposit with the University	162,903,167	127,046,361
Reinsurance recoverable on unpaid losses	1,843,568	5,385,167
Total Noncurrent Assets	164,746,735	132,431,528
Total Assets	**367,382,750**	**245,576,515**
Liabilities		
Current Liabilities:		
Reserves for losses and loss adjustment expenses	105,433,189	73,736,194
Unearned premium reserves	4,427,782	3,725,443
Premium tax payable	28,500	
Losses payable and accrued liabilities	1,115,164	7,340,267
Total Current Liabilities	111,004,635	84,801,904
Noncurrent Liabilities:		
Reserves for losses and loss adjustment expenses	162,295,919	150,114,768
Total Liabilities	**273,300,554**	**234,916,672**
Net Position		
Unrestricted	94,082,196	10,659,843
Total Net Position	**$ 94,082,196**	**$ 10,659,843**

The accompanying notes are an integral part of the financial statements.

THE VERITAS INSURANCE CORPORATION

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2021	Year Ended June 30, 2020
Operating Revenues		
Gross direct written premiums	$ 77,952,115	$ 54,221,332
Change in unearned premiums	(702,339)	735,857
Total direct written premiums earned	77,249,776	54,957,189
Ceded written premiums	(1,791,351)	(1,293,832)
Change in prepaid reinsurance	128,339	9,177
Total ceded written premiums expired	(1,663,012)	(1,284,655)
Net earned premiums	75,586,764	53,672,534
Total Operating Revenues	**75,586,764**	**53,672,534**
Operating Expenses		
Losses and loss adjustment expenses	49,404,042	100,005,202
Management fees	58,000	63,775
Premium tax	207,456	162,858
Other expenses	171,437	101,876
Total Operating Expenses	**49,840,935**	**100,333,711**
Operating Income (Loss)	25,745,829	(46,661,177)
Nonoperating Revenues		
Net investment income	57,676,524	4,820,182
Total Nonoperating Revenues	**57,676,524**	**4,820,182**
Increase (Decrease) in Net Position	83,422,353	(41,840,995)
Net Position, Beginning of Year	10,659,843	52,500,838
Net Position, End of Year	**$ 94,082,196**	**$ 10,659,843**

The accompanying notes are an integral part of the financial statements.

THE VERITAS INSURANCE CORPORATION

Statement of Cash Flows

	Year Ended June 30, 2021	2020
Cash Flows from Operating Activities		
Insurance premiums collected, net	$ 77,952,115	$ 54,221,332
Payments for losses and loss adjustment expenses	(51,459,904)	(44,501,361)
(Payments) collections for losses recoverable	(5,915,523)	129,990
Payments for net ceded reinsurance premiums	(1,791,351)	(781,332)
Payments for other expenses	(214,937)	(182,248)
Payments for premium tax	(179,381)	(163,335)
Net Cash Provided by Operating Activities	**18,391,019**	**8,723,046**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	193,922,149	121,505,341
Purchases of investments	(212,312,435)	(130,231,361)
Investment (loss) income	(733)	2,974
Net Cash Used in Investing Activities	**(18,391,019)**	**(8,723,046)**
Net Change in Cash Equivalents	-	-
Cash Equivalents, Beginning of Year	250,000	250,000
Cash Equivalents, End of Year	**$ 250,000**	**$ 250,000**
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ 25,745,829	$ (46,661,177)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Losses receivable from the University	(43,236,300)	130,035
Prepaid premium tax	1,074	1,684
Prepaid reinsurance premiums	(128,339)	503,323
Reinsurance recoverable on paid losses	(5,916,726)	(45)
Reinsurance recoverable on unpaid losses	3,541,599	(4,035,016)
Reserves for losses and loss adjustment expenses	43,878,146	54,103,571
Unearned premium reserves	702,339	(735,857)
Premium tax payable	28,500	(2,161)
Losses payable and accrued liabilities	(6,225,103)	5,418,689
Net Cash Provided by Operating Activities	**$ 18,391,019**	**$ 8,723,046**

The accompanying notes are an integral part of the financial statements.

Note 1—Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: The Veritas Insurance Corporation (the "Corporation"), domiciled in Vermont, is a wholly-owned captive insurance subsidiary of the University of Michigan (the "University"). The University is the sole shareholder of the Corporation. The Corporation is considered to be an integral part of the University. As a part of the University, the assets, liabilities, revenues, expenses and changes in net position of the Corporation are included in the consolidated financial statements of the University. As a wholly-owned subsidiary of the University, the Corporation is exempt from federal income taxes under the provisions of Sections 501(c)(3) and 115(a) of the Internal Revenue Code.

The Corporation provides direct insurance for medical professional liability, property damage, general liability (including hospital general liability) and educators' legal liability (including directors' and officers' liability). Indemnification is also provided for the University's workers' compensation and auto liability coverages.

The Corporation's insurance policies generally feature aggregate loss limits. For policies incepted in 2021 and 2020, the annual aggregate loss limits were $70,000,000 for medical professional liability and $7,500,000 and $5,000,000, respectively, for property damage, while general liability, educators' legal liability and auto liability coverages were limited by a combined annual aggregate loss limit of $12,000,000. The Corporation writes, on a direct basis, additional excess liability coverage for medical professional liability on a claims made basis. This policy is fully reinsured by multiple insurance providers.

In addition, the Corporation writes, on a direct basis, basket aggregate umbrella liability coverage. A portion of the basket aggregate umbrella liability program is reinsured by Munich Reinsurance America, Inc. For insurance written and reinsurance ceded with a policy term different from the financial reporting period, unearned premium and prepaid reinsurance is recognized for the unexpired terms of the policies in force.

All coverages are provided on an occurrence basis with the exception of educators' legal liability and excess medical professional liability which are provided on a claims made basis.

The Corporation maintains $250,000 in cash equivalents to meet the state of Vermont's minimum unimpaired paid-in capital and surplus requirement for a single parent captive insurance company.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

The financial statements 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"), which were also used in the preparation of the Annual Statement filed with the Vermont Department of Financial Regulation. The Corporation reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Summary of Significant Accounting Policies: For purposes of the statement of cash flows, the Corporation considers all highly liquid investments purchased with a maturity of three months or less, to be cash equivalents.

Investments are reported in both the current and noncurrent sections of the statement of net position. Current investments are those funds invested in the University's Daily and Monthly Portfolios, and can be readily liquidated to pay contractual liabilities. Noncurrent investments are those funds invested in the University's Long Term Portfolio and are considered by management to be of a long duration.

Investments in marketable securities held indirectly through participation in the Daily and Monthly Portfolios and Long Term Portfolio are carried at fair value as established by the major securities markets. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on the accrual basis. Realized and unrealized gains and losses are reported in investment income.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Investments in nonmarketable limited partnerships, held indirectly through participation in the Long Term Portfolio, are generally carried at fair value provided by the management of the investment partnerships at June 30, 2021 and 2020. As these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for these investments existed.

Derivative instruments, such as financial futures, forward foreign exchange contracts and interest rate swaps held indirectly through participation in the Daily and Monthly Portfolios and Long Term Portfolio, are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. Investments in the Long Term Portfolio denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments denominated in foreign currencies and related income are translated at the spot exchange rate on the transaction dates.

The reserves for losses and loss adjustment expenses (“LAE”) are reported gross of reinsurance and include case basis estimates of reported losses, plus supplemental amounts related to incurred but not reported losses. The reserves are based upon management’s best estimate, which includes claim adjusters’ valuations and actuarial determinations, and are discounted to present value. The interest rate used to discount reserves at both June 30, 2021 and 2020 was 5 percent, which reflects management’s best estimate of the total portfolio rate of return. Future adjustments to these amounts resulting from the continuous review process, as well as differences between estimates and ultimate losses, will be reflected in the statement of revenues, expenses and changes in net position when such adjustments become known.

In the normal course of business, the Corporation seeks to reduce the losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Ceded written premiums are recognized pro-rata over the term of the underlying reinsurance policy. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Amounts recoverable from reinsurers for losses paid by the Corporation as of the statement of net position date are recorded as a current asset. Estimated amounts recoverable from reinsurers related to noncurrent reserves for losses are recorded as a noncurrent asset. The Corporation is contingently liable should the reinsurers become unable to meet their contractual obligations.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

The Corporation's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net position are those that generally result from the exchange of premiums and payment of claims.

Premiums are earned and reinsurance premiums are expensed on a monthly pro-rata basis over the terms of the underlying insurance policies. Unearned premium reserves and prepaid reinsurance premiums represent that portion of premiums written or ceded applicable to the unexpired terms of the policies in force.

Premium taxes are expensed over the terms of the policies to which they relate. Accordingly, prepaid premium tax is established for the portion of those premium taxes applicable to the unexpired period of the policies in force.

The Corporation distributes, in the form of returned premium credits, unrestricted net position in excess of adopted goals. In 2021, one-fourth of the excess net position can be distributed as premium credits subject to an annual review. In 2020, one-third of the excess net position could be distributed as premium credits subject to an annual review. The distribution policy includes guidelines for declaring dividends, which allows for a one-time dividend when audited balances of net position are such that the reserve to net position ratio is lower than 1:1 in 2021 and 2:1 in 2020. All premium credits and dividend declarations are at the discretion of the Board of Directors (the "Board") and dividends are subject to prior approval from the Vermont Department of Financial Regulation. There were no premium credits declared in 2021 or 2020.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. The most significant areas that require management estimates relate to the reserves for losses and LAE.

Note 2—Cash Equivalents and Investments

The Board has adopted an asset allocation target range of 45-55 percent to cash equivalents and fixed income securities and 45-55 percent to equity-oriented strategies, with $250,000 to be maintained in cash equivalents to meet the state of Vermont's minimum unimpaired paid-in capital and surplus requirement.

Cash equivalents and investments of the Corporation are invested in the University's centrally managed investment pools. Cash reserves and relatively short duration assets are invested in the University's Daily and Monthly Portfolios, while longer term assets are invested in the University's Long Term Portfolio. The Daily and Monthly Portfolios are principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. The longer investment horizon of the Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets.

The Corporation's cash equivalents and investments on deposit with the University at June 30, 2021 and 2020 are summarized as follows:

	Amortized Cost	Unrealized Gains	Fair Value
2021			
Cash equivalents	$ 250,000		$ 250,000
Daily and Monthly Portfolios	145,845,889	$ 6,984,955	152,830,844
Long Term Portfolio	115,661,579	47,241,588	162,903,167
	$ 261,757,468	$ 54,226,543	$ 315,984,011
2020			
Cash equivalents	$ 250,000		$ 250,000
Daily and Monthly Portfolios	106,825,898	$ 5,794,209	112,620,107
Long Term Portfolio	114,689,535	12,356,826	127,046,361
	$ 221,765,433	$ 18,151,035	$ 239,916,468

Note 2—Cash Equivalents and Investments—Continued

At June 30, 2021 and 2020, the Daily and Monthly Portfolios were comprised of 4 percent and 13 percent money market securities, 74 percent and 49 percent fixed income securities and the remaining 22 percent and 38 percent in fixed income oriented externally managed commingled funds, limited partnerships and other investments providing additional diversification benefits to the pools. Money market securities include mutual funds, overnight pooled vehicles managed by the University's custodian and short term highly liquid securities generally maturing in 90 days or less. Of the fixed income securities, 97 percent were rated investment grade, and 70 percent consisted of U.S. Treasury and government agencies and non-U.S. government securities rated AAA/Aaa at June 30, 2021, compared to 97 percent and 72 percent, respectively, at June 30, 2020. Fixed income securities considered investment grade are those rated at least BBB and Baa by two nationally recognized statistical rating organizations, S&P Global and Moody's.

Effective duration is a commonly used measure of interest rate risk, incorporating a security's yield, coupon, final maturity, call features and other embedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. This measure indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The weighted average effective duration of the fixed income securities in the Daily and Monthly Portfolios was 1.5 years and 1.1 years at June 30, 2021 and 2020, respectively.

The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio, sets general targets for both equities and fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories. At June 30, 2021 and 2020, the Long Term Portfolio consisted of cash equivalents (2 percent and 2 percent), fixed income securities (5 percent and 8 percent), U.S. and non-U.S. equities (4 percent and 4 percent), commingled funds (18 percent and 19 percent) and nonmarketable alternative investments (71 percent and 67 percent).

Commingled (pooled) funds held in the Long Term Portfolio and Monthly Portfolio include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Commingled funds are primarily invested in non-U.S./global equities and absolute return strategies, but also include exposure to domestic fixed income and equity securities. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy; however, these investments are structured to limit the University's risk exposure to the amount of invested capital.

Note 2—Cash Equivalents and Investments—Continued

Nonmarketable alternative investments held in the Long Term Portfolio and Monthly Portfolio consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. These limited partnerships include venture capital, private equity, real estate, natural resources and absolute return strategies. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner.

The Long Term Portfolio holds investments denominated in foreign currencies and forward foreign exchange contracts used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies. Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Long Term Portfolio's non-U.S. dollar exposure amounted to 9 percent and 11 percent of the portfolio at June 30, 2021 and 2020, respectively.

The University's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forwards, futures and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net position and is not represented by the contract or notional amounts of the instruments.

Note 2—Cash Equivalents and Investments—Continued

GASB defines fair value and establishes a framework for measuring fair value that includes a three tiered hierarchy of valuation inputs, placing a priority on those which are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The three levels of inputs, of which the first two are considered observable and the last unobservable, are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date
- Level 2 – Other significant observable inputs, either direct or indirect, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or market corroborated inputs
- Level 3 – Unobservable inputs

A significant portion of the underlying investments of the University's commingled pools include nonmarketable alternative investments and certain commingled funds described earlier in this note that are priced by managers using net asset value. The proprietary valuation techniques and unobservable pricing assumptions used by these managers to estimate fair value may have a significant impact on the resulting fair value determination of these investments. However, the Corporation uses Level 2 inputs to measure the fair value of its investments in the University's commingled pools, since shares may be purchased or sold subject to holding and notice requirements at the fair market values determined by the University.

Note 3—Reserves for Losses and Loss Adjustment Expenses

Activity in the reserves for losses and LAE for the years ended June 30, 2021 and 2020 is summarized as follows:

	2021	2020
Reserves for losses and LAE, beginning of year	$ 223,850,962	$ 169,747,391
Less reinsurance recoverable on unpaid losses	5,385,167	1,350,151
Net reserves for losses and LAE, beginning of year	218,465,795	168,397,240
Add incurred losses and LAE related to:		
Current year	62,032,316	63,202,512
Prior years	(12,628,274)	36,802,690
Total incurred losses and LAE	49,404,042	100,005,202
Less paid losses and LAE related to:		
Current year	3,836,766	5,121,477
Prior years	41,385,033	44,815,171
Total paid losses and LAE	45,221,799	49,936,648
Net reserves for losses and LAE, end of year	222,648,038	218,465,795
Receivables from the University for unpaid losses	43,237,502	
Reinsurance recoverable on unpaid losses	1,843,568	5,385,167
Reserves for losses and LAE, end of year	267,729,108	223,850,962
Less current portion	105,433,189	73,736,194
	$ 162,295,919	$ 150,114,768

The liabilities for losses and LAE reserves are determined by actuarial estimates of ultimate reported losses based upon the Corporation's historical and industry loss experience.

Note 3—Reserves for Losses and Loss Adjustment Expenses—Continued

The payment pattern utilized for loss reserve discounting purposes has been actuarially determined. The discounting of reserves has reduced liabilities and increased unrestricted net position by $31,133,707 and $30,102,617 at June 30, 2021 and 2020, respectively.

In 2021, incurred losses and LAE related to policies incepted during the year decreased $1,170,196. Incurred losses and LAE related to prior years totaled $12,628,274 due to net favorable loss development. Medical professional liability decreased $19,135,953, general liability decreased $1,733,338 and other lines decreased $757,732, which was offset by the remaining lines of coverage combined unfavorable development of $8,998,749. The net favorable development is primarily due to lower reported claims experience compared to previously projected for recent prior policy years.

In 2020, incurred losses and LAE related to policies incepted during the year increased $10,167,148. Incurred losses and LAE related to prior years totaled $36,802,690 due to net unfavorable loss development. Medical professional liability increased $27,264,634, educators' legal liability increased $7,413,626, general liability increased $1,866,706 and workers' compensation increased $1,218,625, which was offset by the remaining lines of coverage combined favorable development of $960,901. The net unfavorable development is primarily due to higher reported claims experience compared to previously projected for recent prior policy years.

Note 4—Transactions with the University of Michigan

All premiums written and losses and loss adjustment expenses incurred result from insurance coverage written with the University.

For the years ended June 30, 2021 and 2020, the University provided claims administration and risk management services, with an estimated value of $2,765,000, at no cost to the Corporation.

The University contracts with a qualified risk consultant for actuarial services to assist in the projection and valuation of the Corporation's losses. The University also contracts for insurance brokerage services which assist the Corporation in placing ceded reinsurance in the commercial market. Fees paid for actuarial and brokerage services are included in the risk management services provided by the University, at no cost to the Corporation.

Note 4—Transactions with the University of Michigan—Continued

In 2021, the Corporation signed an indemnification agreement with the University for all defense and indemnity costs that the Corporation would incur in connection with certain claims against the University. Pursuant to this agreement, the Corporation has recorded receivables from the University equal to the amount of reserves recorded for these claims. The receivables are reported as losses receivable from the University and the reserves are reported as current reserves for losses and loss adjustment expenses in the statement of net position.

In 2021, the Corporation also received a letter from the University stating that the University will and has the ability to fully support the Corporation in maintaining the minimum unimpaired paid-in capital and surplus requirement of $250,000 as required by the state of Vermont, through October 22, 2022.

Note 5—Unrestricted Net Position

The Corporation is required to file an Annual Statement with the Vermont Department of Financial Regulation. There were no differences in net position and changes in net position between the audited financial statements and the Annual Statement for the years ended June 30, 2021 and 2020.

Unrestricted net position at June 30, 2021 and 2020 is summarized as follows:

	2021	2020
Common stock, par value $1,000 per share – authorized, issued and outstanding 1,000 shares	$ 1,000,000	$ 1,000,000
Additional paid-in capital	4,454,333	4,454,333
Retained earnings	88,627,863	5,205,510
	$ 94,082,196	$ 10,659,843

Note 6—Contingencies

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact the Corporation's financial position and its results of operations. While the Corporation continues to design and execute plans to mitigate these risks, the extent of the impact will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2021 and 2020
with
REPORT OF INDEPENDENT AUDITORS

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

June 30, 2021 and 2020

Page(s)

Report of Independent Auditors

To the Regents of the University of Michigan

We have audited the accompanying financial statements of the Intercollegiate Athletics of the University of Michigan ("ICA"), which, as discussed in Note 1, consists of certain departments of the University of Michigan, which comprise the statements of net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended.

Management's Responsibility 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; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to ICA'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 ICA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Intercollegiate Athletics of the University of Michigan, which consists of certain departments of the University of Michigan, as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of ICA are intended to present the net position, revenues, expenses and changes in net position, and cash flows of only that portion of the business type activities of the University of Michigan that are attributable to the transactions of ICA. They do not purport to, and do not, present fairly the financial position of the University of Michigan as of June 30, 2021 and 2020, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

The accompanying management's discussion and analysis on pages 3 through 9 is required by accounting principles generally accepted in the United States of America 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 audits 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.

PricewaterhouseCoopers L.L.P.

October 21, 2021

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position of Intercollegiate Athletics of the University of Michigan ("ICA") at June 30, 2021 and 2020, and its activities for the three fiscal years ended June 30, 2021. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

ICA operates under the control of the Regents of the University of Michigan (the "University") to administer the intercollegiate athletic programs of the University. As part of the University, the assets, deferred outflows, liabilities, deferred inflows, revenues, expenses and changes in net position of ICA are included in the consolidated financial statements of the University. All organizations controlled by ICA, consisting of its various departments, are included in the financial statements. Organizations not controlled by ICA, such as certain booster and alumni organizations, are not included in the financial statements.

Financial Highlights

ICA's financial position remains strong, with total assets and deferred outflows of $874.0 million and total liabilities and deferred inflows of $409.6 million at June 30, 2021, as compared to total assets and deferred outflows of $865.8 million and total liabilities and deferred inflows of $381.5 million at June 30, 2020. Net position, which represents the residual interest in ICA's total assets and deferred outflows after total liabilities and deferred inflows are deducted, totaled $464.4 million and $484.3 million at June 30, 2021 and 2020, respectively. ICA's change in net position for the years ended June 30 is summarized as follows:

	2021	**2020** (in millions)	**2019**
Operating revenues	$ 80.1	$ 177.0	$ 181.5
Operating expenses	$ 165.2	$ 190.2	$ 200.7
Net nonoperating and other activities	$ 65.2	$ 0.4	$ 10.9
Decrease in net position	$ (19.9)	$ (12.8)	$ (8.3)

In response to the COVID-19 pandemic, competitions were held only between Big Ten Conference members during the year ended June 30, 2021, with fewer games and no spectators in the stadium or at events prior to post-season competitions. As a result, ICA's operating revenues decreased $96.9 million in 2021 due primarily to no ticket sales, refunded and reduced preferred seat contributions, and lower television revenues. ICA's operating revenues decreased $4.5 million in 2020 due primarily to a reduction in preferred seat contributions received as a result of uncertainty surrounding the 2021 sports seasons and a decrease in facilities revenues due to a reduction in facility rentals.

Significant recurring sources of revenue for ICA, including gifts and investment income, are included in nonoperating revenues, as required by the Governmental Accounting Standards Board ("GASB"). Net nonoperating and other activities increased $64.8 million in 2021 due primarily to an increase in net investment income and increased private gifts. Net nonoperating and other activities decreased $10.5 million in 2020 due primarily to a decrease in net investment income.

ICA's operating expenses decreased $25.0 million in 2021 due primarily to reduced department operations, fewer team activities and competitions, and various expense reduction initiatives as a result of the COVID-19 pandemic. ICA's operating expenses decreased $10.5 million in 2020 due primarily to the cancellation of spring sports and reduced team activities.

Using the Financial Statements

ICA's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with GASB principles.

Statement of Net Position

The statement of net position presents the financial position of ICA at the end of the fiscal year and includes all assets, deferred outflows, liabilities and deferred inflows of ICA. The difference between total assets and deferred outflows as compared to total liabilities and deferred inflows – net position – is one indicator of the current financial condition of ICA, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year. ICA's assets, deferred outflows, liabilities, deferred inflows and net position at June 30 are summarized as follows:

	2021	2020	2019
		(in thousands)	
Net current assets (liabilities):			
Cash equivalents	$ 95,536	$ 115,324	$ 141,562
Receivables and other assets, net	22,297	21,361	17,496
Advance sale of game tickets	(41,638)	(19,814)	(45,072)
Current portion of notes payable	(11,650)	(11,272)	(10,544)
Other current liabilities	(16,720)	(13,822)	(21,433)
Total net current assets	47,825	91,777	82,009
Net noncurrent assets, deferred outflows, (liabilities) and (deferred inflows):			
Investments	191,188	137,518	136,122
Pledges receivable, net	44,114	52,234	62,391
Other noncurrent assets	17,497	13,654	11,786
Capital assets, net	489,063	519,378	546,196
Deferred outflows	14,276	6,293	4,282
Other liabilities	(1,500)	(1,500)	(2,128)
Unearned revenues	(6,320)	(7,864)	(8,779)
Obligations for postemployment benefits	(48,959)	(36,782)	(31,993)
Notes payable	(269,099)	(277,169)	(289,856)
Deferred inflows	(13,660)	(13,248)	(12,908)
Total net noncurrent assets and net deferred outflows (inflows)	416,600	392,514	415,113
Net position	$ 464,425	$ 484,291	$ 497,122

ICA continues to make investments in its physical plant financed by debt, capital gifts and reserves. In 2019, ICA completed construction of the Football Performance Center.

Outstanding debt at June 30, 2021 and 2020, totaled $280.7 million and $288.4 million, respectively. In 2021, the University established a line of credit for ICA in the amount of $80.0 million to help mitigate operational challenges posed by the COVID-19 pandemic. At June 30, 2021, the outstanding balance associated with this line of credit was $5.0 million.

ICA's net position decreased $19.9 million in 2021. The composition of ICA's net position at June 30 is summarized as follows:

	2021	**2020** (in thousands)	**2019**
Net investment in capital assets	$ 210,856	$ 228,405	$ 245,796
Restricted:			
Nonexpendable	99,219	91,715	83,503
Expendable	203,950	155,609	166,723
Unrestricted	(49,600)	8,562	1,100
	$ 464,425	$ 484,291	$ 497,122

Results of Operations

ICA measures its results of operations based on certain activities in its current funds (auxiliary and expendable funds) which are summarized as follows for the years ended June 30:

	2021	2020	2019
		(in thousands)	
Revenues:			
Spectator admissions	$ 54	$ 57,138	$ 53,930
Conference distributions	45,438	53,905	53,922
Preferred seat contributions, net	(616)	27,643	30,205
Private gifts for other than capital and endowment purposes, current funds	13,659	5,169	4,771
Corporate sponsorships and other media rights	17,603	18,359	18,478
Licensing royalties	10,930	8,133	9,732
Facilities revenues	3,022	4,815	7,075
Concessions, publications and parking	831	3,569	4,323
Other revenues	2,837	3,392	3,830
Investment income, current funds	6,239	6,692	6,531
Total Revenues	99,997	188,815	192,797
Expenses and other uses:			
Salaries, wages and benefits, current funds	68,296	71,575	72,474
Financial aid	27,778	27,958	27,340
Team and game	19,748	33,307	37,866
Other operating and administrative	7,928	13,473	15,529
Equity transfers to the University, current funds	1,795	7,978	6,020
Operations and maintenance of plant, current funds	6,471	8,736	9,874
Deferred maintenance transfer		6,800	5,350
Debt service transfer	17,404	17,359	17,464
Total expenses and other uses	149,420	187,186	191,917
(Deficit) excess of revenues over expenses and other uses	$ (49,423)	$ 1,629	$ 880

(Deficit) excess of revenues over expenses and other uses decreased $51.1 million in 2021 and increased $0.7 million in 2020.

ICA's revenues decreased $88.8 million in 2021 primarily due to no ticket sales for 2021 competitions, refunded and reduced preferred seat contributions and lower television revenues, all as a result of the COVID-19 pandemic. ICA's expenses and other uses decreased $37.8 million in 2021 primarily due to reduced department operations, fewer team activities and competitions, and various expense reduction initiatives as a result of the COVID-19 pandemic.

Statement of Cash Flows

The statement of cash flows provides additional information about ICA's financial results by reporting the major sources and uses of cash. ICA's cash flows for the years ended June 30 are as follows:

	2021	**2020**	**2019**
		(in thousands)	
Net cash (used in) provided by operating activities	$ (29,509)	$ (17,661)	$ 14,831
Net cash provided by (used in) noncapital financing activities	15,899	(2,674)	(716)
Net cash used in capital and related financing activities	(12,046)	(13,609)	(9,103)
Net cash provided by investing activities	5,868	7,706	6,412
Net (decrease) increase in cash equivalents	$ (19,788)	$ (26,238)	$ 11,424

Cash received from operations primarily consists of conference distributions, spectator admissions and preferred seat contributions. Cash received from noncapital financing primarily consists of private gifts. Cash used in capital and related financing activities primarily related to ICA's continued investment in its physical plant.

Economic Factors That May Affect the Future

ICA believes that it is well positioned to generate sufficient cash flows to sustain continued success in its operations and support of the student-athlete and athletic department.

A major portion of ICA’s revenue, such as conference media contracts and corporate sponsorship arrangements, is contractually defined for future years. However, a significant portion of ICA’s revenue base, such as gifts, football admissions and premium seat sales, is directly tied to the success of its football program. While ICA has historically sold out the premium seats at Michigan Stadium and enjoyed football season ticket renewals of greater than 95 percent, ICA would be negatively impacted if the football program were to experience declined success, which would likely result in decreased spectator admissions, preferred seat contributions and gift revenue.

Additional external risks which may significantly impact ICA include lawsuits involving the National Collegiate Athletic Association (“NCAA”), grant-in-aid limits and the overall student-athlete support structure. Health care, injury prevention, full cost of attendance provisions, student-athlete trust funds and professional agent representation will continue to be discussed. Furthermore, potential future landscape changes could arise in the form of additional benefits for student-athletes beyond their participation.

The COVID-19 pandemic and related actions taken by the NCAA, the Big Ten Conference and the University in response may materially impact ICA’s financial position and its results of operations. While ICA continues to design and execute plans to mitigate these risks, the extent of the impact to ICA will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time. Fall 2021 competitions are scheduled to return to normal with no spectator restrictions; however, this remains subject to Big Ten Conference, local, and state restrictions and regulations.

While it is not possible to predict the ultimate results, management believes that ICA’s financial position will remain strong.

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

Statement of Net Position

	June 30, 2021	June 30, 2020
	(in thousands)	
Assets		
Current Assets:		
Cash equivalents on deposit with the University	$ 95,536	$ 115,324
Accounts receivable, net	7,954	7,522
Current portion of pledges receivable, net	11,766	10,276
Current portion of prepaid expenses and other assets	2,577	3,563
Total Current Assets	117,833	136,685
Noncurrent Assets:		
Endowment investments on deposit with the University	191,188	137,518
Pledges receivable, net	44,114	52,234
Prepaid expenses and other assets	17,497	13,654
Capital assets, net	489,063	519,378
Total Noncurrent Assets	741,862	722,784
Total Assets	**859,695**	**859,469**
Deferred Outflows	**14,276**	**6,293**
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	5,240	4,432
Accrued compensation	7,101	6,505
Advance sale of game tickets	41,638	19,814
Current portion of unearned revenues	4,379	2,885
Current portion of notes payable to the University	11,650	11,272
Total Current Liabilities	70,008	44,908
Noncurrent Liabilities:		
Other liabilities	1,500	1,500
Unearned revenues	6,320	7,864
Obligations for postemployment benefits	48,959	36,782
Notes payable to the University	269,099	277,169
Total Noncurrent Liabilities	325,878	323,315
Total Liabilities	**395,886**	**368,223**
Deferred Inflows	**13,660**	**13,248**
Net Position		
Net investment in capital assets	210,856	228,405
Restricted:		
Nonexpendable	99,219	91,715
Expendable	203,950	155,609
Unrestricted	(49,600)	8,562
Total Net Position	**$ 464,425**	**$ 484,291**

The accompanying notes are an integral part of the financial statements.

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2021	2020
	(in thousands)	
Operating Revenues		
Spectator admissions	$ 54	$ 57,138
Conference distributions	45,438	53,905
Preferred seat contributions, net	(616)	27,643
Corporate sponsorships and other media rights	17,603	18,359
Licensing royalties	10,930	8,133
Facilities revenues	3,022	4,815
Concessions, publications and parking	831	3,569
Other revenues	2,837	3,392
Total Operating Revenues	**80,099**	**176,954**
Operating Expenses		
Salaries, wages and benefits	71,632	73,599
Financial aid	27,778	27,958
Team and game	19,748	31,307
Other operating and administrative	7,928	13,473
Operations and maintenance of plant	7,266	12,783
Depreciation	30,887	31,111
Total Operating Expenses	**165,239**	**190,231**
Operating Loss	(85,140)	(13,277)
Nonoperating Revenues (Expenses)		
Private gifts for other than capital and endowment purposes	13,659	5,442
Net investment income	52,346	329
Interest expense and other, net	(9,786)	(10,586)
Total Nonoperating Revenues (Expenses), Net	**56,219**	**(4,815)**
Loss Before Other Revenues and Transfers	(28,921)	(18,092)
Other Revenues		
Capital gifts	3,191	4,585
Private gifts for permanent endowment purposes	7,198	8,171
Total Other Revenues	**10,389**	**12,756**
Loss Before Transfers	(18,532)	(5,336)
Transfers to other University units, net	(1,334)	(7,495)
Decrease in Net Position	(19,866)	(12,831)
Net Position, Beginning of Year	484,291	497,122
Net Position, End of Year	**$ 464,425**	**$ 484,291**

The accompanying notes are an integral part of the financial statements.

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

Statement of Cash Flows

	Year Ended June 30, 2021	2020
	(in thousands)	
Cash Flows from Operating Activities		
Spectator admissions	$ 21,268	$ 31,993
Conference distributions	46,218	52,782
Preferred seat contributions, net	(351)	27,378
Corporate sponsorships and other media rights	16,383	12,507
Licensing royalties	4,738	7,095
Facilities revenues	3,041	3,348
Concessions, publications and parking	508	3,226
Other revenues	2,816	3,370
Payments for salaries, wages and benefits	(65,621)	(71,796)
Payments for financial aid	(27,778)	(27,958)
Payments for team and game expenses	(16,255)	(32,124)
Payments for other operating and administrative expenses	(7,171)	(14,047)
Payments for operations and maintenance of plant	(7,305)	(13,435)
Net Cash Used in Operating Activities	**(29,509)**	**(17,661)**
Cash Flows from Noncapital Financing Activities		
Private gifts for other than capital and endowment purposes	12,233	5,304
Proceeds from issuance of debt	5,000	
Transfers to other University units, net	(1,334)	(7,978)
Net Cash Provided by (Used in) Noncapital Financing Activities	**15,899**	**(2,674)**
Cash Flows from Capital and Related Financing Activities		
Capital gifts	11,247	14,785
Proceeds from issuance of capital debt	26,460	
Principal payments on capital debt	(38,605)	(11,395)
Interest payments on capital debt	(10,408)	(11,221)
Purchases of capital assets	(740)	(5,778)
Net Cash Used in Capital and Related Financing Activities	**(12,046)**	**(13,609)**
Cash Flows from Investing Activities		
Investment income	6,681	7,981
Increase in investments on deposit with the University, net	(813)	(275)
Net Cash Provided by Investing Activities	**5,868**	**7,706**
Net Decrease in Cash Equivalents	(19,788)	(26,238)
Cash Equivalents on Deposit with the University, Beginning of Year	115,324	141,562
Cash Equivalents on Deposit with the University, End of Year	**$ 95,536**	**$ 115,324**

The accompanying notes are an integral part of the financial statements.

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

Statement of Cash Flows—Continued

	Year Ended June 30, 2021	2020
	(in thousands)	
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	$ (85,140)	$ (13,277)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	30,887	31,111
Changes in assets and liabilities:		
Accounts receivable, net	(432)	(3,656)
Prepaid expenses and other assets	(1,583)	(1,058)
Accounts payable and accrued expenses	1,056	(4,693)
Accrued compensation	12,773	5,055
Advance sale of game tickets	21,824	(25,258)
Unearned revenues	(50)	(3,017)
Changes in deferred outflows	(7,983)	(2,011)
Changes in deferred inflows	(861)	(857)
Net Cash Used in Operating Activities	**$ (29,509)**	**$ (17,661)**

The accompanying notes are an integral part of the financial statements.

Note 1—Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: Intercollegiate Athletics of the University of Michigan ("ICA") operates under the control of the Regents of the University of Michigan (the "University") to administer the intercollegiate athletic programs of the University. As part of the University, the assets, deferred outflows, liabilities, deferred inflows, revenues, expenses and changes in net position of ICA are included in the consolidated financial statements of the University. All organizations controlled by ICA, consisting of its various departments, are included in the financial statements; organizations not controlled by ICA, such as certain booster and alumni organizations, are not included in the financial statements. As part of the University, ICA is exempt from income taxes under Internal Revenue Code Sections 501(c)(3) and 115.

The financial statements 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"). ICA reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:

  Nonexpendable – Net position subject to externally imposed stipulations that it be maintained permanently. Such net position includes the corpus portion (historical value) of gifts to ICA's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

  Expendable – Net position subject to externally imposed stipulations that can be fulfilled by actions of ICA pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of ICA's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.
- Unrestricted: Net position not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Summary of Significant Accounting Policies: For purposes of the statement of cash flows, ICA considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents generally represent investments in the University Investment Pool ("UIP"), a short-term commingled pool managed by the University that can be readily liquidated to pay contractual liabilities.

ICA receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to give is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising.

Endowment investments primarily represent investments in the University Endowment Fund ("UEF"), a commingled pool which is invested entirely in the Long Term Portfolio, a diversified, equity-oriented investment pool managed by the University. The fair market value of UEF shares is determined at the end of each calendar quarter based on the fair value of the pool. Participants may purchase or redeem UEF shares at fair market value at each valuation date, subject to minimum holding and notice requirements.

Capital assets are recorded at cost or, if donated, at acquisition value at the date of donation. Depreciation of capital assets is provided on a straight-line method over the estimated useful lives of the respective assets, which generally range from four to forty years.

Advance sale of game tickets consists of spectator admissions collected for athletic contests scheduled for the subsequent fiscal year and therefore not earned as of the end of the current fiscal year.

Unearned revenues consist primarily of cash received from unearned sponsorships and other contracts which have not yet been earned under the terms of the agreements.

Note 1—Organization and Summary of Significant Accounting Policies—Continued

For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Regents to appropriate an amount of realized and unrealized endowment appreciation as determined to be prudent. The University's policy is to retain net realized and unrealized appreciation with the endowment after spending rule distributions. Cumulative net appreciation of permanent endowment funds, which totaled \$74,433,000 and \$32,890,000 at June 30, 2021 and 2020, respectively, is available to meet spending policy rate distributions and is recorded in restricted expendable net position. The University's endowment spending rule is further discussed in Note 2.

Operating activities as reported in the statement of revenues, expenses and changes in net position are those that generally result from exchange transactions, such as sales of tickets for games and payments made for services or goods received. Nonexchange transactions are reported as nonoperating activities.

Conference distributions consist of television revenue, bowl distributions, National Collegiate Athletic Association ("NCAA") distributions and conference championship payouts distributed to ICA by the Big Ten Conference, net of spectator admissions revenue sharing.

Preferred seat contributions represent an annual seating program for men's football, basketball and ice hockey with seat location linked to contribution levels.

ICA records non-cash, value-in-kind trade transactions in both corporate sponsorships and other media rights revenue and team and game expense. These transactions consist primarily of athletic apparel and footwear and amounted to \$2,902,000 and \$2,986,000 at June 30, 2021 and 2020, respectively.

Team and game expenses include post-season play expenditures, net of reimbursement from the Big Ten Conference, the NCAA and sponsoring bowl organizations.

Interest expense and other is recorded net of gain or loss on disposal of plant assets.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2—Cash and Investments

The University maintains centralized management for substantially all cash and investments of ICA. Cash reserves and relatively short duration assets are invested in the UIP, while longer term assets held in the UEF are invested in the University's Long Term Portfolio. The UIP is principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. The longer investment horizon of the University's Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets.

The UEF consists of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain intact and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by ICA for long-term investment purposes, but are not limited by donor stipulations requiring ICA to preserve principal in perpetuity.

The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio, in which the UEF invests, sets general targets for both equities and fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories. At June 30, 2021 and 2020, the Long Term Portfolio consisted of cash equivalents (2 percent and 2 percent), fixed income securities (5 percent and 8 percent), U.S. and non-U.S. equities (4 percent and 4 percent), commingled funds (18 percent and 19 percent) and nonmarketable alternative investments (71 percent and 67 percent).

Commingled (pooled) funds held in the Long Term Portfolio include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Commingled funds are primarily invested in non-U.S./global equities and absolute return strategies, but also include exposure to domestic fixed income and equity securities. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy; however, these investments are structured to limit the University's risk exposure to the amount of invested capital.

Note 2—Cash and Investments—Continued

Nonmarketable alternative investments held in the Long Term Portfolio consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. These limited partnerships include venture capital, private equity, real estate, natural resources and absolute return strategies. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner.

The Long Term Portfolio holds investments denominated in foreign currencies and forward foreign exchange contracts used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies. Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Long Term Portfolio's non-U.S. dollar exposure amounted to 9 percent and 11 percent of the portfolio at June 30, 2021 and 2020, respectively.

The University's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forwards, futures and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net position and is not represented by the contract or notional amounts of the instruments.

ICA receives quarterly distributions from the UEF based on the University's endowment spending rule. The annual distribution rate is 4.5 percent of the one-quarter lagged seven year moving average fair value of fund shares. To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Monthly distributions are also made from the UIP to ICA based on the 90-day U.S. Treasury Bill rate. The University's costs to administer and grow the UEF and UIP are funded by investment returns.

Note 2—Cash and Investments—Continued

Withdrawals may be made quarterly from the UEF, with notice given to the University one month prior to the end of the preceding quarter, based upon University policy, generally after a five year investment period. Withdrawals may be made from the UIP on a daily basis.

GASB defines fair value and establishes a framework for measuring fair value that includes a three tiered hierarchy of valuation inputs, placing a priority on those which are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The three levels of inputs, of which the first two are considered observable and the last unobservable, are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date
- Level 2 – Other significant observable inputs, either direct or indirect, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or market corroborated inputs
- Level 3 – Unobservable inputs

A significant portion of the underlying investments of the University's commingled pools include nonmarketable alternative investments and certain commingled funds described earlier in this note that are priced by managers using net asset value. The proprietary valuation techniques and unobservable pricing assumptions used by these managers to estimate fair value may have a significant impact on the resulting fair value determination of these investments. However, ICA uses Level 2 inputs to measure the fair value of its investments in the University's commingled pools described in Note 1 and within this note, since shares may be purchased or sold subject to holding and notice requirements at the fair market values determined by the University.

Note 3—Pledges Receivable

The composition of pledges receivable at June 30, 2021 and 2020 is summarized as follows:

	2021	**2020**
	(in thousands)	
Gift pledges outstanding:		
Capital	$ 51,338	$ 59,786
Operations	6,533	5,046
	57,871	64,832
Less:		
Allowance for uncollectible pledges	1,353	1,469
Unamortized discount to present value	638	853
Total pledges receivable, net	55,880	62,510
Less current portion	11,766	10,276
	$ 44,114	$ 52,234

Payments on pledges receivable at June 30, 2021, are expected to be received in the following years ended June 30 (in thousands):

2022	$ 12,134
2023	9,329
2024	11,805
2025	6,957
2026	4,346
2027 and after	13,300
	$ 57,871

As discussed in Note 1, permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $14,144,000 and $14,337,000 at June 30, 2021 and 2020, respectively, are not recognized as assets in the accompanying financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation.

Note 4—Capital Assets

Capital assets activity for the years ended June 30, 2021 and 2020 is summarized as follows:

	2021			
	Beginning Balance	Additions (in thousands)	Retirements	Ending Balance
Land	$ 1,818			$ 1,818
Land improvements	23,923		$ 252	23,671
Infrastructure	2,840			2,840
Buildings	785,135	$ 977	17	786,095
Construction in progress	2,498	(454)		2,044
Equipment	14,522	49	7	14,564
	830,736	572	276	831,032
Less accumulated depreciation	311,358	30,887	276	341,969
	$ 519,378	$ (30,315)	$ -	$ 489,063

	2020			
	Beginning Balance	Additions (in thousands)	Retirements	Ending Balance
Land	$ 1,818			$ 1,818
Land improvements	23,923			23,923
Infrastructure	2,840			2,840
Buildings	776,502	$ 8,633		785,135
Construction in progress	8,560	(6,062)		2,498
Equipment	12,834	1,722	$ 34	14,522
	826,477	4,293	34	830,736
Less accumulated depreciation	280,281	31,111	34	311,358
	$ 546,196	$ (26,818)	$ -	$ 519,378

In 2021, the decrease in construction in progress of $454,000 represents the amount of capital assets placed in service of $977,000 net of capital expenditures for new projects of $523,000. In 2020, the decrease in construction in progress of $6,062,000 represents the amount of capital assets placed in service of $8,633,000 net of capital expenditures for new projects of $2,571,000.

Note 5—Notes Payable to the University of Michigan

Long-term debt activity for the years ended June 30, 2021 and 2020 is summarized as follows:

	2021			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Payable to the University	$ 288,441	$ 31,460	$ 39,152	$ 280,749
Less current portion	11,272			11,650
	$ 277,169			$ 269,099

	2020			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Payable to the University	$ 300,400	$ -	$ 11,959	$ 288,441
Less current portion	10,544			11,272
	$ 289,856			$ 277,169

In 2021, the University established a line of credit for ICA in the amount of $80,000,000, to help mitigate the operational challenges posed by the COVID-19 pandemic. The line of credit maintains a fixed interest rate of 3.00 percent and is payable in full by no later than June 30, 2025. At June 30, 2021 the outstanding balance associated with this line of credit was $5,000,000.

ICA participates in the University's debt stabilization program and is charged interest at a composite rate based on available variable and fixed rate debt instruments. Periodically, the University reviews payments made under the fixed rate schedules as compared to actual interest payments made by the University to outside debt holders and may utilize excess interest paid by units to support future strategic projects. Fixed interest rates on debt obligations outstanding at June 30, 2021 and 2020, range from 2.25 to 5.40 percent.

Note 5—Notes Payable to the University of Michigan—Continued

In 2021 and 2020, ICA incurred interest costs totaling $10,420,000 and $11,274,000, respectively.

Principal maturities and interest on long-term debt for the next five years and in subsequent five-year periods are as follows:

	Principal (in thousands)	Interest
2022	$ 11,120	$ 10,608
2023	13,065	10,144
2024	8,310	9,737
2025	13,630	9,389
2026	9,070	8,877
2027-2031	51,555	38,329
2032-2036	103,575	25,291
2037-2041	46,470	9,568
2042-2046	15,100	2,821
2047	2,905	147
	274,800	$ 124,911
Plus unamortized premiums	5,949	
	$ 280,749	

Note 6—Transactions with Other University of Michigan Units

ICA reimbursed the University for certain goods and services received in addition to making intra-University equity transfers during the years ended June 30, 2021 and 2020 as follows:

	2021	**2020**
	(in thousands)	
Financial Aid (Tuition and Housing)	$ 23,043	$ 23,526
Goods and Services:		
Utilities	3,049	3,410
Plant services	694	1,477
Technology/Telecommunications	910	1,120
Insurance coverage	1,267	1,228
Security	148	835
Medical services	444	708
Business and finance allocation	786	741
Budget administration allocation	612	590
Marching Band support	202	374
Other	352	851
Total Goods and Services	8,464	11,334
Equity Transfers:		
Television revenue sharing		6,103
Recreational Sports and Unions infrastructure renewal	1,800	1,800
Recreational Sports transfer		75
Total Equity Transfers	1,800	7,978
	$ 33,307	$ 42,838

Note 6—Transactions with Other University of Michigan Units—Continued

The recurring allocation associated with the television distributions received from the Big Ten Conference is based on an agreed upon amount and presented within transfers to other University units, net. During 2021, no equity transfer associated with television distributions was made.

In order to support the Recreational Sports and Unions infrastructure renewal financing plan, ICA has agreed to a commitment for annual payments of $1,800,000 through June 30, 2045.

During 2021 and 2020, ICA received $407,000 and $483,000, respectively, from the Michigan Matching Initiative for Student Support and the Bicentennial Matching Program, which offered an additional incentive for donors to establish or support endowed scholarship funds for undergraduate and graduate fellowships. Qualifying scholarship endowment gifts were matched at 25 percent for the Matching Initiative and 50 percent for the Bicentennial Matching Program.

Certain facilities used by ICA are located on land owned by the University which is not included in these financial statements. The University does not charge ICA rent for the use of this land.

Note 7—Postemployment Benefits

ICA participates in the University's postemployment benefits plan which provides retiree health and welfare benefits; primarily medical, prescription drug, dental and life insurance coverage, to eligible retirees and their eligible dependents. Substantially all of ICA's regular employees may become eligible for these benefits if they reach retirement age while working for ICA. For employees retiring on or after January 1, 1987, contributions toward health and welfare benefits are shared between ICA and the retiree and can vary based on date of hire, date of retirement, age and coverage elections.

The University also provides income replacement benefits, retirement savings contributions, and health and life insurance benefits to substantially all regular ICA employees who are enrolled in a University sponsored long-term disability plan and qualify, based on disability status while working for ICA, to receive basic or expanded long-term disability benefits. Contributions toward the expanded long-term disability plan are shared between ICA and employees and vary based on years of service, annual base salary and coverage elections. Contributions toward the basic long-term disability plan are paid entirely by ICA.

These postemployment benefits are provided through single-employer plans administered by the University. The Executive Vice Presidents of the University have the authority to establish and amend benefit provisions of the plans.

Actuarial projections of postemployment benefits are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided and announced future changes at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

The University's reported liability for postemployment benefits obligations was calculated using the entry age normal level percent of pay method. ICA's annual postemployment benefits expense and liability represents an allocation of ICA's relative share of the University's expense and liability, based on the method in which the retiree benefits are funded. The funding method is based upon a percentage of salary dollars of active employees that qualify for retiree benefits.

Note 7—Postemployment Benefits—Continued

Changes in the reported total liability for ICA's postemployment benefits obligations for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 36,591	$ 1,142	$ 37,733
Net benefits expense	3,289	43	3,332
Increase in deferred outflows	7,940	47	7,987
Decrease (increase) in deferred inflows	879	(18)	861
Balance, end of year	48,699	1,214	49,913
Less current portion	836	118	954
	$ 47,863	$ 1,096	$ 48,959

	2020		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 31,723	$ 1,118	$ 32,841
Net benefits expense	2,068	57	2,125
Increase (decrease) in deferred outflows	1,921	(11)	1,910
Decrease (increase) in deferred inflows	879	(22)	857
Balance, end of year	36,591	1,142	37,733
Less current portion	840	111	951
	$ 35,751	$ 1,031	$ 36,782

At June 30, 2021 and 2020, deferred outflows reported in the statement of net position include benefit payments made after the measurement date of $836,000 and $840,000, respectively. ICA has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. ICA's reported postemployment benefits obligations at June 30, 2021 and 2020, as a percentage of covered payroll of $54,112,000 and $54,267,000, were 92 percent and 70 percent, respectively.

Note 7—Postemployment Benefits—Continued

Significant actuarial assumptions used at the June 30, 2020 and 2019 measurement dates are as follows:

	2020	2019
Discount rate*	2.21%	3.50%
Inflation rate	2.00%	2.00%
Immediate/ultimate administrative trend rate	0.0%/3.0%	0.0%/3.0%
Immediate/ultimate medical trend rate	6.0%/4.5%	6.0%/4.5%
Immediate/ultimate Rx trend rate	7.25%/4.5%	7.5%/4.5%
Increase in compensation rate**	0.0%/0.0%/3.75%	4.00%
Mortality table***	PUB-2010 Teachers Head Count Table, Scale MP-2019	PUB-2010 Teachers Head Count Table, Scale MP-2018
Average future work life expectancy (years):		
Retiree health and welfare	9.04	9.03
Long-term disability	11.46	11.34

* Bond Buyer 20-year General Obligation Municipal Bond Index as of the last publication of the measurement period

** Beginning with the June 30, 2020 measurement date, estimates are provided for faculty, staff and union employees

*** Based on the University's study of mortality experience from 2015-2019

Note 8—Retirement Plan

ICA participates in the University's retirement plan, a defined contribution retirement plan through TIAA and Fidelity Management Trust Company ("FMTC") mutual funds. All staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA, or accounts with FMTC, and are fully vested.

For payroll covered under the plan, eligible employees generally contribute 5 percent of their pay and ICA generally contributes an amount equal to 10 percent of employees' pay to the plan. ICA's contribution commences after an employee has completed one year of employment. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by ICA contributions. Contributions and covered payroll under the plan (excluding participant's additional contributions) for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021	2020
	(in thousands)	
ICA contributions	$ 3,018	$ 3,195
Employee contributions	$ 1,573	$ 1,666
Payroll covered under plan	$ 54,112	$ 54,267
Total payroll	$ 56,139	$ 57,809

Note 9—Commitments and Contingencies

ICA's authorized expenditures for construction and other projects unexpended at June 30, 2021 were $2,059,000.

The COVID-19 pandemic and related actions taken by the NCAA, the Big Ten Conference and the University in response may materially impact ICA's financial position and its results of operations. While ICA continues to design and execute plans to mitigate these risks, the extent of the impact to ICA will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time. Fall 2021 competitions are scheduled to return to normal with no spectator restrictions; however, this remains subject to Big Ten Conference, local, and state restrictions and regulations.