Approved by the Regents
October 20, 2022

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

SUBJECT: The University of Michigan Financial Statements for the Year Ended June 30, 2022

ACTION REQUESTED: Adoption of Financial Statements

The Board of Regents has received the University's consolidated audited financial statements for fiscal year 2022, as well as separate audited financial statements for the University of Michigan Health, 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 2022

UNIVERSITY OF MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 and 2021
with
REPORT OF INDEPENDENT AUDITORS

THE UNIVERSITY OF MICHIGAN

June 30, 2022 and 2021

Page(s)

Report of Independent Auditors

To the Regents of the University of Michigan

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the University of Michigan (the "University"), which comprise the statements of net position and of fiduciary net position as of June 30, 2022 and 2021, 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, including the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the University as of June 30, 2022 and 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University changed the manner in which it accounts for leases in 2022. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

PricewaterhouseCoopers LLP, 500 Woodward Avenue, Detroit, Michigan 48226
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Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 3 through 27 and required supplementary information for the pension plan and postemployment benefits on pages 81 through 83 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 supplemental 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 L.L.P.

October 20, 2022

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, 2022 and 2021 and its activities for the two fiscal years ended June 30, 2022. 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 65,000 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 ("UMH"), 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 UMH-West). 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 $32.4 billion and total liabilities and deferred inflows of $13.1 billion at June 30, 2022, compared to total assets and deferred outflows of $30.4 billion and total liabilities and deferred inflows of $10.9 billion at June 30, 2021. 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 $19.3 billion and $19.5 billion at June 30, 2022 and 2021, respectively. Changes in net position represent the University's results of operations and are summarized for the years ended June 30 as follows:

	2022	**2021** (in millions)	**2020**
Operating revenues and educational appropriations	$ 9,505	$ 8,831	$ 8,340
Federal economic relief funds	152	256	144
Private gifts for operating activities	219	184	179
Operating and net interest expenses	(10,668)	(9,612)	(9,445)
	(792)	(341)	(782)
Net investment income	336	5,141	323
Endowment, capital gifts and grants, and other	251	176	182
(Decrease) increase in net position	$ (205)	$ 4,976	$ (277)

During 2022, the University adopted Governmental Accounting Standards Board ("GASB") Statement No. 87, *Leases* ("GASB 87"), which establishes a single model for lease accounting based on the principle that leases serve to finance the right to use an underlying asset. The statement requires lessees to recognize right-to-use assets and related liabilities, and lessors to recognize receivables and corresponding deferred inflows of resources, for leases that were previously classified as operating and recognized as inflows or outflows of resources. The adoption of GASB 87 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2020, resulting in an increase to the following line items within the University's consolidated statement of net position as of this date (in millions):

Current portion of notes and pledges receivable, net	$ 0.1
Notes and pledges receivable, net	$ 0.3
Capital assets, net	$ 263.3
Accounts payable	$ 50.3
Other noncurrent liabilities	$ 213.0
Deferred inflows	$ 0.4

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 87 at June 30, 2020. The consolidated statement of revenues, expenses and changes in net position and the consolidated statement of cash flows presented for the year ended June 30, 2020 do not reflect the adoption of GASB 87.

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, staff and health care professionals; and a period of constrained base 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 benefits 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 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:

	2022	**2021** (in millions)	**2020**
Current assets	$ 6,578	$ 4,898	$ 4,010
Noncurrent assets:			
Endowment, life income and other investments	17,838	17,533	12,704
Capital assets, net	6,266	6,432	6,536
Other	705	446	518
Total assets	31,387	29,309	23,768
Deferred outflows	1,045	1,124	514
Current liabilities	2,827	2,578	2,424
Noncurrent liabilities	9,514	7,877	6,860
Total liabilities	12,341	10,455	9,284
Deferred inflows	793	475	471
Net position	$ 19,298	$ 19,503	$ 14,527

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 $1.7 billion to $6.6 billion at June 30, 2022, as compared to $4.9 billion at June 30, 2021, primarily as a result of the University's continued focus on liquidity. Cash, cash equivalents and investments for operating activities totaled $4.6 billion at June 30, 2022, which represents approximately six 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 UMH-West. Deferred outflows totaled $1.0 billion and $1.1 billion at June 30, 2022 and 2021, 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 $2.8 billion and $2.6 billion at June 30, 2022 and 2021, respectively.

Deferred inflows represent the acquisition of net assets attributable to a future period and are primarily associated with the University's obligations for postemployment benefits, the defined benefit pension plan for UMH-West and irrevocable split-interest agreements. Deferred inflows totaled $793 million and $475 million at June 30, 2022 and 2021, 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:

	2022	2021 (in millions)	2020
Endowment investments	$ 17,347	$ 17,023	$ 12,313
Life income investments	178	191	145
Noncurrent portion of insurance and benefits obligations investments	291	293	225
Other	22	26	21
	$ 17,838	$ 17,533	$ 12,704

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 ("UEF"), a unitized pool which represents a collection of over 12,400 separate funds, the majority of which are restricted for specific purposes. The UEF is invested in the University's Long Term Portfolio, a single diversified investment pool.

The endowment spending rule provides for distributions from the UEF to the participants 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 UEF 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, participants may also use withdrawals from funds functioning as endowment to support capital expenditures and operations.

Endowment spending rate distributions totaled $434 million and $404 million and withdrawals from funds functioning as endowment totaled $15 million and $4 million in 2022 and 2021, respectively. Total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 3.4 percent and 3.8 percent of the current year average fair value of the UEF for 2022 and 2021, respectively. Over the past ten years, total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.4 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 $454 million in 2022 as compared to $523 million in 2021. 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 $125 million, as well as debt proceeds of $299 million and state capital appropriations of $30 million.

Projects completed in 2022 include significant new construction and renovation of academic, research and patient care facilities, as well as central campus utilities.

The new Central Campus Classroom Building replaces the 1964 addition to the Ruthven Building and includes 100,000 square feet of active learning classrooms, including an auditorium that seats approximately 550 students, with total building classroom capacity in excess of 1,400 students. The renovation of the original 1928 Ruthven Building transformed the former museum space into a flexible and modern workplace to accommodate the relocation of the University's central administrative offices that were previously located in the Fleming Administration Building. The 138,000 square foot building also includes a 200-person capacity multipurpose room and research space.

The W.K. Kellogg Institute and Dental Building, originally constructed in 1940 and 1969, respectively, has undergone an extensive renovation and expansion to create a more welcoming accessible facility to support the latest developments in patient care, dental education and research. New modern teaching clinics include a special care clinic to treat patients with complex medical conditions and disabilities. Open, flexible research space and additional common areas will foster collaboration among faculty, researchers and students. This project also addressed deferred maintenance including exterior envelope repairs and life safety, electrical, mechanical and plumbing system improvements.

Expansion of the University's Central Power Plant enhances power reliability and reduces 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.

Construction in progress, which totaled $279 million and $482 million at June 30, 2022 and 2021, respectively, includes construction of a new hospital building.

The Pavilion at UMH is a new 690,000 square foot clinical inpatient tower under construction. The 12-story hospital will house 264 private rooms capable of converting to intensive care, a state-of-the-art neurosciences center, and high-level, specialty care services for cardiovascular and thoracic patients, along with advanced imaging. Locating these services together will enable healthcare providers to quickly respond to complex cases and deliver state-of-the-art treatments. The design will also allow for relocation of 110 beds currently in semi-private rooms at University Hospital to the Pavilion, which will improve patient safety, quality and experience, while creating space for family members to participate in their loved one's care, healing and recovery. This project is scheduled to be completed in spring 2025.

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 2022, 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.

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

	2022			
	Beginning Balance	Additions	Reductions	Ending Balance
	(in millions)			
Commercial paper	$ 154		$ 13	$ 141
Bonds	3,160	$ 2,483	578	5,065
	$ 3,314	$ 2,483	$ 591	$ 5,206

	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

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 2022, the University issued $2,469 million of general revenue bonds with a net original issue premium of $14 million, which included $2,413 million of fixed rate, taxable bonds, and $56 million of fixed rate, tax-exempt bonds. Total bond proceeds of $2,483 million were utilized to refund $69 million of existing bonds, establish an escrow of $412 million to advance refund existing bonds, as well as provide $299 million for capital projects designed to advance the University's commitment to decarbonization, $1,686 million for capital projects and general purposes, and $17 million for debt issuance costs.

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

	2022	2021	2020
		(in millions)	
Variable rate:			
Commercial paper	$ 141	$ 154	$ 135
Bonds	426	523	551
Fixed rate bonds	4,639	2,637	2,690
	$ 5,206	$ 3,314	$ 3,376

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 2.9 percent and 2.5 percent in 2022 and 2021, respectively, including the federal subsidies for interest on taxable Build America Bonds. Interest expense on long-term debt net of federal subsidies received for interest on taxable Build America Bonds totaled $111 million and $85 million in 2022 and 2021, 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 $4.3 billion at June 30, 2022, as compared to $4.4 billion and $3.5 billion at June 30, 2021 and 2020, respectively. The decrease in the reported liability at June 30, 2022 was driven primarily by favorable health care claims cost experience and mortality and longevity improvement. 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. 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 $784 million, $795 million and $629 million at June 30, 2022, 2021 and 2020, 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 $2.1 billion at June 30, 2022. 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:

	2022	2021 (in millions)	2020
Net investment in capital assets	$ 3,522	$ 3,670	$ 3,767
Restricted:			
Nonexpendable:			
Permanent endowment corpus	2,822	2,625	2,483
Expendable:			
Net appreciation of permanent endowments	3,589	3,684	2,055
Funds functioning as endowment	3,218	2,974	2,260
Restricted for operations and other	807	924	852
Unrestricted	5,340	5,626	3,110
	$ 19,298	$ 19,503	$ 14,527

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

Restricted nonexpendable net position represents the corpus portion (historical value) 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 remained stable with an increase of $32 million, to $7.6 billion at June 30, 2022, as compared to an increase of 47 percent, or $2.4 billion, to $7.6 billion at June 30, 2021.

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, 2022 totaled $5.3 billion and included funds functioning as endowment of $7.7 billion offset by unfunded obligations for postemployment benefits of $3.9 billion. 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 also includes other net resources which totaled $1.5 billion at both June 30, 2022 and 2021, respectively.

Consolidated Statement of Revenues, Expenses and Changes in Net Position

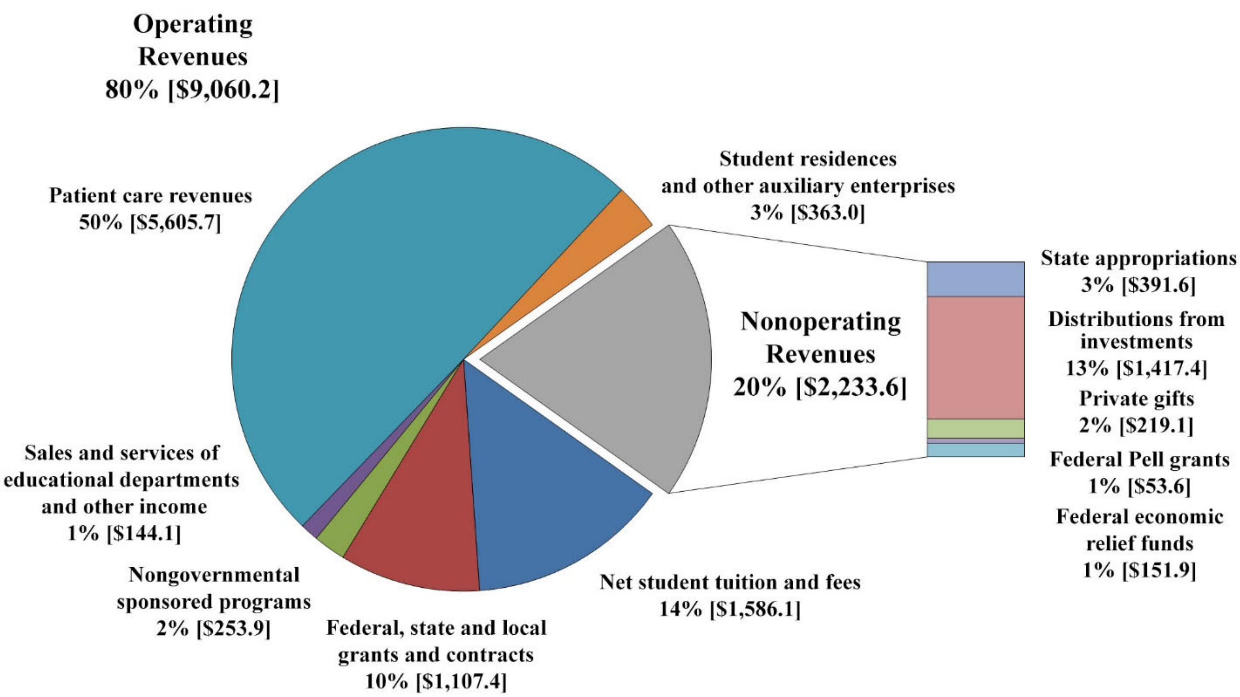
The consolidated statement of revenues, expenses and changes in net position presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. The University's revenues, expenses and changes in net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

	2022	**2021** (in millions)	**2020**
Operating revenues:			
Net student tuition and fees	$ 1,586.1	$ 1,480.8	$ 1,455.6
Sponsored programs	1,361.3	1,264.4	1,259.9
Patient care revenues, net	5,605.7	5,351.1	4,767.9
Other	507.1	308.0	472.2
	9,060.2	8,404.3	7,955.6
Operating expenses	10,548.4	9,520.0	9,364.3
Operating loss	(1,488.2)	(1,115.7)	(1,408.7)
Nonoperating and other revenues (expenses):			
State educational appropriations	391.6	373.2	331.3
Federal Pell grants	53.6	53.4	53.5
Federal economic relief funds	151.9	255.7	143.8
Private gifts for operating activities	219.1	184.1	178.8
Net investment income	336.3	5,141.3	322.6
Interest expense	(125.2)	(97.9)	(86.0)
Federal subsidies for interest on Build America Bonds	5.5	5.5	5.6
State capital appropriations	29.8	32.1	13.9
Endowment and capital gifts and grants	235.0	151.0	167.6
Other	(14.0)	(6.6)	0.7
Nonoperating and other revenues, net	1,283.6	6,091.8	1,131.8
(Decrease) increase in net position	(204.6)	4,976.1	(276.9)
Net position, beginning of year	19,503.1	14,527.0	14,803.9
Net position, end of year	$ 19,298.5	$ 19,503.1	$ 14,527.0

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.

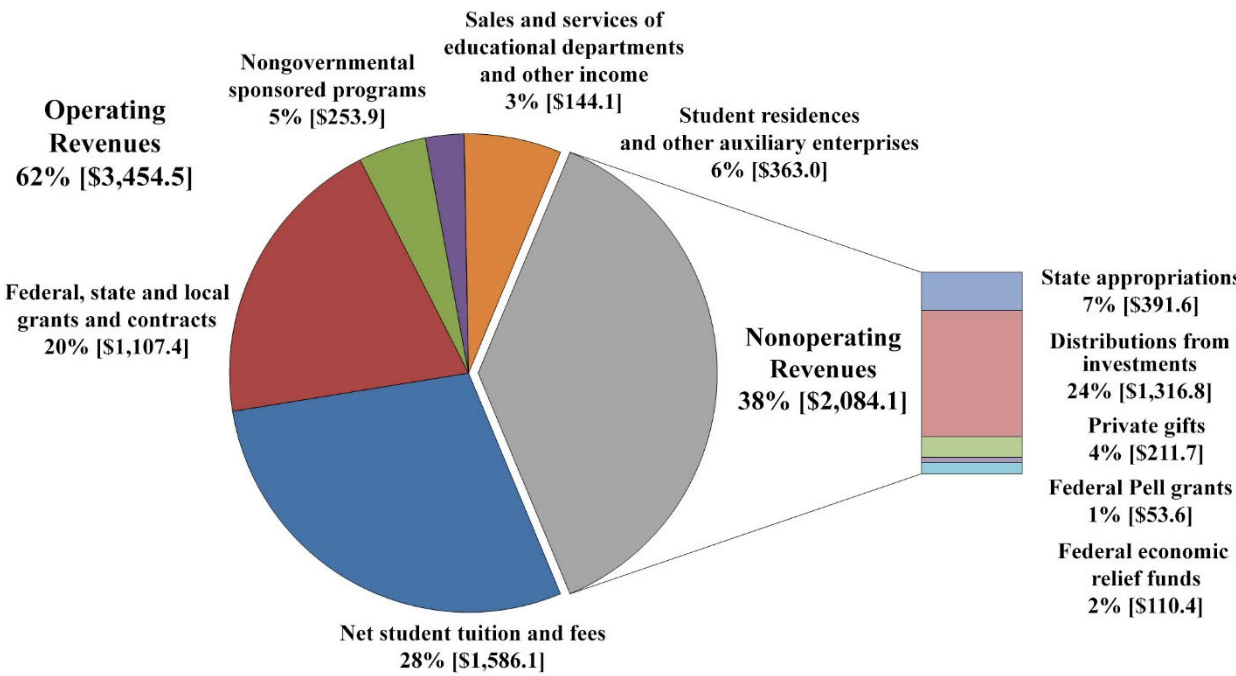
The following is a graphic illustration of revenues by source, both operating and nonoperating, which are used to fund the University's operating activities for the year ended June 30, 2022 (amounts are presented in millions of dollars). Certain recurring sources of the University's revenues are considered nonoperating, as defined by GASB, such as state appropriations, distributions from investments, private gifts and federal Pell grants.

2022 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, 2022 (amounts are presented in millions of dollars).

2022 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 7 percent, or $124 million, to $2.0 billion in 2022.

In 2022, the University's state educational appropriations increased 5 percent, or $18 million, to $392 million primarily due to a one-time supplemental appropriation of $15 million.

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

	2022	2021 (in millions)	2020
Student tuition and fees	$ 2,085.0	$ 1,978.0	$ 1,944.2
Less scholarship allowances	498.9	497.2	488.6
	$ 1,586.1	$ 1,480.8	$ 1,455.6

In 2022, net student tuition and fees revenue increased 7 percent, or $105 million, to $1.6 billion, which reflects an increase of 5 percent, or $107 million, in gross student tuition and fees revenue offset by an increase of less than 1 percent, or $2 million, in scholarship allowances. Tuition rate increases in 2022 were 1.4 percent for resident undergraduate students and 1.8 percent for both nonresident undergraduate students and most graduate students on the Ann Arbor campus, with a 1.9 percent tuition rate increase for most resident undergraduate students on the Dearborn campus and no increase in the resident undergraduate rates on the Flint campus. During 2022, the University experienced moderate growth in the number of students, as well as a shift in mix from resident to nonresident students.

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.

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 $219 million in 2022, as compared to $184 million in 2021.

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 increased 8 percent, or $97 million, to $1.4 billion in 2022 driven primarily by increases in federally sponsored activity during this period.

Patient care revenues are principally generated within the University's hospitals and ambulatory care facilities. Patient care revenues increased 5 percent, or $255 million, to $5.6 billion in 2022, due primarily to growth in patient volume as well as an increase in revenue per patient case.

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

	2022	**2021** (in millions)	**2020**
University of Michigan Health	$ 4,926.4	$ 4,682.6	$ 4,152.6
UM Health	522.4	507.0	464.3
Michigan Health Corporation	22.6	30.9	36.4
Other	134.3	130.6	114.6
	$ 5,605.7	$ 5,351.1	$ 4,767.9

The largest component of patient care revenues is generated by UMH, a national leader in advanced patient care and comprehensive education of physicians and medical scientists. UMH 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 and various other health care programs across the state. Substantially all physician services to UMH patients are provided by the University's Medical School faculty. UMH 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 UMH-West, a community health care provider in west Michigan, which operates a hospital with 208 licensed beds for acute care, as well as outpatient clinics and a growing network of specialty services. The University's affiliation with UMH-West 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:

	2022	**2021**	**2020**
Medicare	27%	27%	27%
Medicaid	13%	12%	11%
Blue Cross	38%	38%	39%
Other	22%	23%	23%

Federal economic relief funds represent amounts received from various government agencies to provide economic assistance to entities that have been negatively impacted by the COVID-19 pandemic. For the years ended June 30, federal economic relief funds are summarized as follows:

	2022	**2021** (in millions)	**2020**
Provider Relief Fund	$ 18.7	$ 135.3	$ 134.7
Higher Education Emergency Relief Fund	110.3	77.1	9.1
Coronavirus State and Local Fiscal Recovery Fund	16.7		
Coronavirus Relief Fund		42.4	
Other	6.2	0.9	
	$ 151.9	$ 255.7	$ 143.8

Net investment income totaled $336 million in 2022 as compared to $5.1 billion in 2021. In 2022, the rising interest rate environment introduced increased volatility into the markets which had an effect on returns in the current fiscal year as compared to the prior year. Net investment income was attributable primarily to the alternative assets class which returned 12 percent overall, with natural resources and real estate assets leading with returns of 40 and 16 percent, respectively. The positive returns for the alternative assets class were offset by the performance of marketable assets, which were down 11 percent for the year.

During 2021, the financial markets experienced strong growth following the impact of the COVID-19 pandemic induced slowdown from the prior year. 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.

State capital appropriations help the University improve its academic buildings. Recent capital outlays have supported renovations of the W.K. Kellogg Institute and Dental Building on the Ann Arbor campus, 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 $189 million in 2022, as compared to $136 million in 2021. Capital gifts and grants totaled $46 million in 2022 as compared to $15 million in 2021. 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 62 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):

	2022		2021		2020	
Operating:						
Compensation and benefits	$ 6,573.9	62%	$ 6,137.5	64%	$ 6,049.9	64%
Supplies and services	3,137.1	29	2,562.1	27	2,574.6	27
Depreciation	606.5	6	620.0	6	566.7	6
Scholarships and fellowships	230.9	2	200.4	2	173.1	2
	10,548.4	99	9,520.0	99	9,364.3	99
Nonoperating:						
Interest, net	119.7	1	92.4	1	80.4	1
	$ 10,668.1	100%	$ 9,612.4	100%	$ 9,444.7	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 7 percent, or $436 million, to $6.6 billion in 2022. Of the 2022 increase, compensation increased 6 percent, or $278 million, to $4.9 billion, driven primarily by increases in staffing levels resulting from patient activity volumes within the University's health system, and employee benefits increased 10 percent, or $158 million, to $1.7 billion, resulting from an increase in health care and prescription drug costs.

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 22 percent, or $575 million, to $3.1 billion in 2022. This increase reflects the growth in patient care related expenses as well as an increase in insurance and benefits reserves.

In addition to their natural 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):

	2022		2021		2020	
Operating:						
Instruction	$ 1,243.3	12%	$ 1,174.1	12%	$ 1,204.8	13%
Research	919.2	9	853.1	9	862.8	9
Public service	271.1	2	287.5	3	206.4	2
Institutional and academic support	1,084.5	10	846.6	9	779.9	8
Operations and maintenance of plant	330.4	3	266.6	3	324.1	3
Auxiliary enterprises:						
Patient care	5,459.0	51	5,072.7	53	4,975.4	53
Other	403.5	4	199.0	2	271.1	3
Depreciation	606.5	6	620.0	6	566.7	6
Scholarships and fellowships	230.9	2	200.4	2	173.1	2
	10,548.4	99	9,520.0	99	9,364.3	99
Nonoperating:						
Interest, net	119.7	1	92.4	1	80.4	1
	$ 10,668.1	100%	$ 9,612.4	100%	$ 9,444.7	100%

Instruction expenses increased 6 percent, or $69 million, in 2022 and reflect the growth in the related revenue sources offset by cost containment efforts.

Research expenses increased 8 percent, or $66 million, in 2022. The increase in 2022, reflects the strength of the University's overall research enterprise and a return to pre-COVID-19 levels of research activity. 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 $1.7 billion and $1.6 billion in 2022 and 2021, respectively.

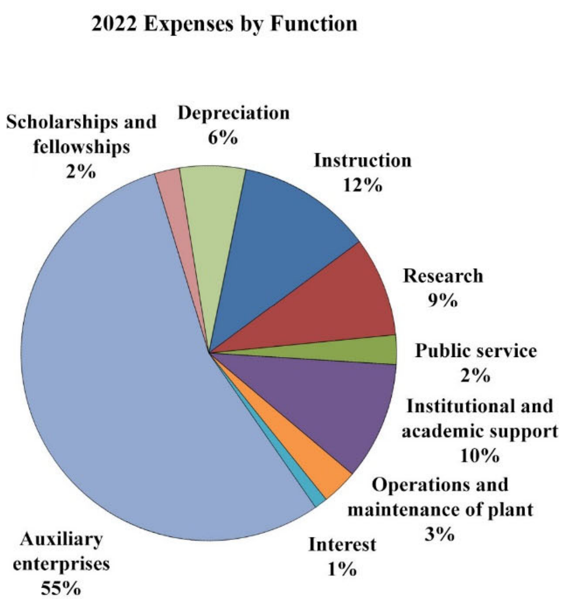
Patient care expenses increased 8 percent, or $386 million, in 2022 and reflect the impact of additional patient volume during the period. Increased medical supplies expense resulted from higher patient activity levels, the rising cost of pharmaceuticals and the additional cost of personal protective equipment associated with the COVID-19 pandemic.

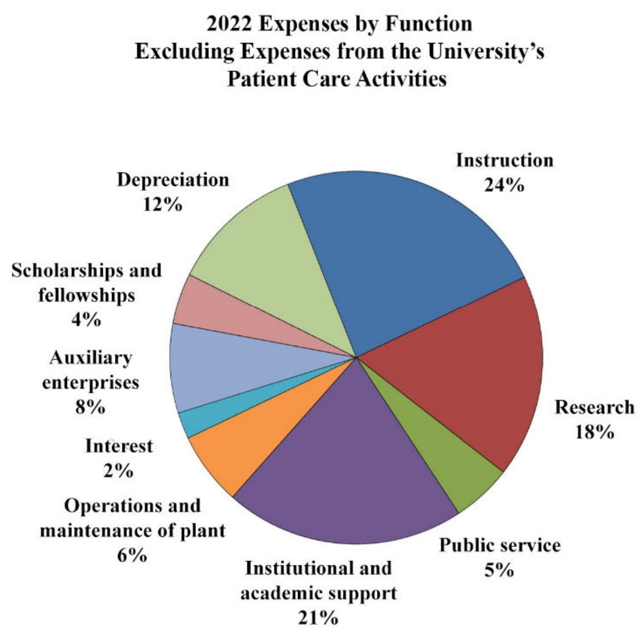
Scholarships and fellowships provided to students totaled $755 million in 2022 as compared to $708 million in 2021, an increase of 7 percent. Tuition, housing and fees revenues are reported net of aid applied to students' accounts, while amounts paid directly to students are reported as scholarships and fellowships expense. Scholarships and fellowships for the years ended June 30 are summarized as follows:

	2022	2021 (in millions)	2020
Paid directly to students	$ 230.9	$ 200.4	$ 173.1
Applied to tuition and fees	498.9	497.2	488.6
Applied to University Housing	24.8	10.3	23.1
	$ 754.6	$ 707.9	$ 684.8

During 2022, 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 $53 million, $26 million and $8 million respectively.

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:

	2022	2021 (in millions)	2020
Cash received from operations	$ 8,866.2	$ 8,081.4	$ 8,345.6
Cash expended for operations	(9,336.1)	(8,360.3)	(8,440.6)
Net cash used in operating activities	(469.9)	(278.9)	(95.0)
Net cash provided by noncapital financing activities	2,626.5	900.9	1,705.4
Net cash used in capital and related financing activities	(281.0)	(622.3)	(602.3)
Net cash provided by (used in) investing activities	72.5	(271.3)	(130.0)
Net increase (decrease) in cash and cash equivalents	1,948.1	(271.6)	878.1
Cash and cash equivalents, beginning of year	1,003.8	1,275.4	397.3
Cash and cash equivalents, end of year	$ 2,951.9	$ 1,003.8	$ 1,275.4

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 University's budget for 2023 anticipates a 3.0 percent increase in state educational appropriations, a 3.4 percent tuition rate increase for Ann Arbor campus resident undergraduates and a 4.8 percent increase in centrally awarded financial aid. Nonresident undergraduate tuition rates as well as most graduate and professional rates will increase 3.9 percent. Resident undergraduate tuition rates for the Dearborn and Flint campuses will increase 3.6 percent and 4.9 percent, respectively.

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 $1,394 million at June 30, 2022. Funding for these projects is anticipated to include $1,046 million from internal sources, gifts, grants and proceeds from borrowings; $43 million from the State Building Authority and $305 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, 2022	June 30, 2021
	(in thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,951,905	$ 1,003,846
Investments for operating activities	1,691,019	1,912,859
Investments for capital activities	559,411	627,926
Investments for student loan activities	68,387	70,481
Accounts receivable, net	996,475	970,600
Current portion of notes and pledges receivable, net	108,164	108,789
Current portion of other assets	179,403	183,656
Cash collateral held by agent	23,037	20,040
Total Current Assets	6,577,801	4,898,197
Noncurrent Assets:		
Unexpended bond proceeds	305,452	52,451
Endowment, life income and other investments	17,837,664	17,532,653
Notes and pledges receivable, net	273,986	260,756
Other assets	126,435	131,951
Capital assets, net	6,265,812	6,432,423
Total Noncurrent Assets	24,809,349	24,410,234
Total Assets	**31,387,150**	**29,308,431**
Deferred Outflows	**1,045,098**	**1,124,313**
Liabilities		
Current Liabilities:		
Accounts payable	408,727	356,020
Accrued compensation and other	754,888	746,422
Unearned revenue	412,866	553,784
Current portion of insurance and benefits reserves	646,591	269,789
Current portion of obligations for postemployment benefits	97,354	95,581
Commercial paper and current portion of bonds payable	209,311	235,875
Long-term bonds payable subject to remarketing, net	274,392	300,542
Collateral held for securities lending	23,037	20,040
Total Current Liabilities	2,827,166	2,578,053
Noncurrent Liabilities:		
Accrued compensation	23,496	103,563
Insurance and benefits reserves	177,023	170,059
Obligations for defined benefit pension plan, net	(22,675)	(6,322)
Obligations for postemployment benefits	4,200,305	4,316,565
Obligations under life income agreements	73,554	76,995
Government loan advances	43,580	55,585
Bonds payable	4,722,319	2,777,621
Other liabilities	296,462	382,819
Total Noncurrent Liabilities	9,514,064	7,876,885
Total Liabilities	**12,341,230**	**10,454,938**
Deferred Inflows	**792,557**	**474,742**
Net Position		
Net investment in capital assets	3,522,018	3,669,608
Restricted:		
Nonexpendable	2,821,876	2,625,459
Expendable	7,615,023	7,582,296
Unrestricted	5,339,544	5,625,701
Total Net Position	**$ 19,298,461**	**$ 19,503,064**

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, 2022	2021
	(in thousands)	
Operating Revenues		
Student tuition and fees	$ 2,085,014	$ 1,977,983
Less scholarship allowances	498,938	497,162
Net student tuition and fees	1,586,076	1,480,821
Federal grants and contracts	1,095,005	1,019,559
State and local grants and contracts	12,372	12,577
Nongovernmental sponsored programs	253,876	232,286
Sales and services of educational departments	141,498	140,594
Auxiliary enterprises:		
Patient care revenues (net of provision for bad debts of $146,099 in 2022 and $140,672 in 2021)	5,605,741	5,351,066
Student residence fees (net of scholarship allowances of $24,767 in 2022 and $10,260 in 2021)	121,919	50,334
Other revenues	241,115	115,029
Student loan interest income and fees	2,622	2,057
Total Operating Revenues	**9,060,224**	**8,404,323**
Operating Expenses		
Compensation and benefits	6,573,834	6,137,455
Supplies and services	3,137,104	2,562,079
Depreciation	606,523	620,037
Scholarships and fellowships	230,946	200,431
Total Operating Expenses	**10,548,407**	**9,520,002**
Operating Loss	(1,488,183)	(1,115,679)
Nonoperating Revenues (Expenses)		
State educational appropriations	391,639	373,230
Federal Pell grants	53,552	53,396
Federal economic relief funds	151,926	255,673
Private gifts for other than capital and endowment purposes	219,068	184,108
Net investment income	336,345	5,141,252
Interest expense	(125,248)	(97,924)
Federal subsidies for interest on Build America Bonds	5,519	5,529
Total Nonoperating Revenues, Net	**1,032,801**	**5,915,264**
(Loss) Income Before Other Revenues (Expenses)	(455,382)	4,799,585
Other Revenues (Expenses)		
State capital appropriations	29,760	32,062
Capital gifts and grants	46,222	14,639
Private gifts for permanent endowment purposes	188,803	136,402
Other	(14,006)	(6,624)
Total Other Revenues, Net	**250,779**	**176,479**
(Decrease) Increase in Net Position	(204,603)	4,976,064
Net Position, Beginning of Year	19,503,064	14,527,000
Net Position, End of Year	**$ 19,298,461**	**$ 19,503,064**

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

UNIVERSITY OF MICHIGAN

Consolidated Statement of Cash Flows

	Year Ended June 30, 2022	2021
	(in thousands)	
Cash Flows from Operating Activities		
Student tuition and fees	$ 1,590,126	$ 1,487,613
Federal, state and local grants and contracts	1,110,673	1,016,803
Nongovernmental sponsored programs	266,398	238,827
Sales and services of educational departments and other	391,838	274,661
Patient care revenues	5,367,111	4,994,855
Student residence fees	122,470	50,936
Payments to employees	(4,884,734)	(4,543,478)
Payments for benefits	(1,524,661)	(1,142,841)
Payments to suppliers	(2,688,744)	(2,467,119)
Payments for scholarships and fellowships	(230,946)	(200,431)
Student loans issued	(7,014)	(6,430)
Student loans collected	14,985	15,662
Student loan interest and fees collected	2,622	2,057
Net Cash Used in Operating Activities	**(469,876)**	**(278,885)**
Cash Flows from Noncapital Financing Activities		
State educational appropriations	390,943	331,523
Federal Pell grants	53,552	53,396
Federal economic relief funds	149,484	249,737
Private gifts and other receipts	378,153	285,710
Proceeds from issuance of debt	1,700,000	
Interest payments on debt	(18,787)	(16,830)
Payments for bond refunding and related costs	(13,651)	
Student direct lending receipts	312,072	312,147
Student direct lending disbursements	(315,257)	(311,608)
Amounts received for annuity and life income funds	1,223	5,979
Amounts paid to annuitants and life beneficiaries and related expenses	(11,194)	(9,118)
Net Cash Provided by Noncapital Financing Activities	**2,626,538**	**900,936**
Cash Flows from Capital and Related Financing Activities		
State capital appropriations	29,491	31,033
Private gifts and other receipts	38,750	37,792
Principal and interest payments on lease liabilities	(67,299)	(66,409)
Proceeds from issuance of capital debt	782,838	164,875
Principal payments on capital debt	(527,900)	(211,690)
Interest payments on capital debt	(119,730)	(86,834)
Federal subsidies for Build America Bonds interest	5,524	5,531
Payments for bond refunding and related costs	(3,104)	
Purchases of capital assets	(428,852)	(498,316)
Proceeds from sales of capital assets	9,214	1,739
Net Cash Used in Capital and Related Financing Activities	**(281,068)**	**(622,279)**

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

Consolidated Statement of Cash Flows—Continued

	Year Ended June 30, 2022	2021
	(in thousands)	
Cash Flows from Investing Activities		
Interest and dividends on investments, net	44,637	24,323
Proceeds from sales and maturities of investments	9,795,835	8,341,799
Purchases of investments	(9,405,226)	(8,710,091)
Net (increase) decrease in unexpended capital debt proceeds	(253,001)	73,454
Net (increase) decrease in cash equivalents from noncurrent investments	(95,546)	8,232
Net increase in fiduciary custodial funds and other	(14,234)	(9,044)
Net Cash Provided by (Used in) Investing Activities	**72,465**	**(271,327)**
Net Increase (Decrease) in Cash and Cash Equivalents	1,948,059	(271,555)
Cash and Cash Equivalents, Beginning of Year	1,003,846	1,275,401
Cash and Cash Equivalents, End of Year	**$ 2,951,905**	**$ 1,003,846**

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	$ (1,488,183)	$ (1,115,679)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	606,523	620,037
Changes in assets and liabilities:		
Accounts receivable, net	(10,502)	(331,111)
Notes and pledges receivable, net	(416)	(283)
Other assets	9,280	(46,807)
Accounts payable	60,333	(11,484)
Accrued compensation and other	(145,861)	209,818
Unearned revenue	(141,472)	(27,287)
Insurance and benefits reserves	383,766	136,417
Obligations for defined benefit pension plan, net	(16,353)	(5,075)
Obligations for postemployment benefits	(114,487)	934,658
Changes in deferred outflows	105,899	(615,072)
Changes in deferred inflows	281,597	(27,017)
Net Cash Used in Operating Activities	**$ (469,876)**	**$ (278,885)**

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

UNIVERSITY OF MICHIGAN

Statement of Fiduciary Net Position

	June 30,		September 30,	
	2022	**2021**	**2021**	**2020**
	Custodial Funds		Pension Trust Funds	
	(in thousands)			
Assets				
Receivables			$ 1,109	$ 220
Investments	$ 293,682	$ 274,374	89,697	77,486
Total Assets	**293,682**	**274,374**	**90,806**	**77,706**
Liabilities				
Due to individuals and organizations	50,590	50,578	318	142
Total Liabilities	**50,590**	**50,578**	**318**	**142**
Fiduciary Net Position				
Restricted for:				
Pension			90,488	77,564
Organizations	243,092	223,796		
Total Fiduciary Net Position	**$ 243,092**	**$ 223,796**	**$ 90,488**	**$ 77,564**

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,	
	2022	**2021**	**2021**	**2020**
	Custodial Funds		Pension Trust Funds	
	(in thousands)			
Additions				
Contributions:				
Organizations	$ 2,162	$ 6,327		
Employer			$ 2,227	$ 60
Total contributions	2,162	6,327	2,227	60
Net investment income	18,832	54,582	16,966	7,079
Total Additions	**20,994**	**60,909**	**19,193**	**7,139**
Deductions				
Benefits paid to participants			5,846	5,565
Administrative expenses			423	375
Withdrawals	1,698	872		
Total Deductions	**1,698**	**872**	**6,269**	**5,940**
Increase in Fiduciary Net Position	19,296	60,037	12,924	1,199
Fiduciary Net Position, Beginning of Year	223,796	163,759	77,564	76,365
Fiduciary Net Position, End of Year	**$ 243,092**	**$ 223,796**	**$ 90,488**	**$ 77,564**

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 65,000 students on its three campuses. The financial statements include the individual schools, colleges and departments, the University of Michigan Health ("UMH"), 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 UMH-West) 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. The University's fiduciary activities represent those resources for which the University acts as a trustee or custodian, including the UMH-West pension plan trust which is considered a fiduciary component unit.

During 2022, the University adopted GASB Statement No. 87, *Leases* ("GASB 87"), which establishes a single model for lease accounting based on the principle that leases serve to finance the right to use an underlying asset. The statement requires lessees to recognize right-to-use assets and related liabilities, and lessors to recognize receivables and corresponding deferred inflows of resources, for leases that were previously classified as operating and recognized as inflows or outflows of resources. The adoption of GASB 87 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2020, resulting in an increase to the following line items within the University's consolidated statement of net position as of this date (in thousands):

Current portion of notes and pledges receivable, net	$ 129
Notes and pledges receivable, net	$ 282
Capital assets, net	$ 263,291
Accounts payable	$ 50,254
Other noncurrent liabilities	$ 213,037
Deferred inflows	$ 411

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 lease liabilities, unexpended bond proceeds, deferred outflows and deferred inflows 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, 2022 and 2021. 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. Right-to-use assets are recorded at the present value of payments expected to be made during the related term using discount rates which are based upon the University's incremental borrowing rates, and are depreciated over the shorter of the related term or the expected useful life of the underlying asset. 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 UMH-West.

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 $41,240,000 and $261,396,000 at June 30, 2022 and 2021, 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 primarily associated with the University's obligations for postemployment benefits, the defined benefit pension plan for UMH-West 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 $3,589,441,000 and $3,684,197,000 at June 30, 2022 and 2021, respectively, is recorded in restricted expendable net position. The University's endowment spending rule is further discussed in Note 2.

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.

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

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.

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 $60,229,000 and $62,596,000 in 2022 and 2021, respectively.

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

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 2022 and 2021, the University received payments primarily from four programs, the Provider Relief Fund, the Higher Education Emergency Relief Fund, the Coronavirus State and Local Fiscal Recovery 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 $18,666,000 and $135,325,000 in 2022 and 2021, 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 $110,324,000 and $77,055,000 in 2022 and 2021, respectively.

The Coronavirus State and Local Fiscal Recovery Fund is administered through the U.S. Department of the Treasury and delivers aid to state, local and tribal governments to support their response to and recovery from 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 $16,695,000 in 2022.

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

<u>Summary</u>: 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 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, absolute return strategies, private equity, real estate and natural resources.

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 the 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.

Note 2—Cash and Investments—Continued

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 participants 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.

Cash and Cash Equivalents and Unexpended Bond Proceeds: Cash and cash equivalents, which totaled $2,951,905,000 and $1,003,846,000 at June 30, 2022 and 2021, 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 $36,227,000 and $72,126,000 at June 30, 2022 and 2021, respectively. The University does not require its deposits to be collateralized or insured.

Unexpended bond proceeds, which totaled $305,452,000 and $52,451,000 at June 30, 2022 and 2021, 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.

Note 2—Cash and Investments—Continued

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 $2,998,384,000 and $926,114,000 at June 30, 2022 and 2021, respectively. Level 2 securities, which primarily consist of commercial paper and repurchase agreements, totaled $150,811,000 and $5,500,000 at June 30, 2022 and 2021, respectively.

Investments: At June 30, 2022 and 2021, the University's investments, which are held by the University or its agents in the University's name, are summarized as follows:

	2022	**2021**
	(in thousands)	
Cash equivalents, noncurrent	$ 371,602	$ 276,168
Equity securities	624,928	752,048
Fixed income securities	3,010,240	3,010,819
Commingled funds	2,657,802	3,190,302
Nonmarketable alternative investments	13,778,984	13,183,395
Other investments	6,607	5,561
	20,450,163	20,418,293
Less fiduciary custodial funds	293,682	274,374
	$ 20,156,481	$ 20,143,919

Note 2—Cash and Investments—Continued

At June 30, 2022 and 2021, the fair value of the University's investments based on the inputs used to value them is summarized as follows:

	2022				
	Level 1	Level 2	Level 3 (in thousands)	NAV	Total Fair Value
Cash equivalents, noncurrent	$ 371,602	-	-	-	$ 371,602
Equity securities:					
Domestic	149,188		$ 68,219		217,407
Foreign	405,453		2,068		407,521
	554,641	-	70,287	-	624,928
Fixed income securities:					
U.S. Treasury	1,877,265				1,877,265
U.S. government agency		$ 55,483			55,483
Corporate and other		1,069,366	8,126		1,077,492
	1,877,265	1,124,849	8,126	-	3,010,240
Commingled funds:					
Absolute return				$ 1,985,526	1,985,526
Domestic equities	4,067			347,147	351,214
Global equities	7,497			296,002	303,499
U.S. fixed income	2,430				2,430
Other	15,133				15,133
	29,127	-	-	2,628,675	2,657,802
Nonmarketable alternative investments:					
Venture capital				4,881,566	4,881,566
Absolute return				2,336,711	2,336,711
Private equity			448,100	2,129,959	2,578,059
Real estate			20,289	1,726,906	1,747,195
Natural resources			266,079	1,969,374	2,235,453
	-	-	734,468	13,044,516	13,778,984
Other investments	(2,005)	(169)	8,781	-	6,607
	$ 2,830,630	$ 1,124,680	$ 821,662	$ 15,673,191	20,450,163
Less fiduciary custodial funds					293,682
					$ 20,156,481

Note 2—Cash and Investments—Continued

	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

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 2.6 years at June 30, 2022 compared to 3.2 years at June 30, 2021. 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, 2022 and 2021, 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, 2022 and 2021, along with credit quality and effective duration measures, is summarized as follows:

2022	U.S. Government	Investment Grade	Non-Investment Grade (in thousands)	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 1,874,199				$ 1,874,199	2.3
U.S. Treasury inflation protected	3,066				3,066	14.6
U.S. government agency	55,483				55,483	4.7
Mortgage backed		$ 28,735	$ 977	$ 3,816	33,528	1.8
Asset backed		113,288	684		113,972	0.6
Corporate and other		863,373	21,025	45,594	929,992	3.5
	$ 1,932,748	$ 1,005,396	$ 22,686	$ 49,410	$ 3,010,240	2.6

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

Of the University's fixed income securities, 98 percent and 97 percent were rated investment grade or better at June 30, 2022 and 2021, respectively, and 73 percent of these securities consisted of either U.S. treasury and government agencies or non-U.S. government securities rated AAA/Aaa at both June 30, 2022 and 2021.

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, 2022 and 2021, 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, 2022 is summarized as follows (amounts in thousands):

	Fair Value	Remaining Life	Outstanding Commitments	Redemption Terms	Redemption Notice
Commingled funds	$ 2,657,802	N/A	$ -	Daily, monthly, quarterly and annually, with varying notice periods	Lock-up provisions range from none to five years
Nonmarketable alternative investments	$ 13,778,984	1-12 years	$ 5,179,752	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, 2022 and 2021, 71 percent and 79 percent, respectively, are redeemable within one year, with 46 percent and 65 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 $1,564,351,000 or 8 percent of total investments at June 30, 2022, and $1,777,448,000 or 9 percent of total investments at June 30, 2021, and are summarized as follows:

	2022	**2021**
	(in thousands)	
Euro	$ 876,311	$ 885,763
British pound sterling	234,271	279,092
Swedish krona	195,165	236,595
Canadian dollar	106,781	143,015
Japanese yen	106,570	135,042
Danish krone	23,433	29,657
Other	21,820	68,284
	$ 1,564,351	$ 1,777,448

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 $42,466,000 and $21,472,000 in securities loans outstanding at June 30, 2022 and 2021, 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, 2022, collateral of $52,693,000 (124 percent of securities on loan) includes invested cash of $23,037,000 and U.S. government securities of $29,656,000, while 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.

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, 2022 and 2021 is summarized as follows:

	2022	**2021**
	(in thousands)	
Patient care	$ 797,306	$ 778,548
Sponsored programs	187,237	177,384
State appropriations, educational and capital	72,768	71,804
Student accounts	37,612	38,445
Other	52,979	45,947
	1,147,902	1,112,128
Less allowance for uncollectible accounts receivable:		
Patient care	140,314	131,628
All other	11,113	9,900
	$ 996,475	$ 970,600

Note 4—Notes and Pledges Receivable

The composition of notes and pledges receivable at June 30, 2022 and 2021 is summarized as follows:

	2022	2021
	(in thousands)	
Notes:		
Federal student loan programs	$ 46,227	$ 54,341
University student loan funds	14,363	14,233
Other	2,277	8,192
	62,867	76,766
Less allowance for uncollectible notes	3,100	3,100
Total notes receivable, net	59,767	73,666
Gift pledges:		
Capital	100,495	94,264
Operations	232,882	212,471
	333,377	306,735
Less:		
Allowance for uncollectible pledges	7,827	7,407
Unamortized discount to present value	3,167	3,449
Total pledges receivable, net	322,383	295,879
Total notes and pledges receivable, net	382,150	369,545
Less current portion	108,164	108,789
	$ 273,986	$ 260,756

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, 2022 are expected to be received in the following years ended June 30 (in thousands):

2023	$ 94,692
2024	71,686
2025	49,704
2026	46,335
2027	20,856
2028 and after	50,104
	$ 333,377

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $137,460,000 and $129,158,000 at June 30, 2022 and 2021, 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, 2022 and 2021 is summarized as follows:

	2022			
	Beginning Balance	Additions	Retirements	Ending Balance
	(in thousands)			
Land	$ 155,111	$ 1,722	$ 950	$ 155,883
Land improvements	168,121	2,710	216	170,615
Infrastructure	264,874			264,874
Buildings	9,986,838	463,350	51,977	10,398,211
Construction in progress	481,905	(203,002)		278,903
Equipment	2,231,283	126,709	188,897	2,169,095
Library materials	724,672	30,215	5	754,882
Right-to-use assets	382,614	32,433	6,555	408,492
	14,395,418	454,137	248,600	14,600,955
Less accumulated depreciation	7,962,995	606,523	234,375	8,335,143
	$ 6,432,423	$ (152,386)	$ 14,225	$ 6,265,812

	2021			
	Beginning Balance	Additions	Retirements	Ending Balance
	(in thousands)			
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	9,507,952	516,904	38,018	9,986,838
Construction in progress	635,515	(153,610)		481,905
Equipment	2,239,751	91,249	99,717	2,231,283
Library materials	699,201	25,471		724,672
Right-to-use assets	365,057	35,496	17,939	382,614
	14,029,098	523,174	156,854	14,395,418
Less accumulated depreciation	7,492,799	620,037	149,841	7,962,995
	$ 6,536,299	$ (96,863)	$ 7,013	$ 6,432,423

The decrease in construction in progress of $203,002,000 in 2022 represents the amount of capital expenditures for new projects of $287,679,000 net of assets placed in service of $490,681,000. 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.

Note 6—Long-term Debt

Long-term debt at June 30, 2022 and 2021 is summarized as follows:

	2022	2021
	(in thousands)	
Commercial paper:		
Tax-exempt, variable rate (0.96%)*	$ 140,505	$ 149,305
Taxable, variable rate (1.09%)*	630	4,220
General revenue bonds:		
Series 2022A, taxable, 3.504% to 4.454% through 2122	1,700,000	
Series 2022B, taxable, 3.504% through 2052	300,000	
Series 2022C, taxable, 2.734% to 3.599% through 2047	413,205	
Series 2022D, 5.00% through 2033	55,775	
unamortized premium	13,858	
Series 2020A, 4.00% to 5.00% through 2050	138,430	138,430
unamortized premium	33,091	35,589
Series 2020B, taxable, 1.004% to 2.562% through 2050	850,025	850,025
Series 2019A, 5.00% through 2036	123,335	132,140
unamortized premium	17,809	20,674
Series 2019B, taxable, 2.714% to 3.416% through 2029	12,210	13,765
Series 2019C, 4.00% through 2049	61,725	61,725
unamortized premium	5,189	5,443
Series 2018A, 4.00% to 5.00% through 2048	127,280	130,025
unamortized premium	14,911	15,915
Series 2017A, 4.86% to 5.00% through 2035	239,970	420,990
unamortized premium	32,720	60,910
Series 2015, 4.00% to 5.00% through 2035	112,690	280,950
unamortized premium	14,715	38,791
Series 2014A, 4.25% to 5.00% through 2030	18,925	70,425
unamortized premium	1,327	5,201
Series 2014B, taxable, 3.216% to 3.516% through 2024	1,980	2,945
Series 2013A, 2.50% to 5.00% through 2029	39,370	40,780
unamortized premium	812	1,005
Series 2012A, variable rate (0.83%)* through 2036	50,000	50,000
Series 2012B, variable rate (0.56%)* through 2042	65,000	65,000
Series 2012D-1, variable rate (0.58%)* through 2025 with partial swap to fixed through 2025	44,760	48,915
Series 2012D-2, variable rate (0.83%)* through 2030 with partial swap to fixed through 2026	44,135	49,025
Series 2012E**, variable rate through 2033		82,020
Series 2010A, taxable Build America Bonds, 4.926% to 5.593% through 2040	163,110	163,110
Series 2010D, taxable Build America Bonds, 3.756% to 5.333% through 2041	146,620	148,205
Series 2009B, variable rate (1.20%)* through 2039	118,710	118,710
Series 2008A, variable rate (0.60%)* through 2038	57,085	57,085
Series 2008B, variable rate (0.86%)* through 2028 with partial swap to fixed through 2026	46,115	52,715
	5,206,022	3,314,038
Less:		
Commercial paper and current portion of bonds payable	209,311	235,875
Long-term bonds payable subject to remarketing, net	274,392	300,542
	$ 4,722,319	$ 2,777,621

* Denotes variable rate at June 30, 2022
** 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, 2022 and 2021 is summarized as follows:

	2022	**2021**
	(in thousands)	
Variable rate bonds payable subject to remarketing	$ 425,805	$ 441,450
Less:		
Current principal maturities	26,150	15,645
Long-term liquidity agreements:		
Unsecured lines of credit	125,263	125,263
Long-term bonds payable subject to remarketing, net	$ 274,392	$ 300,542

The University's available lines of credit totaled $1,190,000,000 and were entirely unused at both June 30, 2022 and 2021.

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. 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, 2022 and 2021 is summarized as follows:

2022	Beginning Balance	Additions	Reductions	Ending Balance
		(in thousands)		
Commercial paper	$ 153,525		$ 12,390	$ 141,135
Bonds	3,160,513	$ 2,482,838	578,464	5,064,887
	$ 3,314,038	$ 2,482,838	$ 590,854	$ 5,206,022

2021	Beginning Balance	Additions	Reductions	Ending Balance
		(in thousands)		
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

The University maintains a combination of variable and fixed rate debt supported by general revenues, with effective interest rates that averaged 2.9 percent and 2.5 percent in 2022 and 2021, 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 2022, the University issued $2,468,980,000 of General Revenue Bonds with a net original issue premium of $13,858,000 which included $1,700,000,000 of fixed rate, taxable bonds Series 2022A, $300,000,000 of fixed rate, taxable green bonds Series 2022B, $413,205,000 of fixed rate, taxable bonds Series 2022C and $55,775,000 of fixed rate, tax-exempt bonds Series 2022D. Total bond proceeds of $2,482,838,000 were utilized to refund $69,410,000 of existing bonds, establish an escrow of $411,701,000 to advance refund existing bonds, as well as provide $298,618,000 for capital projects designed to advance the University's commitment to decarbonization, $1,686,312,000 for capital projects and other general purposes, and $16,797,000 for debt issuance costs.

Note 6—Long-term Debt—Continued

Bond proceeds of $69,410,000 were used to refund a portion of the General Revenue Bonds Series 2012E, which had an interest rate of 0.78 percent at March 31, 2022 and a final maturity date of April 1, 2033. As a result of the refunding, the University's aggregate debt service payments increased over the next 11 years by $6,811,000, resulting in a present value economic loss of $7,161,000.

The University also established three escrow funds with bond proceeds of $411,701,000 to advance refund $49,470,000 of General Revenue Bonds Series 2014A, $162,885,000 of General Revenue Bonds Series 2015 and $166,840,000 of General Revenue Bonds Series 2017A which had average interest rates of 4.9 percent, 5.0 percent and 5.0 percent, respectively. These bonds are considered legally defeased as amounts were deposited in irrevocable escrow funds with an escrow trustee to provide for all future debt service payments on the refunded bonds to the dates of redemption. As a result of these advance refundings, the University reduced its aggregate debt service payments over the next 25 years by $30,853,000, resulting in a present value economic gain of $29,851,000.

Deferred outflows associated with the University's refunding activity totaled $34,397,000 and $4,064,000 at June 30, 2022 and 2021, respectively; and deferred inflows associated with the University's refunding activity totaled $47,486,000 at June 30, 2022. The outstanding balance of these deferred outflows and deferred inflows will be amortized into interest expense over the remaining life of the refunded bonds.

Note 6—Long-term Debt—Continued

Debt obligations are generally callable by the University and mature at various dates through fiscal 2122. 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
2023	$ 196,860	$ 184,422	$ 381,282
2024	97,925	179,897	277,822
2025	201,540	176,333	377,873
2026	102,155	171,799	273,954
2027	145,010	167,520	312,530
2028-2032	557,410	763,760	1,321,170
2033-2037	533,435	659,930	1,193,365
2038-2042	742,085	553,573	1,295,658
2043-2047	165,125	471,971	637,096
2048-2052	1,130,045	432,746	1,562,791
2053-2117		3,474,120	3,474,120
2118-2122	1,200,000	267,240	1,467,240
Total payments	5,071,590	$ 7,503,311	$ 12,574,901
Plus unamortized premiums	134,432		
	$ 5,206,022		

* Interest on variable rate debt is estimated based on rates in effect at June 30, 2022; 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 2023 would decrease to $170,710,000, total principal payments due in 2024 would increase to $115,365,000, total principal payments due in 2025 would increase to $363,497,000, total principal payments due in 2026 would increase to $280,633,000 and total principal payments due in 2027 would decrease to $131,040,000. Accordingly, principal payments due in subsequent years would be reduced to $482,675,000 in 2028 through 2032, $379,950,000 in 2033 through 2037 and $652,550,000 in 2038 through 2042. Principal payments due in 2043 through 2122 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, 2022 and 2021 are summarized as follows:

	2022	
	Notional Amount (in thousands)	Fair Value
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 82,255	$ 55
Foreign currency forwards:		
Australian dollar	80,923	(4,742)
Thailand baht	57,203	4,667
New Zealand dollar	71,097	3,501
Japanese yen	73,249	3,165
Columbian peso	47,389	(3,102)
Israeli shekel	36,851	2,843
All other currencies	601,769	(10,256)
	968,481	(3,924)
Other	38,220	(184)
	$ 1,088,956	$ (4,053)
Floating-to-fixed interest rate swaps on debt	$ 44,670	$ (1,690)
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 49,280	$ (1,343)

	2021	
	Notional Amount (in thousands)	Fair Value
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)

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, 2022 and 2021, the fair value of floating-to-fixed interest rate swaps associated with the University's variable rate debt is ($3,033,000) and ($9,721,000), 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 $587,000 and $3,550,000 at June 30, 2022 and 2021, respectively.

The change in fair value of derivative instruments, which includes realized gains and losses on positions closed, for the years ended June 30, 2022 and 2021 is summarized as follows:

	2022	**2021**
	(in thousands)	
Investment derivative instruments:		
Investment portfolios:		
Futures	$ (15,763)	$ 25,502
Foreign currency forwards	(51,023)	13,688
Other	374	731
	$ (66,412)	$ 39,921
Floating-to-fixed interest rate swaps on debt	$ 3,292	$ 2,219
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 3,396	$ 2,448

Note 7—Derivative Instruments—Continued

Using rates in effect at June 30, 2022, 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	Total
	Principal	Interest	Payments, Net	Payments
		(in thousands)		
2023	$ 11,925	$ 724	$ 876	$ 13,525
2024	12,410	622	625	13,657
2025	12,940	514	359	13,813
2026	12,045	410	101	12,556
2027	13,970	300		14,270
2028-2030	26,960	224		27,184
	$ 90,250	$ 2,794	$ 1,961	$ 95,005

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 the floating Securities Industry and Financial Markets Association Municipal Index and LIBOR may impact the synthetic fixed rate of the variable rate debt. At June 30, 2022 and 2021, 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 $5,940,000 and $7,477,000 at June 30, 2022 and 2021, 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 reserves for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022	2021
	(in thousands)	
Balance, beginning of year	$ 439,848	$ 303,431
Claims incurred and changes in estimates	1,267,941	948,519
Claim payments	(884,175)	(812,102)
Balance, end of year	823,614	439,848
Less current portion	646,591	269,789
	$ 177,023	$ 170,059

During 2022, the University and attorneys for claimants who alleged abuse by the late University physician Robert Anderson reached a settlement agreement that would resolve those survivors' claims against the University pending documentation and approval by the claimants, as recommended by their attorneys, and the federal court overseeing the process. The total amount for the settlement is $490,750,000.

Event Subsequent to June 30, 2022: On September 16, 2022, a settlement agreement between the University and claimants who alleged abuse by the late University physician Robert Anderson was approved by all parties and finalized. On October 12, 2022, the University transferred $490,750,000 into accounts designated per the terms of the agreement to facilitate settlement with the claimants.

Note 9—Pension Plan

UMH-West 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 UMH-West 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. UMH-West has elected to measure the net pension liability one year prior to the fiscal year end reporting date and amounts measured at June 30, 2021 and 2020 were determined based on an actuarial valuation at October 1, 2020 and 2019, 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, 2021 and 2020 measurement dates, the number of plan participants consisted of the following:

	2021	**2020**
Active participants	429	493
Vested terminated participants	784	810
Retirees, beneficiaries and disabled participants	516	465
	1,729	1,768

Note 9—Pension Plan—Continued

Changes in the reported net pension liability for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022		
	Total Pension Liability	Plan Fiduciary Net Position (in thousands)	Net Pension Liability
Balance, beginning of year	$ 67,735	$ 74,057	$ (6,322)
Interest cost	4,543		4,543
Changes in assumptions	89		89
Differences between expected and actual plan experience	989		989
Benefit payments	(5,598)	(5,598)	-
Contributions from the employer		891	(891)
Administrative expenses		(76)	76
Net investment income:			
Expected investment earnings		4,997	(4,997)
Differences between expected and actual investment earnings		16,162	(16,162)
Balance, end of year	$ 67,758	$ 90,433	$ (22,675)

	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)

The plan fiduciary net position as a percentage of the total pension liability was 133 percent and 109 percent at June 30, 2022 and 2021, respectively.

Note 9—Pension Plan—Continued

Significant actuarial assumptions used at the June 30, 2021 and 2020 measurement dates are as follows:

	2021	2020
Discount rate	7.0%	7.0%
Inflation	2.0%	2.0%
Investment rate of return	7.0%	7.0%
Mortality table	Pri-2012, Scale MP-2020	Pri-2012, Scale MP-2019

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 at both June 30, 2021 and 2020, 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:

	2021		2020	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	25.0%	7.8%	25.0%	7.9%
U.S. mid cap	10.5%	8.6%	10.5%	8.6%
U.S. small cap	6.5%	9.0%	6.5%	9.1%
International developed	14.0%	5.9%	14.0%	6.2%
Emerging market	9.0%	5.5%	9.0%	5.7%
STRIPs	7.0%	3.7%	7.0%	4.6%
Corporate 10+ year	28.0%	4.4%	28.0%	4.6%

Note 9—Pension Plan—Continued

A one-percentage point change in the discount rate would impact the reported net pension liability at June 30, 2022 and 2021 as follows:

	2022		2021	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	(in thousands)			
Net pension liability	$ 6,934	$ (5,912)	$ 7,463	$ (6,250)

The components of pension income for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022	2021
	(in thousands)	
Interest cost	$ 4,543	$ 4,687
Expected investment earnings	(4,997)	(4,797)
Administrative expenses	76	
Amortization of deferred outflows and deferred inflows	(4,755)	(1,139)
	$ (5,133)	$ (1,249)

Deferred outflows and deferred inflows related to the reported net pension liability at June 30, 2022 and 2021 are summarized as follows:

	2022		2021	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
	(in thousands)			
Changes in assumptions	$ 43	$ 501	$ 526	$ 2,021
Differences between expected and actual plan experience	477	235		966
Differences between expected and actual investment earnings	916	13,101	1,377	988
	1,436	13,837	1,903	3,975
Contributions made after measurement date	1,781		891	
	$ 3,217	$ 13,837	$ 2,794	$ 3,975

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 (in thousands):

2023	$ 3,074
2024	3,090
2025	3,005
2026	3,232
	$ 12,401

The inputs used to determine the fair value of the plan's investments reported at June 30, 2022 and 2021 are summarized as follows:

	2022			
	Level 1	Level 2	NAV	Total Fair Value
	(in thousands)			
Equity securities	$ 67,034			$ 67,034
Fixed income securities		$ 22,738		22,738
Nonmarketable alternative investments			$ 661	661
	$ 67,034	$ 22,738	$ 661	$ 90,433

	2021			
	Level 1	Level 2	NAV	Total Fair Value
	(in thousands)			
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

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, 2021 and 2020 were determined based on an actuarial valuation at January 1, 2021 and 2020, 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, 2021 and 2020 measurement dates, the number of plan participants consisted of the following:

	2021		2020	
	Retiree Health and Welfare	Long-term Disability	Retiree Health and Welfare	Long-term Disability
Active employees	43,880	38,402	44,746	38,181
Retirees receiving benefits	11,835		11,125	
Surviving spouses	892		883	
Participants receiving disability benefits		555		555
	56,607	38,957	56,754	38,736

Note 10—Postemployment Benefits—Continued

Changes in the reported total liability for postemployment benefits obligations for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 4,083,296	$ 328,850	$ 4,412,146
Service cost	174,102	38,927	213,029
Interest cost	93,398	7,768	101,166
Changes in assumptions	(344,206)	(24,010)	(368,216)
Differences between expected and actual plan experience	38,479	(3,364)	35,115
Benefit payments	(62,869)	(32,712)	(95,581)
Balance, end of year	3,982,200	315,459	4,297,659
Less current portion	63,891	33,463	97,354
	$ 3,918,309	$ 281,996	$ 4,200,305

	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

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 $783,862,000 and $794,964,000 at June 30, 2022 and 2021, 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 reported total postemployment benefits liability by approximately $437,000,000 and $443,000,000 at June 30, 2022 and 2021, 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, 2022 and 2021 as a percentage of covered payroll of $4,502,421,000 and $4,255,709,000 were 95 percent and 104 percent, respectively.

Significant actuarial assumptions used at the June 30, 2021 and 2020 measurement dates are as follows:

	2021	2020
Discount rate*	2.16%	2.21%
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	7.0%/4.5%	7.25%/4.5%
Increase in compensation rate faculty/staff/union	4.5%/4.75%/3.75%	0.0%/0.0%/3.75%
Mortality table**	PUB-2010 Teachers Head Count Table, Scale MP-2020	PUB-2010 Teachers Head Count Table, Scale MP-2019
Average future work life expectancy (years):		
Retiree health and welfare	8.81	9.04
Long-term disability	11.16	11.46

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

** 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, 2022 and 2021 as follows:

	2022		2021	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	(in thousands)			
Discount rate:				
Retiree health and welfare	$ 896,861	$ (695,000)	$ 948,617	$ (726,846)
Long-term disability	$ 14,038	$ (12,815)	$ 12,530	$ (10,140)
Health care cost trend rates:				
Retiree health and welfare	$ (780,982)	$ 1,065,747	$ (807,936)	$ 1,102,842
Long-term disability	$ (12,428)	$ 12,831	$ (17,191)	$ 17,486

The components of postemployment benefits expense for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Service cost	$ 174,102	$ 38,927	$ 213,029
Interest cost	93,398	7,768	101,166
Amortization of deferred outflows and deferred inflows	47,630	894	48,524
	$ 315,130	$ 47,589	$ 362,719

	2021		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
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

Note 10—Postemployment Benefits—Continued

Deferred outflows and deferred inflows related to the reported total liability for postemployment benefits obligations at June 30, 2022 and 2021 are summarized as follows:

	2022		**2021**	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
	(in thousands)			
Changes in assumptions	$ 779,951	$ 600,527	$ 905,690	$ 329,105
Differences between expected and actual plan experience	128,647	17,606	111,758	16,253
	908,598	618,133	1,017,448	345,358
Benefit payments made after measurement date	97,354		95,581	
	$ 1,005,952	$ 618,133	$ 1,113,029	$ 345,358

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):

2023	$ 48,524
2024	48,524
2025	48,524
2026	36,502
2027	29,738
2028 and beyond	78,653
	$ 290,465

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 plan 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, 2022 and 2021 are summarized as follows:

	2022	**2021**
	(in thousands)	
University contributions	$ 347,465	$ 264,244
Employee contributions	$ 180,423	$ 170,622
Payroll covered under plan	$ 4,502,421	$ 4,255,709
Total payroll	$ 4,646,695	$ 4,400,615

Note 12—Net Position

The composition of net position at June 30, 2022 and 2021 is summarized as follows:

	2022	2021
	(in thousands)	
Net investment in capital assets	$ 3,522,018	$ 3,669,608
Restricted:		
Nonexpendable:		
Permanent endowment corpus	2,821,876	2,625,459
Expendable:		
Net appreciation of permanent endowments	3,589,441	3,684,197
Funds functioning as endowment	3,218,330	2,973,422
Restricted for operations and other	807,252	924,677
Unrestricted	5,339,544	5,625,701
	$ 19,298,461	$ 19,503,064

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, 2022 and 2021, 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 $315,257,000 and $311,608,000 during the years ended June 30, 2022 and 2021, 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 $4,250,000 and $1,065,000 at June 30, 2022 and 2021, respectively, for DoED funding received subsequent to distribution.

Note 14—Commitments and Contingencies

Authorized expenditures for construction and other projects unexpended at June 30, 2022 were $1,394,163,000. Of these expenditures, the University expects that $1,045,800,000 will be funded by internal sources, gifts, grants and proceeds from borrowings; $42,911,000 by the State Building Authority and the remaining $305,452,000 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, 2022, the University had committed, but not paid, a total of $5,179,752,000 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):

2023	$ 1,859,543
2024	1,011,915
2025	888,538
2026	578,673
2027	329,054
2028 and beyond	512,029
	$ 5,179,752

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 leases for certain space and equipment, which expire at various dates through 2042. Future lease payments, including both principal and interest on these commitments for the next five years and in subsequent five-year periods are as follows:

	Principal	Interest (in thousands)	Total
2023	$ 47,679	$ 7,835	$ 55,514
2024	42,335	7,947	50,282
2025	39,040	7,283	46,323
2026	27,948	6,632	34,580
2027	24,075	6,023	30,098
2028-2032	71,668	21,441	93,109
2033-2037	43,373	6,551	49,924
2038-2042	6,134	490	6,624
	$ 302,252	$ 64,202	$ 366,454

Note 14—Commitments and Contingencies—Continued

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.

Note 15—Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2022 and 2021 are summarized as follows:

2022	Compensation and Benefits	Supplies and Services	Depreciation (in thousands)	Scholarships and Fellowships	Total
Instruction	$ 1,125,341	$ 117,962			$ 1,243,303
Research	646,105	273,108			919,213
Public service	164,759	106,328			271,087
Academic support	325,726	67,659			393,385
Student services	115,220	33,183			148,403
Institutional support	209,526	333,070			542,596
Operations and maintenance of plant	101,012	229,393			330,405
Auxiliary enterprises	3,886,145	1,976,401			5,862,546
Depreciation			$ 606,523		606,523
Scholarships and fellowships				$ 230,946	230,946
	$ 6,573,834	$ 3,137,104	$ 606,523	$ 230,946	$ 10,548,407

2021	Compensation and Benefits	Supplies and Services	Depreciation (in thousands)	Scholarships and Fellowships	Total
Instruction	$ 1,092,866	$ 81,251			$ 1,174,117
Research	616,727	236,395			853,122
Public service	191,972	95,496			287,468
Academic support	310,667	49,039			359,706
Student services	107,156	24,950			132,106
Institutional support	191,449	163,357			354,806
Operations and maintenance of plant	93,937	172,678			266,615
Auxiliary enterprises	3,532,681	1,738,913			5,271,594
Depreciation			$ 620,037		620,037
Scholarships and fellowships				$ 200,431	200,431
	$ 6,137,455	$ 2,562,079	$ 620,037	$ 200,431	$ 9,520,002

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, 2022 and 2021 is as follows:

	2022	2021
	(in thousands)	
Condensed Statement of Net Position		
Assets:		
Current assets	$ 108,089	$ 126,853
Noncurrent assets	356,607	361,731
Total assets	464,696	488,584
Deferred outflows	3,217	2,589
Liabilities:		
Current liabilities	84,599	91,677
Noncurrent liabilities	245,347	272,826
Total liabilities	329,946	364,503
Deferred inflows	15,984	6,288
Net position:		
Net investment in capital assets	61,967	56,529
Restricted:		
Nonexpendable	682	682
Expendable	19,525	14,853
Unrestricted	39,809	48,318
Total net position	$ 121,983	$ 120,382
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Operating revenues	$ 529,560	$ 508,348
Operating expenses other than depreciation expense	482,303	447,786
Depreciation expense	33,897	34,539
Operating income	13,360	26,023
Nonoperating expenses, net	(11,667)	(3,734)
Other expenses, net	(92)	(2,379)
Net revenues before transfers	1,601	19,910
Transfers from other University units		13,000
Increase in net position	1,601	32,910
Net position, beginning of year	120,382	87,472
Net position, end of year	$ 121,983	$ 120,382
Condensed Statement of Cash Flows		
Net cash provided by operating activities	$ 14,740	$ 49,662
Net cash provided by noncapital financing activities	7,286	2,463
Net cash used in capital and related financing activities	(70,753)	(68,345)
Net cash provided by investing activities	13,295	4,939
Net decrease in cash and cash equivalents	(35,432)	(11,281)
Cash and cash equivalents, beginning of year	57,379	68,660
Cash and cash equivalents, end of year	$ 21,947	$ 57,379

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):

	2022	2021	2020	2019	2018	2017
Total Pension Liability						
Interest cost	$ 4,543	$ 4,687	$ 4,957	$ 4,930	$ 5,013	$ 4,482
Changes in assumptions	89	(3,540)	3,713	(273)	(822)	(24,906)
Differences between expected and actual plan experience	989	(1,662)	(124)	1,361	(767)	2,067
Benefit payments	(5,598)	(7,714)	(6,791)	(4,489)	(4,712)	(4,089)
Net change in total pension liability	23	(8,229)	1,755	1,529	(1,288)	(22,446)
Total pension liability, beginning of year	67,735	75,964	74,209	72,680	73,968	96,414
Total pension liability, end of year	$ 67,758	$ 67,735	$ 75,964	$ 74,209	$ 72,680	$ 73,968
Plan Fiduciary Net Position						
Benefit payments	$ (5,598)	$ (7,714)	$ (6,791)	$ (4,489)	$ (4,712)	$ (4,089)
Contributions from the employer	891	900	1,244	1,047	2,171	2,903
Administrative expenses	(76)					
Net investment income:						
Expected investment earnings	4,997	4,797	5,205	5,234	4,848	3,166
Differences between expected and actual investment earnings	16,162	(1,137)	426	(1,168)	3,664	1,316
Net change in plan fiduciary net position	16,376	(3,154)	84	624	5,971	3,296
Plan fiduciary net position, beginning of year	74,057	77,211	77,127	76,503	70,532	67,236
Plan fiduciary net position, end of year	$ 90,433	$ 74,057	$ 77,211	$ 77,127	$ 76,503	$ 70,532
Net pension liability, end of year	$ (22,675)	$ (6,322)	$ (1,247)	$ (2,918)	$ (3,823)	$ 3,436
Plan fiduciary net position as a percentage of the total pension liability	133%	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)	Excess (Deficient) Contributions
2022	$ 1,781	$ -	$ 1,781
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, BBA and ARP). 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
2022	4.75%	5.50%	6.27%	5.76%
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):

	2022	2021	2020
Service cost	$ 213,029	$ 151,925	$ 134,115
Interest cost	101,166	125,421	124,023
Changes in assumptions	(368,216)	731,220	154,777
Differences between expected and actual plan experience	35,115	18,776	38,230
Benefit payments	(95,581)	(92,684)	(87,712)
Net change	$ (114,487)	$ 934,658	$ 363,433
Total liability, end of year	$ 4,297,659	$ 4,412,146	$ 3,477,488
Covered employee payroll	$ 4,502,421	$ 4,255,709	$ 4,214,627
Total liability as a percentage of covered employee payroll	95%	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:

2022	2.16%
2021	2.21%
2020	3.50%
2019	3.87%
2018	3.58%
2017	2.85%

UNIVERSITY OF MICHIGAN HEALTH

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 and 2021
with
REPORT OF INDEPENDENT AUDITORS

UNIVERSITY OF MICHIGAN HEALTH

June 30, 2022 and 2021

Report of Independent Auditors

To the Regents of the University of Michigan

Opinion

We have audited the accompanying financial statements of the University of Michigan Health ("UMH," formerly known as the University of Michigan Health System, or "UMHS"), which, as discussed in Note 1, consists of certain departments of the University of Michigan, which comprise the statement of net position as of June 30, 2022, and 2021, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, including the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UMH as of June 30, 2022, and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of UMH and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1 to the financial statements, UMH changed the manner in which it accounts for leases in fiscal 2022. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of UMH 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 UMH. They do not purport to, and do not, present fairly the financial position of the University of Michigan as of June 30, 2022 and 2021, and the changes in its financial position or 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.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 UMH's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 17 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 supplemental 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 20, 2022

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 ("UMH") at June 30, 2022 and 2021 and its activities for the two fiscal years ended June 30, 2022. 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.

UMH was previously known as the University of Michigan Health System ("UMHS"). During 2022, UMHS went through a rebranding to become more patient-centric, as a result, UMHS is now referred to as UMH. UMH is a part of the University of Michigan (the "University"), and is one of four University units that together comprise Michigan Medicine. Along with UMH, 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 UMH-West, previously known as 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, UMH operates a 1,043 licensed bed acute care and psychiatric facility, several ambulatory care centers and various other health care programs across Michigan. UMH serves as the principal teaching facility for the Medical School. Substantially all physician services to UMH 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 UMH in order to comprehensively present all activity related to the clinical mission of Michigan Medicine. UMH 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.

UMH continued to be impacted by the global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. During 2022 and 2021, UMH experienced several surges in COVID-19. UMH 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. During 2022, UMH was also affected by staffing shortages and global supply challenges brought on by the COVID-19 pandemic. Despite these challenges, UMH remained committed to patients and launched several COVID-19 vaccination clinics and has administered over 200,000 vaccines through June 30, 2022.

Michigan Medicine and UMH have been recognized by several external organizations. During 2022, this recognition included the following:

- Named to the U.S. News & World Report Honor Roll as the 17th 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 30th consecutive year UMH 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 is nationally ranked in nine pediatric specialties, according to U.S. News & World Report.
- Von Voigtlander Women's Hospital has been named among the best hospitals for maternity care by U.S. News and World Report.
- Michigan Medicine earned the No. 36 spot in Newsweek's list of "World's Best Hospitals" and the No. 11 spot 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 top employers in the state of Michigan by Forbes.
- For the 20th 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.
- Michigan Medicine received the designation as a "Leader in LGBTQ+ Healthcare Equality" from the Human Rights Campaign, based on the ability to deliver LGBTQ+ inclusive policies and services for patients, visitors and employees.

Financial Highlights

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

	2022	2021 (in millions)	2020
Operating revenues	$ 5,003.9	$ 4,753.3	$ 4,225.4
Operating income (loss)	$ 94.0	$ 107.8	$ (191.1)
Increase (decrease) in net position	$ 195.0	$ 574.5	$ (293.6)

During 2022, the University adopted Governmental Accounting Standards Board ("GASB") Statement No. 87, *Leases* ("GASB 87"), which establishes a single model for lease accounting based on the principle that leases serve to finance the right to use an underlying asset. The statement requires lessees to recognize right-to-use assets and related liabilities, and lessors to recognize receivables and corresponding deferred inflows of resources, for leases that were previously classified as operating and recognized as inflows or outflows of resources. The adoption of GASB 87 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2020, resulting in increases in capital assets, net of $147.3 million, accounts payable and accrued expenses of $24.9 million and other noncurrent liabilities of $122.4 million.

For purposes of management's discussion and analysis, comparative data for the statement of net position has been provided by reflecting the adoption of GASB 87 at June 30, 2020. The statement of revenues, expenses and changes in net position and statement of cash flows presented for the year ended June 30, 2020 do not reflect the adoption of GASB 87.

Operating revenues increased in 2022 due to strong revenue per patient case and growth in patient activity. Operating expenses increased in 2022 due to costs associated with compensation and benefits and increased patient activity, including increased expenses associated with supplies due to inflation and supply chain shortages. Net position, which represents the residual interest in UMH's assets and deferred outflows after liabilities and deferred inflows are deducted, increased $195.0 million in 2022, driven by positive operating and investment performance, partially offset by transfers to the Medical School.

Using the Financial Statements

UMH'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 UMH at the end of the fiscal year and includes all assets, deferred outflows, liabilities, and deferred inflows of UMH. 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 UMH, while the change in net position is an indication of whether the overall financial condition improved or worsened during the year. UMH's assets, deferred outflows, liabilities, deferred inflows and net position at June 30 are summarized as follows:

	2022	**2021** (in millions)	**2020**
Current assets	$ 1,237.0	$ 1,251.4	$ 961.9
Noncurrent assets:			
Unexpended debt proceeds	394.8	40.4	48.0
Investments	2,086.0	1,921.4	1,444.4
Capital assets, net	1,351.3	1,393.5	1,542.7
Other	40.3	39.3	41.4
Total assets	5,109.4	4,646.0	4,038.4
Deferred outflows	289.0	319.2	129.1
Current liabilities	488.4	596.7	643.3
Noncurrent liabilities:			
Long-term debt	1,340.1	971.4	1,013.6
Obligations for postemployment benefits	913.9	954.6	670.4
Other	154.0	224.1	186.3
Total liabilities	2,896.4	2,746.8	2,513.6
Deferred inflows	160.9	72.3	82.4
Net position	$ 2,341.1	$ 2,146.1	$ 1,571.5

Current assets consist primarily of cash equivalents and accounts receivable. Cash equivalents on deposit with the University totaled $535.1 million and $543.1 million at June 30, 2022 and 2021, respectively. The net decrease in cash equivalents is primarily attributable to the reduction in payment from the Centers for Medicare & Medicaid Services ("CMS") related to the recognition of the advanced funding from Accelerated and Advance Payment ("AAP") program, as a result of 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 $575.8 million and $584.6 million at June 30, 2022 and 2021, respectively.

Inventory and other current assets totaled $119.5 million and $117.5 million at June 30, 2022 and 2021, respectively. The increase in 2022 is primarily due to an increase in pharmacy inventory.

Unexpended debt proceeds totaled $394.8 million and $40.4 million at June 30, 2022 and 2021, respectively. The net increase in unexpended debt proceeds is consistent with debt proceeds received in 2022 of $413.0 million, to provide funding for The Pavilion inpatient tower construction.

Investments, consisting principally of long-term assets held in the University Endowment Fund ("UEF"), totaled $2.1 billion and $1.9 billion at June 30, 2022 and 2021, respectively. Investments increased in 2022, primarily due to strong market performance.

Total cash equivalents and investments, excluding unexpended debt proceeds, amounted to $2.6 billion at June 30, 2022, which represents 201 days of operating expenses (excluding depreciation and non-cash postemployment benefits expense) as compared to $2.5 billion and 201 days at June 30, 2021. The increase in 2022 is primarily attributable to strong operating and market performance.

Net capital assets, defined as gross capital assets less accumulated depreciation, totaled $1.4 billion in both 2022 and 2021. Capital additions totaled $169.4 million in 2022, which included investments in clinical expansion as well as facility and infrastructure improvements. During 2022, UMH resumed many of the capital projects that were paused during 2021, 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 UMH and UMH-West over a five-year period, to better achieve the goals and objectives of providing accessible, quality patient care and performing approved investments. In 2020, UMH established the line of credit for UMH-West in the amount of $45.0 million. At both June 30, 2022 and 2021, 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 UMH. Deferred outflows totaled $289.0 million and $319.2 million at June 30, 2022 and 2021, 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 $80.6 million and $47.4 million at June 30, 2022 and 2021, respectively. The increase is due to activity related to prior year estimates and the establishment of current year positions.

Unearned revenue totaled $57.7 million and $213.3 million at June 30, 2022 and 2021, respectively. The decrease is primarily attributable to the partial repayment of funds received under the CMS AAP program.

Total outstanding debt amounted to $1,384.3 million and $1,013.6 million at June 30, 2022 and 2021, respectively, with effective interest rates that averaged 3.5 and 3.7 percent at June 30, 2022 and 2021, respectively. UMH borrowed $413.0 million from the University during 2022, payable over 30 years at an average interest rate of 3.0 percent to provide funding for The Pavilion inpatient tower construction.

Obligations for postemployment benefits totaled $938.7 million and $979.2 million at June 30, 2022 and 2021, respectively, of which $24.8 million and $24.6 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 decrease in the reported liability at June 30, 2022 was driven primarily 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 UMH. Deferred inflows totaled $160.9 million and $72.3 million at June 30, 2022 and 2021, respectively.

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

	2022	**2021** (in millions)	**2020**
Net investment in capital assets	$ 238.8	$ 279.0	$ 426.7
Restricted:			
Nonexpendable	14.9	13.3	11.5
Expendable	85.9	77.7	66.6
Unrestricted	2,001.5	1,776.1	1,066.7
	$ 2,341.1	$ 2,146.1	$ 1,571.5

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

Restricted nonexpendable net position includes the corpus portion (historical value) of gifts to UMH'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 UMH's results of operations. UMH's revenues, expenses and other changes in net position for the years ended June 30 are summarized as follows:

	2022	2021 (in millions)	2020
Operating revenues	$ 5,003.9	$ 4,753.3	$ 4,225.4
Operating expenses	4,909.9	4,645.5	4,416.5
Operating income (loss)	94.0	107.8	(191.1)
Total nonoperating and other revenues, net	228.9	639.8	78.6
Income (loss) before transfers	322.9	747.6	(112.5)
Transfers to other University units, net	(127.9)	(173.1)	(181.1)
Increase (decrease) in net position	$ 195.0	$ 574.5	$ (293.6)

Operating Revenues

Revenues from patient care services represented 98.5 percent of operating revenues at both June 30, 2022 and 2021. 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 2022, driven primarily by an increase in patient and pharmacy volumes. A summary of patient activity statistics for the years ended June 30 is as follows:

				% Change	
	2022	2021	2020	2022	2021
Inpatient discharges	46,803	46,477	46,398	0.7%	0.2%
Patient days	323,658	312,090	306,358	3.7%	1.9%
Observation cases	16,638	16,595	16,005	0.3%	3.7%
Surgeries	56,260	56,715	51,422	(0.8)%	10.3%
Outpatient visits	2,860,683	2,739,963	2,458,816	4.4%	11.4%
Adjusted cases	196,925	190,488	183,190	3.4%	4.0%

Adjusted cases, which is an aggregate acuity adjusted activity measurement combining inpatient discharges and outpatient case activity, increased 3.4 percent and 4.0 percent in 2022 and 2021, respectively.

Operating Expenses

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

	2022	2021 (in millions)	2020
Compensation	$ 1,511.0	$ 1,406.6	$ 1,391.8
Benefits	545.3	495.4	483.8
Expenses reimbursed by other Michigan Medicine units	(1.0)	(0.7)	(3.2)
Supplies	1,211.7	1,126.5	1,007.8
Depreciation	212.0	225.6	201.1
Medical School faculty and other services	745.5	729.8	661.3
Michigan Medicine Administrative Services	314.8	286.5	295.2
Other operating expenses	370.6	375.8	378.7
	$ 4,909.9	$ 4,645.5	$ 4,416.5

While total operating expenses increased in 2022, expense management continues to be a focus of UMH 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, UMH 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. During 2022, the items paused by the economic recovery plan were resumed and resulted in an increase in total operating expenses as compared to 2021.

Compensation and benefits totaled $2.1 billion and $1.9 billion at June 30, 2022 and 2021, respectively, and represents 41.9 percent and 40.9 percent of total operating expenses, respectively. The growth in 2022 is primarily driven by hiring due to increases in patient activity volumes and a competitive labor market.

Supplies expense totaled $1.2 billion and $1.1 billion at June 30, 2022 and 2021, respectively. The increase reflects growth in patient volumes, new therapies, increased costs of prescription drugs and infusion treatments, as well as increased expenses related to global supply chain challenges, vaccines and personal protective equipment associated with the COVID-19 pandemic.

Medical School faculty and other services expense amounted to $745.5 million and $729.8 million at June 30, 2022 and 2021, respectively. The increase in 2022 is primarily due to increased service payments, driven by growth in professional revenue. Michigan Medicine Administrative Services expense totaled $314.8 million and $286.5 million at June 30, 2022, and 2021, respectively. The increase in 2022 is due to the resumption of activities paused under the economic recovery plan.

Other operating expenses totaled $370.6 million and $375.8 million at June 30, 2022 and 2021, respectively. The decrease in 2022 is primarily due to reduced maintenance and facility costs.

Nonoperating and Other Revenues (Expenses)

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

	2022	2021 (in millions)	2020
Federal economic relief funds	$ 30.0	$ 133.6	$ 116.9
Interest expense	(48.8)	(41.5)	(39.0)
Net investment income (loss)	233.0	539.9	(12.9)
Private gifts for other than capital and permanent endowment purposes	6.3	5.2	11.1
Capital and permanent endowment gifts and other	8.4	2.6	2.5
	$ 228.9	$ 639.8	$ 78.6

UMH received federal funding from both the Coronavirus Aid, Relief, and Economic Security Act and The American Rescue Plan Act of 2021, related to the COVID-19 pandemic. This is recognized as federal economic relief funds and totaled $14.6 million and $131.9 million for the years ended June 30, 2022 and 2021, respectively. The funds are intended to compensate health care providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic, as well as increase access to COVID-19 vaccines, testing, and healthcare services in the community. The funds are not required to be repaid, provided that UMH can attest to and comply with program terms and conditions. UMH additionally received federal funding through the state of Michigan as a result of the Coronavirus State and Local Fiscal Recovery Fund, which is dedicated to expanding the capacity and capabilities of healthcare providers to treat COVID-19 patients. The funding is recognized as federal economic relief funds and totaled $14.2 million at June 30, 2022. UMH also received reimbursement through the Federal Emergency Management Agency's ("FEMA") Public Assistance Program for eligible costs associated with the ongoing COVID-19 recovery efforts and vaccine initiatives. FEMA funding is recognized as federal economic relief funds and totaled $1.1 million at June 30, 2022.

Substantially all UMH 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 UEF based on the University's endowment spending rule. Additionally, investments held in the UEF 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 2022 contributed to the increase in UMH's net position.

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

	2022	2021 (in millions)	2020
Income distributions and other investment income	$ 70.9	$ 65.4	$ 67.9
Net increase (decrease) in the fair value of investments	162.1	474.5	(80.8)
Net investment income (loss)	$ 233.0	$ 539.9	$ (12.9)

Transfers with Other University of Michigan Units

UMH 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. UMH 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:

	2022	2021 (in millions)	2020
Transfers to:			
Medical School academic and non-patient care purposes	$ (126.0)	$ (159.4)	$ (171.7)
Other University units	(8.4)	(17.8)	(13.3)
	(134.4)	(177.2)	(185.0)
Transfers from:			
Other University units	6.5	4.1	3.9
Transfers to other University units, net	$ (127.9)	$ (173.1)	$ (181.1)

Transfers to other University units decreased in 2022, primarily driven by decreased payments to the Medical School for academic and non-patient care purposes.

Statement of Cash Flows

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

	2022	2021 (in millions)	2020
Cash received from operations	$ 4,845.3	$ 4,426.2	$ 4,611.6
Cash expended for operations	(4,633.3)	(4,329.3)	(4,153.0)
Net cash provided by operating activities	212.0	96.9	458.6
Net cash used in noncapital financing activities	(92.5)	(32.2)	(49.8)
Net cash provided by (used in) capital and related financing activities	158.4	(170.7)	(123.7)
Net cash (used in) provided by investing activities	(285.9)	70.3	19.2
Net (decrease) increase in cash equivalents	(8.0)	(35.7)	304.3
Cash equivalents, beginning of year	543.1	578.8	274.5
Cash equivalents, end of year	$ 535.1	$ 543.1	$ 578.8

Cash received from operations primarily consists of net patient care revenues. Net cash used in noncapital financing activities primarily consists of transfers from UMH to the Medical School in support of the Medical School's academic and research missions, offset by federal economic relief funds. Net cash provided by capital and related financing activities primarily consists of purchases of capital assets and proceeds from issuance of capital debt. Net cash used in investing activities primarily consists of the change in unexpended capital debt proceeds and 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, UMH 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.

To provide higher quality and more convenient care for all patients, UMH plans to significantly expand its specialty and mail order pharmacy program. In March 2022, the Board of Regents approved a $6 million purchase of an industrial building, located in Dexter, Michigan, as well as a $52 million renovation plan to grow pharmacy services and automate the order filling process. The expansion will allow UMH to more than double the number of prescriptions it fills through its existing in-house pharmacy. Construction is expected to be completed by summer 2023.

UMH remains committed to expanding access to more patients by focusing on Care at Home. This program allows UMH to discharge patients sooner and finish their hospital-level care at home with appropriate monitoring, equipment and house visits. Care at Home will bring positive impacts by improving patient experience and bed capacity. In addition, UMH has 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 an effort to meet patient growth and ensure accessibility, the Board of Regents approved the addition of two operating rooms at the Brighton Center for Specialty Care (“BCSC”). This 2,000 square foot expansion will also bring the opportunity to transfer cases from the University Hospital to BCSC. The expansion is estimated to cost $13 million and is expected to be completed by spring 2023.

The University has approved a master affiliation agreement with Sparrow Health System, paving the way for ongoing collaboration. In addition, 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 2021, 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.

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 MyMichigan Health (previously known as Mid-Michigan Health), UMH-West, Sparrow Health System 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 UMH. 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. 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. The change in reimbursement has impacted UMH's financial results beginning July 2021. Given these challenges, management continues to explore and implement strategies to contain or reduce expense growth.

As a labor-intensive organization, UMH's most significant operating expense is compensation and benefits, and management has resource strategies in place to attract and retain high quality staff. In 2021, UMH signed a three-year agreement with the University of Michigan House Officer Association. In addition, in 2021, the union of physician assistants 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. A large portion of UMH'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 UMH's future financial results.

Management believes that UMH is poised to succeed in an environment where quality, appropriateness and innovation are rewarded. As part of Michigan Medicine, UMH has a multi-year track record of a high degree of integration and alignment with the Medical School. This alignment and integration allows UMH 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 UMH to execute the emerging strategic initiatives listed above.

UMH 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 UMH 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 UMH.

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact UMH's financial position and its results of operations. The COVID-19 pandemic has also led to challenges related to staffing shortages, supply chain disruptions and inflation. The extent of the impact to UMH 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 UMH 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

Statement of Net Position

	June 30, 2022	June 30, 2021
	(in thousands)	
Assets		
Current Assets:		
Cash equivalents on deposit with the University	$ 535,120	$ 543,066
Accounts receivable, net	575,813	584,615
Receivable from other University units	1,018	377
Current portion of pledges receivable, net	5,547	5,869
Inventory and other current assets	119,521	117,484
Total Current Assets	1,237,019	1,251,411
Noncurrent Assets:		
Unexpended debt proceeds on deposit with the University	394,778	40,428
Investments on deposit with the University	2,085,951	1,921,409
Pledges receivable, net	7,604	6,292
Other assets	32,726	32,926
Capital assets, net	1,351,285	1,393,538
Total Noncurrent Assets	3,872,344	3,394,593
Total Assets	**5,109,363**	**4,646,004**
Deferred Outflows	**288,990**	**319,175**
Liabilities		
Current Liabilities:		
Accrued compensation	130,641	143,571
Accounts payable and accrued expenses	147,269	122,968
Unearned revenue	57,708	213,303
Payable to other University units	3,080	2,624
Current portion of obligations for postemployment benefits	24,840	24,586
Current portion of long-term debt	44,187	42,227
Third-party settlements and reserves	80,646	47,396
Total Current Liabilities	488,371	596,675
Noncurrent Liabilities:		
Long-term debt	1,340,140	971,372
Payable to other University units	14,277	14,299
Obligations for postemployment benefits	913,903	954,587
Other	139,670	209,852
Total Noncurrent Liabilities	2,407,990	2,150,110
Total Liabilities	**2,896,361**	**2,746,785**
Deferred Inflows	**160,934**	**72,342**
Net Position		
Net investment in capital assets	238,762	278,970
Restricted:		
Nonexpendable	14,903	13,287
Expendable	85,853	77,675
Unrestricted	2,001,540	1,776,120
Total Net Position	**$ 2,341,058**	**$ 2,146,052**

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

UNIVERSITY OF MICHIGAN HEALTH

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2022	2021
	(in thousands)	
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $134,022 in 2022 and $125,516 in 2021)	$ 4,926,397	$ 4,682,630
Other revenue	77,527	70,642
Total Operating Revenues	**5,003,924**	**4,753,272**
Operating Expenses		
Compensation and benefits	2,055,330	1,901,342
Supplies, services and other	1,582,371	1,502,281
Depreciation	211,996	225,600
Michigan Medicine Administrative Services	314,773	286,535
Medical School faculty and other services	745,454	729,758
Total Operating Expenses	**4,909,924**	**4,645,516**
Operating Income	94,000	107,756
Nonoperating Revenues (Expenses)		
Federal economic relief funds	30,029	133,563
Interest expense	(48,752)	(41,528)
Net investment income	232,951	539,862
Private gifts for other than capital and permanent endowment purposes	6,301	5,227
Total Nonoperating Revenues, Net	**220,529**	**637,124**
Income Before Other Revenues (Expenses) and Transfers	314,529	744,880
Other Revenues (Expenses)		
Capital and permanent endowment gifts	7,180	3,664
Gain (loss) on disposal of capital assets	1,231	(891)
Total Other Revenues, Net	**8,411**	**2,773**
Income Before Transfers	322,940	747,653
Transfers to other University units, net	(127,934)	(173,139)
Increase in Net Position	195,006	574,514
Net Position, Beginning of Year	2,146,052	1,571,538
Net Position, End of Year	**$ 2,341,058**	**$ 2,146,052**

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

UNIVERSITY OF MICHIGAN HEALTH

Statement of Cash Flows

	Year Ended June 30, 2022	2021
	(in thousands)	
Cash Flows from Operating Activities		
Received from patient care services	$ 4,766,854	$ 4,350,482
Received from non-patient sources	78,011	68,557
Expenses reimbursed by other University units	426	7,186
Payments to employees	(1,985,243)	(1,784,990)
Payments to suppliers	(1,462,210)	(1,380,826)
Payments to other University units	(1,185,861)	(1,163,538)
Net Cash Provided by Operating Activities	**211,977**	**96,871**
Cash Flows from Noncapital Financing Activities		
Federal economic relief funds	30,029	132,096
Private gifts and other receipts	7,511	5,825
Transfers to other University units, net	(129,989)	(170,143)
Net Cash Used in Noncapital Financing Activities	**(92,449)**	**(32,222)**
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets, net	(156,364)	(79,336)
Interest payments on capital debt	(45,596)	(43,230)
Proceeds from issuance of capital debt	412,955	
Principal payments on capital debt	(38,720)	(36,140)
Principal and interest payments on lease liabilities	(20,844)	(13,891)
Private gifts and other receipts	4,981	4,876
Transfers from (to) other University units for capital projects	2,055	(2,996)
Net Cash Provided by (Used in) Capital and Related Financing Activities	**158,467**	**(170,717)**
Cash Flows from Investing Activities		
Investment income	70,869	65,386
Net increase in noncurrent investments and other assets	(2,460)	(2,539)
(Increase) decrease in unexpended capital debt proceeds	(354,350)	7,533
Net Cash (Used in) Provided by Investing Activities	**(285,941)**	**70,380**
Net Decrease in Cash Equivalents	(7,946)	(35,688)
Cash Equivalents on Deposit with the University, Beginning of Year	543,066	578,754
Cash Equivalents on Deposit with the University, End of Year	**$ 535,120**	**$ 543,066**

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

UNIVERSITY OF MICHIGAN HEALTH

Statement of Cash Flows—Continued

	Year Ended June 30, 2022	2021
	(in thousands)	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 94,000	$ 107,756
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	211,996	225,600
Changes in assets and liabilities:		
Accounts receivable, net	8,802	(307,467)
Receivable from other University units	(641)	5,644
Inventory and other current assets	(2,037)	(22,963)
Accrued compensation	(12,930)	27,916
Accounts payable and accrued expenses	6,209	4,814
Unearned revenue	(205,453)	(14,734)
Payable to other University units	434	(1,231)
Third-party settlements and reserves	33,250	(12,959)
Obligations for postemployment benefits	(40,430)	284,708
Changes in deferred outflows	30,185	(190,114)
Changes in deferred inflows	88,592	(10,099)
Net Cash Provided by Operating Activities	**$ 211,977**	**$ 96,871**

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

UMH is an operating unit of Michigan Medicine. Along with UMH, 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 UMH-West).

UMH 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 UMH. Patient care expenses other than physician compensation are recorded by UMH, while physician compensation is recorded by the Medical School. UMH makes payments to the Medical School for faculty services provided to UMH 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"). UMH 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

During 2022, the University adopted GASB Statement No. 87, *Leases* ("GASB 87"), which establishes a single model for lease accounting based on the principle that leases serve to finance the right to use an underlying asset. The statement requires lessees to recognize right-to-use assets and related liabilities, and lessors to recognize receivables and corresponding deferred inflows of resources, for leases that were previously classified as operating and recognized as inflows or outflows of resources. The adoption of GASB 87 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2020, resulting in increases in capital assets, net of $147,265,000, accounts payable and accrued expenses of $24,864,000 and other noncurrent liabilities of $122,401,000.

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation, outstanding principal balances of debt and lease liabilities, and unexpended debt proceeds 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 UMH'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 UMH pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of UMH'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: UMH 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.

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

Accounts receivable consists primarily of patient activity and is recorded net of allowances for uncollectible accounts receivable, which totaled $124,661,000 and $116,570,000 at June 30, 2022 and 2021, respectively. The allowance is based on management's judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable.

UMH 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. 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. Right-to-use assets are recorded at the present value of payments expected to be made during the related term using discount rates which are based upon the University's incremental borrowing rates, and are depreciated over the shorter of the related term or the expected useful life of the underlying asset.

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

UMH 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.

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 UMH 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 $34,398,000 and $236,665,000 at June 30, 2022 and 2021, respectively. At June 30, 2022, the remaining amount of the advanced payment is classified as current and is recognized within unearned revenue. These advanced payments will be reported as patient care revenues as the qualifying patient care services are performed.

UMH'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 UMH's revenues and expenses are the result of exchange transactions.

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

UMH has agreements with third-party payers that provide for payments to UMH 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.

UMH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. As UMH 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.

Federal economic relief funds represent funding received from the federal government to provide economic assistance to entities that have been negatively impacted by the COVID-19 pandemic. UMH received funding as a result of both the Coronavirus Aid, Relief and Economic Security Act and The American Rescue Plan Act. Funds received are recognized into revenue as UMH identifies eligible expenditures or lost revenues which qualify for reimbursement. Revenue recognized under the terms and conditions of these programs totaled $14,617,000 and $131,862,000 in 2022 and 2021, respectively. UMH additionally received federal funding through the state of Michigan as a result of the Coronavirus State and Local Fiscal Recovery Fund. The relief funding is dedicated to expanding the capacity and capabilities of healthcare providers to treat COVID-19 patients. The funding recognized from the Coronavirus State and Local Fiscal Recovery Fund totaled $14,187,000 at June 30, 2022. UMH also received reimbursement through the Federal Emergency Management Agency's ("FEMA") Public Assistance Program for eligible costs associated with the ongoing COVID-19 recovery efforts and vaccine initiatives. Revenue recognized from FEMA funding totaled $1,101,000 in 2022.

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 Equivalents and Investments

Cash equivalents and investments at June 30, 2022 and 2021 are summarized as follows:

	2022	2021
	(in thousands)	
Cash equivalents – University Investment Pool	$ 535,120	$ 543,066
Investments:		
University Endowment Fund	2,085,915	1,921,374
Other investments	36	35
Total investments	2,085,951	1,921,409
Total cash equivalents and investments	$ 2,621,071	$ 2,464,475

The University maintains centralized management for substantially all cash equivalents and investments of UMH. 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 UMH for long-term investment purposes, but are not limited by donor stipulations requiring UMH to preserve principal in perpetuity. Substantially all of the amounts invested by UMH 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, 2022 and 2021, the Long Term Portfolio consisted of cash equivalents (2 percent and 2 percent), fixed income securities (6 percent and 5 percent), U.S. and non-U.S. equities (3 percent and 4 percent), commingled funds (15 percent and 18 percent) and nonmarketable alternative investments (74 percent and 71 percent).

Note 2—Cash Equivalents 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 8 percent and 9 percent of the portfolio at June 30, 2022 and 2021, 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

UMH 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 UMH 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 from the UIP on a daily basis. Withdrawals from the UEF are processed at the beginning of each quarter, based upon University policy, generally after a five-year investment period. Minimum advance notice to the University is based upon the amount of the withdrawal and is summarized as follows:

Withdrawal Amount	Minimum Advance Notice
Up to $10 million	90 days
$10 to $50 million	180 days
$50 to $100 million	1 year
$100 million	2 years

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

Note 2—Cash Equivalents and Investments—Continued

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, UMH 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, 2022 and 2021 is summarized as follows:

	2022 (in thousands)	2021
Gift pledges outstanding:		
Capital	$ 6,640	$ 4,390
Operations	6,846	8,092
	13,486	12,482
Less:		
Allowance for uncollectible pledges	293	272
Unamortized discount to present value	42	49
Total pledges receivable, net	13,151	12,161
Less current portion	5,547	5,869
	$ 7,604	$ 6,292

Payments on pledges receivable at June 30, 2022 are expected to be received in the following years ended June 30 (in thousands):

2023	$ 5,674
2024	3,008
2025	2,441
2026	2,363
	$ 13,486

Note 4—Capital Assets

Capital assets activity for the years ended June 30, 2022 and 2021 is summarized as follows:

2022 (in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 29,728	$ 1,200		$ 30,928
Land improvements	29,935	1,362	$ 216	31,081
Buildings	2,175,062	33,962	35,535	2,173,489
Equipment	635,383	28,684	38,949	625,118
IT Infrastructure	303,901	14,804	20,259	298,446
Construction in progress	66,015	69,916		135,931
Right-to-use assets	195,954	19,475	2,379	213,050
	3,435,978	169,403	97,338	3,508,043
Less accumulated depreciation	2,042,440	211,996	97,678	2,156,758
	$ 1,393,538	$ (42,593)	$ (340)	$ 1,351,285

2021 (in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 29,732		$ 4	$ 29,728
Land improvements	30,355	$ 441	861	29,935
Buildings	2,184,637	27,104	36,679	2,175,062
Equipment	674,904	16,167	55,688	635,383
IT Infrastructure	313,927	13,790	23,816	303,901
Construction in progress	61,875	4,140		66,015
Right-to-use assets	179,990	15,964		195,954
	3,475,420	77,606	117,048	3,435,978
Less accumulated depreciation	1,932,702	225,600	115,862	2,042,440
	$ 1,542,718	$ (147,994)	$ 1,186	$ 1,393,538

The increase in construction in progress of $69,916,000 in 2022 represents the amount of capital expenditures for new projects of $149,928,000 net of capital assets placed in service of $80,012,000. 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. Retirements of $97,338,000 and $117,048,000 in 2022 and 2021, respectively, are primarily related to fully depleted clinical equipment and information technology assets no longer in service.

Note 5—Long-term Debt

Long-term debt at June 30, 2022 and 2021 is summarized as follows:

	2022	2021
	(in thousands)	
Payable to the University:		
2020, 3.00% through 2052	$ 412,955	
2020, 4.05% to 5.05% through 2050	71,000	$ 71,000
unamortized premium	16,665	17,923
2018, 4.05% to 5.05% through 2048	45,130	46,020
unamortized premium	5,232	5,585
2017, 4.05% to 5.05% through 2047	95,850	97,765
unamortized premium	11,948	13,120
2012, 4.71% through 2025	44,760	44,760
2012, 3.23% to 3.25% through 2030	44,135	49,025
2012, 2.60% to 3.25% through 2033	58,220	70,830
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	23,745	26,495
unamortized premium	995	1,081
2010, 0.68% to 5.00% through 2041	107,095	107,095
unamortized discount	(288)	(309)
2010, 3.20% to 3.64% through 2040	141,470	141,470
unamortized discount	(377)	(417)
2010, 2.00% to 5.00% through 2027	62,885	74,090
unamortized premium	1,593	2,252
2009, 2.00% to 5.00% through 2039	119,230	123,690
unamortized premium	434	474
	1,384,327	1,013,599
Less current portion	44,187	42,227
	$ 1,340,140	$ 971,372

Note 5—Long-term Debt—Continued

Long-term debt activity for the years ended June 30, 2022 and 2021 is summarized as follows:

	2022			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Payable to the University	$ 1,013,599	$ 412,955	$ 42,227	$ 1,384,327

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

During 2022, UMH received proceeds of $412,955,000 from the University to provide funding for The Pavilion inpatient tower construction.

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
2023	$ 40,825	$ 50,206	$ 91,031
2024	54,240	48,408	102,648
2025	56,540	46,225	102,765
2026	55,550	44,372	99,922
2027	61,070	41,995	103,065
2028-2032	282,715	178,709	461,424
2033-2037	304,905	125,392	430,297
2038-2042	233,715	69,260	302,975
2043-2047	144,450	35,566	180,016
2048-2052	114,115	10,493	124,608
	1,348,125	$ 650,626	$ 1,998,751
Plus unamortized premiums, net	36,202		
	$ 1,384,327		

Note 5—Long-term Debt—Continued

UMH 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. UMH maintains fixed rate debt with an effective interest rate that averaged 3.5 and 3.7 percent in 2022 and 2021, respectively.

Note 6—Third-Party Payment and Reimbursement

A substantial portion of UMH'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 UMH 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 2022 were related to 2018 for government payers and resulted in amounts payable of $2,487,000, and non-government payers from 2021 and 2020 that resulted in amounts receivable of $3,476,000.

UMH 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 UMH 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 UMH's charity care policy for the years ended June 30, 2022 and 2021 were $57,642,000 and $60,240,000, respectively.

Note 6—Third-Party Payment and Reimbursement—Continued

The distribution of net patient care service revenue by primary payer source for the years ended June 30, 2022 and 2021 is as follows:

	2022	2021
Medicare	26.6%	26.3%
Medicaid	12.7%	11.4%
Blue Cross	39.7%	40.5%
Other	21.0%	21.8%

Note 7—Transactions with Other University of Michigan Units

UMH has amounts receivable from and payable to other University units at June 30, 2022 and 2021 as follows:

	2022	2021
	(in thousands)	
Amounts receivable from other University units:		
UMH-West	$ 19,196	$ 19,196
Other	$ 822	$ 181
Amounts payable to other University units:		
Medical School	$ 3,080	$ 2,624
Michigan Medicine Administrative Services	$ 14,277	$ 14,299

UMH established a line of credit of $45,000,000 for UMH-West to better achieve the goals and objectives of providing accessible, quality patient care and performing approved investments. At June 30, 2022 and 2021, amounts receivable from other University units primarily consists of the outstanding balance on the line of credit by UMH-West.

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

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

UMH had various other transactions with University units for the years ended June 30, 2022 and 2021 which are summarized as follows:

	2022	**2021**
	(in thousands)	
Operating (expenses) revenues:		
Clinical services provided by the Medical School	$ (745,454)	$ (729,758)
Amounts received from the Medical School to reimburse UMH for expenses related to Medical School revenue and operating support, net	956	705
Services provided by other University units	(66,032)	(81,654)
Services provided to other University units	112	838
Insurance premium payments	(60,036)	(64,360)
Services provided by Michigan Medicine Administrative Services	(314,773)	(286,535)
Equity transfers to:		
Medical School academic and other non-patient care purposes, net	(126,004)	(159,370)
Other University units, net	(1,930)	(13,769)

UMH'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 UMH patients. Accordingly, UMH recognizes expense for these services in operating expenses. UMH incurred $745,454,000 and $729,758,000 of expense for services provided by the Medical School in 2022 and 2021, respectively. UMH is also reimbursed for the salary cost of UMH 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 $956,000 and $705,000 in 2022 and 2021, respectively.

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

In the course of normal operations, UMH 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. UMH included $66,032,000 and $81,654,000 in operating expenses for these services during 2022 and 2021, respectively. Services provided by UMH include those of University Occupational Health Services and risk management administration. To compensate UMH for these services, various University units reimbursed UMH $112,000 and $838,000 during 2022 and 2021, respectively, which is included as a reduction to total operating expenses.

Operating expenses include UMH'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 UMH. Liabilities for excess ultimate losses beyond initial coverage provided by Veritas are reflected within the statements of UMH.

Certain UMH 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 2022 and 2021, $314,773,000 and $286,535,000, respectively, of operating expense was allocated to UMH for the performance of these functions.

UMH 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 UMH leadership.

In 2016, a ten-year internal arrangement between UMH 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 UMH, which were invested in the University's Long Term Portfolio. In exchange for this investment, UMH 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, UMH transferred $33,675,000 and $50,669,000 to the Medical School during 2022 and 2021, respectively.

Note 8—Postemployment Benefits

UMH 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 UMH's regular employees may become eligible for these benefits if they reach retirement age while working for UMH. For employees retiring on or after January 1, 1987, contributions toward health and welfare benefits are shared between UMH 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 UMH employees who are enrolled in a University sponsored long-term disability plan and qualify, based on disability status while working for UMH, to receive basic or expanded long-term disability benefits. Contributions toward the expanded long-term disability plan are shared between UMH 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 UMH.

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. UMH's annual postemployment benefits expense and liability represents an allocation of UMH'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 UMH's postemployment benefits obligations for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 935,027	$ 44,146	$ 979,173
Net benefits expense	83,555	(4,469)	79,086
Decrease in deferred outflows	(30,024)	(900)	(30,924)
Increase in deferred inflows	(85,459)	(3,133)	(88,592)
Balance, end of year	903,099	35,644	938,743
Less current portion	20,178	4,662	24,840
	$ 882,921	$ 30,982	$ 913,903

	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

At June 30, 2022 and 2021, deferred outflows reported in the statement of net position include benefit payments made after the measurement date of $20,178,000 and $19,439,000, respectively. UMH 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. UMH's reported postemployment benefits obligations at June 30, 2022 and 2021 as a percentage of covered payroll of $1,487,138,000 and $1,385,292,000 were 63 percent and 71 percent, respectively.

Note 8—Postemployment Benefits—Continued

Significant actuarial assumptions used at the June 30, 2021 and 2020 measurement dates are as follows:

	2021	**2020**
Discount rate*	2.16%	2.21%
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	7.0%/4.5%	7.25%/4.5%
Increase in compensation rate faculty/staff/union	4.5%/4.75%/3.75%	0.0%/0.0%/3.75%
Mortality table**	PUB-2010 Teachers Head Count Table, Scale MP-2020	PUB-2010 Teachers Head Count Table, Scale MP-2019
Average future work life expectancy (years):		
Retiree health and welfare	8.81	9.04
Long-term disability	11.16	11.46

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

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

Note 9—Retirement Plan

UMH 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 UMH generally contributes 10 percent of each employees' pay to the plan. UMH'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 UMH contributions. Contributions and covered payroll under the plan (excluding participants' additional contributions) for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022	2021
	(in thousands)	
UMH contributions	$ 115,676	$ 81,154
Employee contributions	$ 60,066	$ 42,309
Payroll covered under plan	$ 1,487,138	$ 1,385,292
Total payroll	$ 1,519,588	$ 1,414,515

Due to the impact of the COVID-19 pandemic, contributions made to the plan by UMH 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

UMH has entered into leases for certain buildings and equipment, which expire at various dates through 2042. Future lease payments, including both principal and interest on these commitments for the next five years and in subsequent five-year periods are as follows:

	Principal	Interest (in thousands)	Total
2023	$ 27,350	$ 3,611	$ 30,961
2024	23,309	3,304	26,613
2025	22,509	3,000	25,509
2026	13,245	2,719	15,964
2027	10,638	2,486	13,124
2028-2032	26,816	9,692	36,508
2033-2037	20,256	4,893	25,149
2038-2042	6,134	490	6,624
	$ 150,257	$ 30,195	$ 180,452

UMH 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 2022 and 2021, UMH received federal relief funding from various sources related to the COVID-19 pandemic. Terms and conditions surrounding the recognition of these funds are subject to audit by cognizant governmental agencies. UMH believes that any liabilities arising from such audits will not have a material effect on its financial position.

THE VERITAS INSURANCE CORPORATION

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 and 2021
with
REPORT OF INDEPENDENT AUDITORS

THE VERITAS INSURANCE CORPORATION

June 30, 2022 and 2021

Page(s)

Report of Independent Auditors

To the Board of Directors of
The Veritas Insurance Corporation

Opinion

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, 2022, and 2021, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, including the related notes, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net position of The Veritas Insurance Corporation as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with US GAAS, we:

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

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 supplemental 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 20, 2022

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, 2022 and 2021 and its activities for the two fiscal years ended June 30, 2022. 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), educators' legal liability (including directors' and officers' liability) and cyber 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 2022 and 2021, the annual aggregate loss limits were $70.0 million for medical professional liability and $7.5 million 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. In 2022, a cyber liability policy was incepted with an annual aggregate loss limit of $10.0 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 with an annual aggregate limit of $20.0 million. Through November 2021, a portion of this was reinsured by Munich Reinsurance America, Inc.

Financial Highlights

For the year ended June 30, 2022, the Corporation's net position increased by $29.5 million to $123.6 million. Operating activities increased net position by $26.0 million, while net investment income increased net position by $3.5 million.

Stable claims experience is the primary driver of the $29.5 million increase in net position.

In accordance with the Corporation's net position distribution policy, capital and surplus were not sufficient to provide premium credits in 2022.

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, 2022 and 2021, 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:

	2022	2021 (in millions)	2020
Cash equivalents and investments	$ 360.4	$ 316.0	$ 239.9
Other assets	142.9	51.4	5.7
Total assets	503.3	367.4	245.6
Reserves for losses and loss adjustment expenses	371.2	267.7	223.8
Other liabilities	8.5	5.6	11.1
Total liabilities	379.7	273.3	234.9
Unrestricted net position	$ 123.6	$ 94.1	$ 10.7

The assets of the Corporation totaled $503.3 million at June 30, 2022, an increase of $135.9 million as compared to the prior year, driven primarily by increases in investments and unpaid losses receivable from the University.

The major components of assets at June 30, 2022 were $250,000 in cash equivalents, $194.3 million in the University's Daily and Monthly Portfolios and $165.9 million in the University's Long-Term Portfolio. 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 asset allocations for both 2022 and 2021 are consistent with the asset allocation target ranges adopted by the Board of Directors (the "Board").

The major components of liabilities are reserves for losses and loss adjustment expenses ("LAE"). At June 30, 2022, reserves for losses and LAE totaled $371.2 million, an increase of $103.5 million, or 38.7 percent from the prior year. Of this amount, $221.9 million related to reserves on known claims and $149.3 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 2022 and 2021. The increase in reserves for losses and LAE is primarily due to higher losses incurred compared to payout of claims in 2022.

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:

	2022	2021 (in millions)	2020
Reserves for losses and LAE, beginning of year	$ 267.7	$ 223.8	$ 169.7
Less receivables from the University for unpaid losses	43.2		
Less reinsurance recoverable on unpaid losses	1.8	5.3	1.3
Net reserves for losses and LAE, beginning of year	222.7	218.5	168.4
Incurred losses and LAE related to:			
Current year	76.3	62.0	63.2
Prior years	(24.4)	(12.6)	36.8
Total incurred losses and LAE	51.9	49.4	100.0
Total paid losses and LAE	(45.8)	(45.2)	(49.9)
Net reserves for losses and LAE, end of year	228.8	222.7	218.5
Receivables from the University for unpaid losses	140.3	43.2	
Reinsurance recoverable on unpaid losses	2.1	1.8	5.3
Reserves for losses and LAE, end of year	$ 371.2	$ 267.7	$ 223.8

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

	2022	2021	2020
Medical professional liability	70.6%	78.2%	82.1%
Workers' compensation	4.1	5.5	6.8
Educators' legal liability	3.5	4.4	5.2
Property damage	1.3	1.9	1.5
Basket aggregate liability and excess insurance	0.5	0.6	2.6
Auto liability	0.2	0.4	0.4
General liability	19.5	8.9	1.3
Hospital premises liability	0.1	0.1	0.1
Cyber liability	0.2		
	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. One-fourth of the excess net position can 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, 2022 and 2021.

Net position is unrestricted and totaled $123.6 million and $94.1 million at June 30, 2022 and 2021, 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 2022 is due primarily to operating income of $26.0 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. 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:

	2022	2021 (in millions)	2020
Direct written premiums	$ 80.0	$ 78.0	$ 54.2
Change in unearned premiums	(0.5)	(0.7)	0.7
Ceded written premiums expired	(1.2)	(1.7)	(1.2)
Total operating revenues	78.3	75.6	53.7
Losses and loss adjustment expenses	51.9	49.4	100.0
Other operating expenses	0.4	0.5	0.3
Total operating expenses	52.3	49.9	100.3
Operating income (loss)	26.0	25.7	(46.6)
Nonoperating revenues	3.5	57.7	4.8
Increase (decrease) in net position	$ 29.5	$ 83.4	$ (41.8)

The Corporation's operating revenues totaled $78.3 million in 2022, compared to $75.6 million in 2021, an increase of $2.7 million, or 3.6 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 2022 were $2.0 million higher than 2021, with the increase being driven primarily by the addition of a cyber liability policy in 2022.

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

	2022	2021	2020
Medical professional liability	71.8%	75.2%	70.5%
Workers' compensation	6.1	6.8	8.9
Educators' legal liability	6.7	5.9	6.7
Property damage	7.9	7.8	8.9
Basket aggregate liability and excess insurance	3.0	2.0	2.2
Auto liability	0.6	0.7	1.0
General liability	1.8	1.5	1.7
Hospital premises liability	0.2	0.1	0.1
Cyber liability	1.9		
	100.0%	100.0%	100.0%

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

	2022	2021 (in millions)	2020
Incurred losses and LAE related to:			
Current year	$ 76.3	$ 62.0	$ 63.2
Prior years	(24.4)	(12.6)	36.8
Total incurred losses and LAE	$ 51.9	$ 49.4	$ 100.0

In 2022, total incurred losses and LAE increased $2.5 million, or 5.1 percent, to $51.9 million. The increase is primarily due to a combination of increased exposures and severity resulting in an increase in current policy year incurred losses to $76.3 million and prior policy year favorable claims development of $24.4 million.

In 2022, favorable prior year loss development totaling $24.4 million is mainly attributable to Medical Professional Liability ("MPL"). For MPL, prior years incurred losses decreased by $28.5 million mainly due to the lower claims emergence than actuarially expected for most policy years. General Liability ("GL") losses decreased by $0.9 million due to lower claims emergence than actuarially expected for the most recent policy years. Educators' Legal Liability ("ELL") losses increased by $0.5 million due to unfavorable development greater than actuarially expected for policy year 2020/21. Workers Compensation losses increased by $1.2 million due to unfavorable development greater than actuarially expected for policy year 2020/21. Basket Aggregate losses increased by $2.9 million due to unfavorable development greater than actuarially expected for policy year 2019/20. Other lines of business had unfavorable claims emergence of $0.4 million.

In 2021, favorable prior year loss development totaling $12.6 million is mainly attributable to 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. GL losses decreased by $1.7 million due to favorable development greater than actuarially expected for policy year 1998/99. 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.

Nonoperating revenues, representing net investment income, decreased $54.2 million to $3.5 million in 2022, as compared to $57.7 million in 2021. This decrease was primarily a result of lower 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:

	2022	2021 (in millions)	2020
Cash received from operations	$ 85.5	$ 78.0	$ 54.3
Cash expended for operations	(44.5)	(59.6)	(45.6)
Net cash provided by operating activities	41.0	18.4	8.7
Net cash used in investing activities	(41.0)	(18.4)	(8.7)
Net change in cash equivalents	$ -	$ -	$ -

The primary source of cash received from operations is the collection of premiums. Premiums collected totaled $80.0 million, $78.0 million and $54.2 million in 2022, 2021 and 2020, respectively. The $7.5 million increase in cash received from operations in 2022 is primarily due to a reinsurance recovery of $5.5 million, and a $2.0 million increase in premiums collected.

Cash expended for operating activities, which primarily represents payment of losses and LAE, ceded reinsurance premiums and other underwriting expenses, totaled $44.5 million in 2022, as compared to $59.6 million in 2021. The decrease in 2022 is due to decreased payments for losses and LAE in the current year.

Cash used in investing activities, which primarily represents the purchase, sale or maturity of investments, totaled $41.0 million in 2022, as compared to $18.4 million in 2021. The increase in 2022 is due to $180.9 million of investment purchases offset by $139.9 million of sales and maturities.

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 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 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 2022, 2021 and 2020. 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 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, 2022	June 30, 2021
Assets		
Current Assets:		
Cash equivalents	$ 250,000	$ 250,000
Investments on deposit with the University	194,260,598	152,830,844
Losses receivable from the University	140,741,419	43,240,596
Prepaid premium tax	9,695	8,838
Prepaid reinsurance premiums		388,781
Reinsurance recoverable on paid losses		5,916,956
Total Current Assets	335,261,712	202,636,015
Noncurrent Assets:		
Investments on deposit with the University	165,870,155	162,903,167
Reinsurance recoverable on unpaid losses	2,100,096	1,843,568
Total Noncurrent Assets	167,970,251	164,746,735
Total Assets	**503,231,963**	**367,382,750**
Liabilities		
Current Liabilities:		
Reserves for losses and loss adjustment expenses	201,826,029	105,433,189
Unearned premium reserves	4,898,227	4,427,782
Premium tax payable		28,500
Losses payable and accrued liabilities	3,537,406	1,115,164
Total Current Liabilities	210,261,662	111,004,635
Noncurrent Liabilities:		
Reserves for losses and loss adjustment expenses	169,417,509	162,295,919
Total Liabilities	**379,679,171**	**273,300,554**
Net Position		
Unrestricted	123,552,792	94,082,196
Total Net Position	**$ 123,552,792**	**$ 94,082,196**

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,	
	2022	**2021**
Operating Revenues		
Gross direct written premiums	$ 79,984,346	$ 77,952,115
Change in unearned premiums	(470,445)	(702,339)
Total direct written premiums earned	79,513,901	77,249,776
Ceded written premiums	(832,500)	(1,791,351)
Change in prepaid reinsurance	(388,781)	128,339
Total ceded written premiums expired	(1,221,281)	(1,663,012)
Net earned premiums	78,292,620	75,586,764
Total Operating Revenues	**78,292,620**	**75,586,764**
Operating Expenses		
Losses and loss adjustment expenses	51,909,849	49,404,042
Management fees	66,500	58,000
Premium tax	170,643	207,456
Other expenses	119,331	171,437
Total Operating Expenses	**52,266,323**	**49,840,935**
Operating Income	26,026,297	25,745,829
Nonoperating Revenues		
Net investment income	3,444,299	57,676,524
Total Nonoperating Revenues	**3,444,299**	**57,676,524**
Increase in Net Position	29,470,596	83,422,353
Net Position, Beginning of Year	94,082,196	10,659,843
Net Position, End of Year	**$ 123,552,792**	**$ 94,082,196**

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

THE VERITAS INSURANCE CORPORATION

Statement of Cash Flows

	Year Ended June 30, 2022	2021
Cash Flows from Operating Activities		
Insurance premiums collected, net	$ 79,984,346	$ 77,952,115
Payments for losses and loss adjustment expenses	(43,279,402)	(51,459,904)
Collections (payments) for losses recoverable	5,469,629	(5,915,523)
Payments for net ceded reinsurance premiums	(832,500)	(1,791,351)
Payments for other expenses	(189,630)	(214,937)
Payments for premium tax	(200,000)	(179,381)
Net Cash Provided by Operating Activities	**40,952,443**	**18,391,019**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	139,990,914	193,922,149
Purchases of investments	(180,942,894)	(212,312,435)
Interest, dividends and fees, net	(463)	(733)
Net Cash Used in Investing Activities	**(40,952,443)**	**(18,391,019)**
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 to Net Cash Provided by Operating Activities:		
Operating income	$ 26,026,297	$ 25,745,829
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Losses receivable from the University	(97,500,823)	(43,236,300)
Prepaid premium tax	(857)	1,074
Prepaid reinsurance premiums	388,781	(128,339)
Reinsurance recoverable on paid losses	5,916,956	(5,916,726)
Reinsurance recoverable on unpaid losses	(256,528)	3,541,599
Reserves for losses and loss adjustment expenses	103,514,430	43,878,146
Unearned premium reserves	470,445	702,339
Premium tax payable	(28,500)	28,500
Losses payable and accrued liabilities	2,422,242	(6,225,103)
Net Cash Provided by Operating Activities	**$ 40,952,443**	**$ 18,391,019**

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), educators' legal liability (including directors' and officers' liability) and cyber 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 2022 and 2021, the annual aggregate loss limits were $70,000,000 for medical professional liability and $7,500,000 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 cyber liability policy incepted in 2022 has an annual aggregate loss limit of $10,000,000. 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 with annual aggregate limits of $20,000,000. Through November 2021, a portion of this was 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, cyber 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: 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, 2022 and 2021. 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, 2022 and 2021 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. One-fourth of the excess net position can 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. 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 or dividends declared in 2022 or 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 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, 2022 and 2021 are summarized as follows:

	Cost Basis	Unrealized Gains	Fair Value
2022			
Cash equivalents	$ 250,000		$ 250,000
Daily and Monthly Portfolios	191,101,458	$ 3,159,140	194,260,598
Long Term Portfolio	134,327,586	31,542,569	165,870,155
	$ 325,679,044	$ 34,701,709	$ 360,380,753
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

Note 2—Cash Equivalents and Investments—Continued

At June 30, 2022 and 2021, the Daily and Monthly Portfolios were comprised of 15 percent and 4 percent money market securities, 68 percent and 74 percent fixed income securities and the remaining 17 percent and 22 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 67 percent consisted of U.S. Treasury and government agencies and non-U.S. government securities rated AAA/Aaa at June 30, 2022, compared to 97 percent and 70 percent, respectively, at June 30, 2021. 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 1.3 years and 1.5 years at June 30, 2022 and 2021, 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, 2022 and 2021, the Long Term Portfolio consisted of cash equivalents (2 percent and 2 percent), fixed income securities (6 percent and 5 percent), U.S. and non-U.S. equities (3 percent and 4 percent), commingled funds (15 percent and 18 percent) and nonmarketable alternative investments (74 percent and 71 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 8 percent and 9 percent of the portfolio at June 30, 2022 and 2021, 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, 2022 and 2021 is summarized as follows:

	2022	2021
Reserves for losses and LAE, beginning of year	$ 267,729,108	$ 223,850,962
Less receivables from the University for unpaid losses	43,237,502	
Less reinsurance recoverable on unpaid losses	1,843,568	5,385,167
Net reserves for losses and LAE, beginning of year	222,648,038	218,465,795
Add incurred losses and LAE related to:		
Current year	76,328,589	62,032,316
Prior years	(24,418,740)	(12,628,274)
Total incurred losses and LAE	51,909,849	49,404,042
Less paid losses and LAE related to:		
Current year	10,973,029	3,836,766
Prior years	34,732,420	41,385,033
Total paid losses and LAE	45,705,449	45,221,799
Net reserves for losses and LAE, end of year	228,852,438	222,648,038
Receivables from the University for unpaid losses	140,291,004	43,237,502
Reinsurance recoverable on unpaid losses	2,100,096	1,843,568
Reserves for losses and LAE, end of year	371,243,538	267,729,108
Less current portion	201,826,029	105,433,189
	$ 169,417,509	$ 162,295,919

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 $33,004,114 and $31,133,707 at June 30, 2022 and 2021, respectively.

In 2022, incurred losses and LAE related to policies incepted during the year increased $14,296,273. Incurred losses and LAE related to prior years totaled ($24,418,740) due to net favorable loss development. Medical professional liability decreased $28,475,996, general liability decreased $896,947 and other lines decreased $33,782, which was offset by the remaining lines of coverage combined unfavorable development of $4,987,985. The net favorable development is primarily due to lower reported claims experience compared to previously projected for recent prior policy years.

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.

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, 2022 and 2021, the University provided claims administration and risk management services, with an estimated value of $3,023,000 and $2,765,000, respectively, 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.

Event Subsequent to June 30, 2022: On October 12, 2022, the Corporation received $130,490,000 from the University as reimbursement for indemnity costs incurred in connection with certain claims. On October 12, 2022, the Corporation transferred $130,490,000 into accounts designated per the terms of a University settlement agreement to facilitate payments associated with these claims.

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, 2022 and 2021.

Unrestricted net position at June 30, 2022 and 2021 is summarized as follows:

	2022	2021
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	118,098,459	88,627,863
	$ 123,552,792	$ 94,082,196

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 and 2021
with
REPORT OF INDEPENDENT AUDITORS

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

June 30, 2022 and 2021

Page(s)

Report of Independent Auditors

To the Regents of the University of Michigan

Opinion

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 statement of net position as of June 30, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, including the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Intercollegiate Athletics of the University of Michigan as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ICA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1 to the financial statements, ICA changed the manner in which it accounts for leases in 2022. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of ICA present only the net position, revenues, expenses and changes in net position, and cash flows of that portion of the business-type activities of the University of Michigan that is 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, 2022 and 2021, and the changes in its financial position or 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.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 supplemental 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 L.L.P.

October 20, 2022

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, 2022 and 2021, and its activities for the two fiscal years ended June 30, 2022. 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 $888.7 million and total liabilities and deferred inflows of $403.7 million at June 30, 2022, as compared to total assets and deferred outflows of $874.0 million and total liabilities and deferred inflows of $409.6 million at June 30, 2021. Net position, which represents the residual interest in ICA's total assets and deferred outflows after total liabilities and deferred inflows are deducted, totaled $485.0 million and $464.4 million at June 30, 2022 and 2021, respectively. ICA's change in net position for the years ended June 30 is summarized as follows:

	2022	**2021** (in millions)	**2020**
Operating revenues	$ 187.6	$ 80.1	$ 177.0
Operating expenses	$ 200.6	$ 165.2	$ 190.2
Net nonoperating and other activities	$ 33.6	$ 65.2	$ 0.4
Increase (decrease) in net position	$ 20.6	$ (19.9)	$ (12.8)

During 2022, the University adopted Governmental Accounting Standards Board ("GASB") Statement No. 87, *Leases* ("GASB 87"), which establishes a single model for lease accounting based on the principle that leases serve to finance the right to use an underlying asset. The statement requires lessees to recognize right-to-use assets and related liabilities, and lessors to recognize receivables and corresponding deferred inflows of resources, for leases that were previously classified as operating and recognized as inflows or outflows of resources. The adoption of GASB 87 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2020, resulting in increases in capital assets, net of $30,000, accounts payable and accrued expenses of $16,000, and other noncurrent liabilities of $14,000.

For purposes of management's discussion and analysis, comparative data for the statement of net position has been provided by reflecting the adoption of GASB 87 at June 30, 2020. The statement of revenues, expenses and changes in net position and statement of cash flows presented for the year ended June 30, 2020 do not reflect the adoption of GASB 87.

ICA's operating revenues increased $107.5 million in 2022 due primarily to the return of spectators in attendance at competitions and increased television revenues. 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.

Significant recurring sources of revenue for ICA, including gifts and investment income, are included in nonoperating revenues, as required by GASB. Net nonoperating and other activities decreased $31.6 million in 2022 due primarily to a decrease in net investment income. Net nonoperating and other activities increased $64.8 million in 2021 due primarily to an increase in net investment income and increased private gifts.

ICA's operating expenses increased $35.4 million in 2022 due primarily to the department returning to pre-COVID-19 levels of operations. In 2021, ICA's operating expenses decreased $25.0 million due primarily to reduced department operations, fewer team activities and competitions, and various expense reduction initiatives as a result of the COVID-19 pandemic.

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:

	2022	**2021** (in thousands)	**2020**
Net current assets (liabilities):			
Cash equivalents	$ 124,062	$ 95,536	$ 115,324
Receivables and other assets, net	23,569	22,297	21,361
Advance sale of game tickets	(52,804)	(41,638)	(19,814)
Current portion of notes payable	(12,463)	(11,650)	(11,272)
Other current liabilities	(16,491)	(16,736)	(13,838)
Total net current assets	65,873	47,809	91,761
Net noncurrent assets, deferred outflows, (liabilities) and (deferred inflows):			
Investments	216,015	191,188	137,518
Pledges receivable, net	37,389	44,114	52,234
Other noncurrent assets	14,870	17,497	13,654
Capital assets, net	459,994	489,077	519,408
Deferred outflows	12,781	14,276	6,293
Other liabilities	(2,189)	(1,498)	(1,514)
Unearned revenues	(4,777)	(6,320)	(7,864)
Obligations for postemployment benefits	(47,504)	(48,959)	(36,782)
Notes payable	(250,521)	(269,099)	(277,169)
Deferred inflows	(16,925)	(13,660)	(13,248)
Total net noncurrent assets and net deferred (inflows) outflows	419,133	416,616	392,530
Net position	$ 485,006	$ 464,425	$ 484,291

Outstanding debt at June 30, 2022 and 2021 totaled $263.0 million and $280.7 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. The line of credit was available to be drawn upon during 2022 and 2021, and expired prior to June 30, 2022. There was no outstanding balance associated with the line of credit at June 30, 2022, compared to $5.0 million at June 30, 2021.

ICA's net position increased $20.6 million in 2022. The composition of ICA's net position at June 30 is summarized as follows:

	2022	**2021** (in thousands)	**2020**
Net investment in capital assets	$ 194,580	$ 210,856	$ 228,405
Restricted:			
Nonexpendable	107,733	99,219	91,715
Expendable	215,086	203,950	155,609
Unrestricted	(32,393)	(49,600)	8,562
	$ 485,006	$ 464,425	$ 484,291

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:

	2022	2021 (in thousands)	2020
Revenues:			
Spectator admissions	$ 55,266	$ 54	$ 57,138
Conference distributions	58,703	45,438	53,905
Preferred seat contributions, net	32,612	(616)	27,643
Private gifts for other than capital and endowment purposes, current funds	10,924	13,659	5,169
Corporate sponsorships and other media rights	17,826	17,603	18,359
Licensing royalties	9,615	10,930	8,133
Facilities revenues	4,751	3,022	4,815
Concessions, publications and parking	4,251	831	3,569
Other revenues	4,568	2,837	3,392
Investment income, current funds	6,996	6,239	6,692
Total Revenues	205,512	99,997	188,815
Expenses and other uses:			
Salaries, wages and benefits, current funds	76,701	68,296	71,575
Financial aid	28,153	27,778	27,958
Team and game	36,892	19,748	33,307
Other operating and administrative	13,033	7,912	13,473
Equity transfers to the University, current funds	1,750	1,795	7,978
Operations and maintenance of plant, current funds	10,133	6,471	8,736
Deferred maintenance transfer	6,000		6,800
Debt service transfer	22,489	17,404	17,359
Total expenses and other uses	195,151	149,404	187,186
Excess (deficit) of revenues over expenses and other uses	$ 10,361	$ (49,407)	$ 1,629

ICA's revenues (as defined herein) increased $105.5 million in 2022 primarily due to the return of spectators in attendance at competitions and increased television revenues as a result of ICA returning to pre-COVID-19 levels of operations. ICA's expenses and other uses (as defined herein) increased $45.7 million in 2022 primarily due to increased department operations, team activities and competitions, and the expiration of expense reduction initiatives.

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:

	2022	2021 (in thousands)	2020
Net cash provided by (used in) operating activities	$ 30,968	$ (29,493)	$ (17,661)
Net cash provided by (used in) noncapital financing activities	1,821	15,899	(2,674)
Net cash used in capital and related financing activities	(11,286)	(12,062)	(13,609)
Net cash provided by investing activities	7,023	5,868	7,706
Net increase (decrease) in cash equivalents	$ 28,526	$ (19,788)	$ (26,238)

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 relates 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.

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. Competitions have returned 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, 2022	June 30, 2021
	(in thousands)	
Assets		
Current Assets:		
Cash equivalents on deposit with the University	$ 124,062	$ 95,536
Accounts receivable, net	9,881	7,954
Current portion of pledges receivable, net	11,492	11,766
Current portion of prepaid expenses and other assets	2,196	2,577
Total Current Assets	147,631	117,833
Noncurrent Assets:		
Endowment investments on deposit with the University	216,015	191,188
Pledges receivable, net	37,389	44,114
Prepaid expenses and other assets	14,870	17,497
Capital assets, net	459,994	489,077
Total Noncurrent Assets	728,268	741,876
Total Assets	**875,899**	**859,709**
Deferred Outflows	**12,781**	**14,276**
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	6,066	5,256
Accrued compensation	6,980	7,101
Advance sale of game tickets	52,804	41,638
Current portion of unearned revenues	3,445	4,379
Current portion of notes payable to the University	12,463	11,650
Total Current Liabilities	81,758	70,024
Noncurrent Liabilities:		
Other liabilities	2,189	1,498
Unearned revenues	4,777	6,320
Obligations for postemployment benefits	47,504	48,959
Notes payable to the University	250,521	269,099
Total Noncurrent Liabilities	304,991	325,876
Total Liabilities	**386,749**	**395,900**
Deferred Inflows	**16,925**	**13,660**
Net Position		
Net investment in capital assets	194,580	210,856
Restricted:		
Nonexpendable	107,733	99,219
Expendable	215,086	203,950
Unrestricted	(32,393)	(49,600)
Total Net Position	**$ 485,006**	**$ 464,425**

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, 2022	2021
	(in thousands)	
Operating Revenues		
Spectator admissions	$ 55,266	$ 54
Conference distributions	58,703	45,438
Preferred seat contributions, net	32,612	(616)
Corporate sponsorships and other media rights	17,826	17,603
Licensing royalties	9,615	10,930
Facilities revenues	4,751	3,022
Concessions, publications and parking	4,251	831
Other revenues	4,568	2,837
Total Operating Revenues	**187,592**	**80,099**
Operating Expenses		
Salaries, wages and benefits	79,807	71,632
Financial aid	28,153	27,778
Team and game	36,892	19,748
Other operating and administrative	13,033	7,912
Operations and maintenance of plant	12,965	7,266
Depreciation	29,761	30,903
Total Operating Expenses	**200,611**	**165,239**
Operating Loss	(13,019)	(85,140)
Nonoperating Revenues (Expenses)		
Private gifts for other than capital and endowment purposes	10,924	13,659
Net investment income	23,218	52,346
Interest expense and other, net	(10,422)	(9,786)
Total Nonoperating Revenues, Net	**23,720**	**56,219**
Net Income (Loss) Before Other Revenues and Transfers	10,701	(28,921)
Other Revenues		
Capital gifts	3,012	3,191
Private gifts for permanent endowment purposes	8,571	7,198
Total Other Revenues	**11,583**	**10,389**
Net Income (Loss) Before Transfers	22,284	(18,532)
Transfers to other University units, net	(1,703)	(1,334)
Increase (Decrease) in Net Position	20,581	(19,866)
Net Position, Beginning of Year	464,425	484,291
Net Position, End of Year	**$ 485,006**	**$ 464,425**

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, 2022	2021
	(in thousands)	
Cash Flows from Operating Activities		
Spectator admissions	$ 66,985	$ 21,268
Conference distributions	61,088	46,218
Preferred seat contributions, net	32,499	(351)
Corporate sponsorships and other media rights	12,005	16,383
Licensing royalties	9,001	4,738
Facilities revenues	4,750	3,041
Concessions, publications and parking	3,915	508
Other revenues	4,083	2,816
Payments for salaries, wages and benefits	(76,321)	(65,621)
Payments for financial aid	(28,153)	(27,778)
Payments for team and game expenses	(32,664)	(16,255)
Payments for other operating and administrative expenses	(13,523)	(7,155)
Payments for operations and maintenance of plant	(12,697)	(7,305)
Net Cash Provided by (Used in) Operating Activities	**30,968**	**(29,493)**
Cash Flows from Noncapital Financing Activities		
Private gifts for other than capital and endowment purposes	8,524	12,233
Proceeds from issuance of debt		5,000
Principal payments on debt	(5,000)	
Transfers to other University units, net	(1,703)	(1,334)
Net Cash Provided by Noncapital Financing Activities	**1,821**	**15,899**
Cash Flows from Capital and Related Financing Activities		
Capital gifts	12,402	11,247
Proceeds from issuance of capital debt		26,460
Principal payments on capital debt	(12,235)	(38,605)
Interest payments on capital debt	(10,281)	(10,408)
Purchases of capital assets	(1,172)	(756)
Net Cash Used in Capital and Related Financing Activities	**(11,286)**	**(12,062)**
Cash Flows from Investing Activities		
Investment income	7,045	6,681
Increase in investments on deposit with the University, net	(22)	(813)
Net Cash Provided by Investing Activities	**7,023**	**5,868**
Net Increase (Decrease) in Cash Equivalents	28,526	(19,788)
Cash Equivalents on Deposit with the University, Beginning of Year	95,536	115,324
Cash Equivalents on Deposit with the University, End of Year	**$ 124,062**	**$ 95,536**

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, 2022	2021
	(in thousands)	
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities:		
Operating loss	$ (13,019)	$ (85,140)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	29,761	30,903
Changes in assets and liabilities:		
Accounts receivable, net	(1,922)	(432)
Prepaid expenses and other assets	3,177	(1,583)
Accounts payable and accrued expenses	1,266	1,056
Accrued compensation	(1,576)	12,773
Advance sale of game tickets	11,166	21,824
Unearned revenues	(2,477)	(50)
Changes in deferred outflows	1,495	(7,983)
Changes in deferred inflows	3,097	(861)
Net Cash Provided by (Used in) Operating Activities	**$ 30,968**	**$ (29,493)**

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.

During 2022, the University adopted GASB Statement No. 87, *Leases* ("GASB 87"), which establishes a single model for lease accounting based on the principle that leases serve to finance the right to use an underlying asset. The statement requires lessees to recognize right-to-use assets and related liabilities, and lessors to recognize receivables and corresponding deferred inflows of resources, for leases that were previously classified as operating and recognized as inflows or outflows of resources. The adoption of GASB 87 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2020, resulting in increases in capital assets, net of $30,000, accounts payable and accrued expenses of $16,000, and other noncurrent liabilities of $14,000.

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 and outstanding principal balances of debt and 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 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.

Summary of Significant Accounting Policies: 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.

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

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.

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 $89,058,000 and $74,433,000 at June 30, 2022 and 2021, 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.

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

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 $3,010,000 and $2,902,000 at June 30, 2022 and 2021, 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 Equivalents 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, 2022 and 2021, the Long Term Portfolio consisted of cash equivalents (2 percent and 2 percent), fixed income securities (6 percent and 5 percent), U.S. and non-U.S. equities (3 percent and 4 percent), commingled funds (15 percent and 18 percent) and nonmarketable alternative investments (74 percent and 71 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 Equivalents 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 8 percent and 9 percent of the portfolio at June 30, 2022 and 2021, 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 Equivalents and Investments—Continued

Withdrawals may be made from the UIP on a daily basis. Withdrawals from the UEF are processed at the beginning of each quarter, based upon University policy, generally after a five-year investment period. Minimum advance notice to the University is based upon the amount of the withdrawal and is summarized as follows:

Withdrawal Amount	Minimum Advance Notice
Up to $10 million	90 days
$10 to $50 million	180 days
$50 to $100 million	1 year
$100 million	2 years

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, 2022 and 2021 is summarized as follows:

	2022	2021
	(in thousands)	
Gift pledges outstanding:		
Capital	$ 41,557	$ 51,338
Operations	9,053	6,533
	50,610	57,871
Less:		
Allowance for uncollectible pledges	1,238	1,353
Unamortized discount to present value	491	638
Total pledges receivable, net	48,881	55,880
Less current portion	11,492	11,766
	$ 37,389	$ 44,114

Payments on pledges receivable at June 30, 2022, are expected to be received in the following years ended June 30 (in thousands):

2023	$ 11,874
2024	12,159
2025	8,320
2026	4,861
2027	5,870
2028 and after	7,526
	$ 50,610

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $15,223,000 and $14,144,000 at June 30, 2022 and 2021, 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, 2022 and 2021 is summarized as follows:

	2022			
	Beginning Balance	Additions (in thousands)	Retirements	Ending Balance
Land	$ 1,818			$ 1,818
Land improvements	23,671			23,671
Infrastructure	2,840			2,840
Buildings	786,095	$ 57	$ 1,676	784,476
Construction in progress	2,044	766		2,810
Equipment	14,593	603	764	14,432
	831,061	1,426	2,440	830,047
Less accumulated depreciation	341,984	29,761	1,692	370,053
	$ 489,077	$ (28,335)	$ 748	$ 459,994

	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	14,551	49	7	14,593
	830,765	572	276	831,061
Less accumulated depreciation	311,357	30,903	276	341,984
	$ 519,408	$ (30,331)	$ -	$ 489,077

In 2022, the increase in construction in progress of $766,000 represents the amount of capital expenditures for new projects of $823,000, net of assets placed in service of $57,000. 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.

Note 5—Notes Payable to the University of Michigan

Long-term debt activity for the years ended June 30, 2022 and 2021 is summarized as follows:

	2022			
	Beginning Balance	Additions	Reductions	Ending Balance
	(in thousands)			
Payable to the University	$ 280,749	$ -	$ 17,765	$ 262,984
Less current portion	11,650			12,463
	$ 269,099			$ 250,521

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

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 was available to be drawn upon during 2022 and 2021, and expired prior to June 30, 2022. There was no outstanding balance associated with the line of credit at June 30, 2022, compared to $5,000,000 at June 30, 2021.

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, 2022 and 2021, range from 2.25 to 5.40 percent.

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

In 2022 and 2021, ICA incurred interest costs totaling $10,153,000 and $10,420,000, respectively.

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

	Principal	Interest
	(in thousands)	
2023	$ 11,950	$ 9,994
2024	8,310	9,587
2025	8,630	9,239
2026	9,070	8,877
2027	9,455	8,500
2028-2032	53,870	36,111
2033-2037	105,935	22,012
2038-2042	37,035	7,456
2043-2047	13,310	2,076
	257,565	$ 113,852
Plus unamortized premiums	5,419	
	$ 262,984	

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, 2022 and 2021 as follows:

	2022	**2021**
	(in thousands)	
Financial Aid (Tuition and Housing)	$ 23,630	$ 23,043
Goods and Services:		
Utilities	3,972	3,049
Plant services	1,158	694
Technology/Telecommunications	986	910
Insurance coverage	1,525	1,267
Security	746	148
Medical services	465	444
Business and finance allocation	830	786
Budget administration allocation	612	612
Marching Band support	300	202
Other	727	352
Total Goods and Services	11,321	8,464
Equity Transfers:		
Recreational Sports and Unions infrastructure renewal	1,800	1,800
	$ 36,751	$ 33,307

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 2022 and 2021, ICA received $159,000 and $407,000, 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, 2022 and 2021 are summarized as follows:

	2022		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 48,699	$ 1,214	$ 49,913
Net benefits expense	3,194	(106)	3,088
Decrease in deferred outflows	(1,461)	(16)	(1,477)
Increase in deferred inflows	(3,027)	(70)	(3,097)
Balance, end of year	47,405	1,022	48,427
Less current portion	818	105	923
	$ 46,587	$ 917	$ 47,504

	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

At June 30, 2022 and 2021, deferred outflows reported in the statement of net position include benefit payments made after the measurement date of $818,000 and $836,000, 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, 2022 and 2021, as a percentage of covered payroll of $58,708,000 and $54,112,000, were 82 percent and 92 percent, respectively.

Note 7—Postemployment Benefits—Continued

Significant actuarial assumptions used at the June 30, 2021 and 2020 measurement dates are as follows:

	2021	2020
Discount rate*	2.16%	2.21%
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	7.0%/4.5%	7.25%/4.5%
Increase in compensation rate faculty/staff/union	4.5%/4.75%/3.75%	0.0%/0.0%/3.75%
Mortality table**	PUB-2010 Teachers Head Count Table, Scale MP-2020	PUB-2010 Teachers Head Count Table, Scale MP-2019
Average future work life expectancy (years):		
Retiree health and welfare	8.81	9.04
Long-term disability	11.16	11.46

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

** 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 participants' additional contributions) for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022	**2021**
	(in thousands)	
ICA contributions	$ 3,250	$ 3,018
Employee contributions	$ 1,688	$ 1,573
Payroll covered under plan	$ 58,708	$ 54,112
Total payroll	$ 62,103	$ 56,139

Note 9—Commitments and Contingencies

ICA's authorized expenditures for construction and other projects unexpended at June 30, 2022 were $42,527,000.