Approved by the Regents
October 17, 2024

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

Subject: The University of Michigan Financial Statements for the Year Ended June 30, 2024

Action Requested: Adoption of Financial Statements

The Board of Regents has received the University's consolidated audited financial statements for fiscal year 2024, as well as separate audited financial statements for 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 2024

UNIVERSITY OF MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2024 and 2023
with
REPORT OF INDEPENDENT AUDITORS

THE UNIVERSITY OF MICHIGAN

June 30, 2024 and 2023

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, the discretely presented component unit, and the fiduciary activities of the University of Michigan (the "University") as of and for the years ended June 30, 2024 and 2023, including the related notes, which collectively comprise the University's basic financial statements as listed in the table of contents

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In our opinion, based on our audit and the reports of other auditors with respect to the University's 2023 basic financial statements, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the fiduciary activities of the University as of June 30, 2024 and 2023, 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.

We did not audit the financial statements of Sparrow Health System, which represent $1.6 billion and $1.3 billion, respectively, of the assets and revenues of the University's business-type activities, or the fiduciary activities of Sparrow Health System, which represent $676 million and $161 million, respectively, of the total assets and decrease in fiduciary net position of the University's fiduciary activities as of and for the year ended June 30, 2023. We also did not audit the financial statements of PHP Holdings, LLC, the University's discretely presented component unit, which statements reflect total assets of $73.3 million as of December 31, 2022 and a decrease in net position of $20.9 million for the year then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for Sparrow Health System and PHP Holdings, LLC are based solely on the reports of the other auditors.

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.

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.

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 management's discussion and analysis on pages 4 through 28 and the required supplementary information for the pension plan and postemployment benefits on pages 91 through 97 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 and the other auditors 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 17, 2024

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, 2024 and 2023 and its activities for the two fiscal years ended June 30, 2024. This discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning with over 66,000 students and approximately 8,900 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 UM Health-Sparrow and UM Health-West).

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.

Financial Highlights

The University's financial position remains strong, with total assets and deferred outflows of $35.4 billion and total liabilities and deferred inflows of $13.1 billion at June 30, 2024, compared to total assets and deferred outflows of $34.0 billion and total liabilities and deferred inflows of $13.3 billion at June 30, 2023. 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 $22.3 billion and $20.7 billion at June 30, 2024 and 2023, respectively. Changes in net position represent the University's results of operations and are summarized for the years ended June 30 as follows:

	2024	2023 (in millions)	2022
Operating revenues, educational appropriations and supplemental appropriations	$ 12,433	$ 11,377	$ 9,505
Federal economic relief funds	6	34	152
Private gifts for operating activities	250	193	219
Operating and interest expenses	(13,447)	(12,699)	(10,668)
	(758)	(1,095)	(792)
Net investment income	1,933	1,078	336
Endowment, capital gifts and grants, and other	446	173	251
Increase (decrease) in net position	$ 1,621	$ 156	$ (205)

During 2023, the University adopted Governmental Accounting Standards Board ("GASB") Statement No. 100, *Accounting Changes and Error Corrections* ("GASB 100"), which enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more relevant information for making decisions and assessing accountability. The adoption of GASB 100 has been reflected at the beginning of the earliest period presented in the consolidated financial statements, or July 1, 2022.

During 2023, the University also adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"), which establishes accounting and financial reporting requirements for subscription-based information technology arrangements ("SBITAs"). The statement requires the University to recognize right-to-use assets and related subscription liabilities for SBITAs that were previously recognized as outflows of resources. The adoption of GASB 96 has been reflected at the beginning of the earliest period presented in the consolidated financial statements, or July 1, 2022.

On April 1, 2023, the University completed an affiliation with the Sparrow Health System, a community health care provider in Lansing, Michigan, pursuant to which UM Health became the sole corporate member of the Sparrow Health System. The Sparrow Health System operates multiple hospitals with a combined 845 licensed beds, as well as outpatient clinics throughout Mid-Michigan. In accordance with GASB 100, this membership substitution was considered a change in reporting entity and included in the consolidated financial statements as if it occurred at the beginning of the reporting period. The University recognized, measured and combined the assets, deferred outflows, liabilities, deferred inflows and net position of the Sparrow Health System based upon GASB accounting principles applied at July 1, 2022. In connection with this affiliation, the University also received a majority equity interest in PHP Holdings, LLC, which is reported as a discretely presented component unit within the basic financial statements.

The impact of the affiliation with the Sparrow Health System and the adoption of GASB 96 has been reflected at the beginning of the earliest period presented in the consolidated financial statements, or July 1, 2022, and is summarized as follows:

	June 30, 2022 As Previously Reported	Sparrow Health System Affiliation	GASB 96 Adoption	July 1, 2022 As Restated
	(in millions)			
Current assets	$ 6,578	$ 343		$ 6,921
Noncurrent assets	24,809	1,429	$ 40	26,278
Total assets	31,387	1,772	40	33,199
Deferred outflows	1,045	6		1,051
Current liabilities	2,827	266	11	3,104
Noncurrent liabilities	9,514	250	29	9,793
Total liabilities	12,341	516	40	12,897
Deferred inflows	793	2		795
Net position	$ 19,298	$ 1,260	$ -	$ 20,558

For purposes of management's discussion and analysis, the consolidated statement of net position, consolidated statement of revenues, expenses and changes in net position and the consolidated statement of cash flows presented for the year ended June 30, 2022 do not reflect the impact of these items.

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. 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 Discretely Presented Component Unit Statement of Net Position; the Discretely Presented Component Unit Statement of Revenues, Expenses, and Changes in Net Position; 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 and the discretely presented component unit 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:

	2024	**2023**	**2022**
		(in millions)	
Current assets	$ 5,913	$ 6,152	$ 6,578
Noncurrent assets:			
Endowment, life income and other investments	20,573	19,318	17,838
Capital assets, net	7,571	7,089	6,266
Other	411	377	705
Total assets	34,468	32,936	31,387
Deferred outflows	1,012	1,074	1,045
Current liabilities	3,127	2,829	2,827
Noncurrent liabilities	8,780	9,065	9,514
Total liabilities	11,907	11,894	12,341
Deferred inflows	1,238	1,402	793
Net position	$ 22,335	$ 20,714	$ 19,298

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 decreased $0.3 billion to $5.9 billion at June 30, 2024, as compared to $6.2 billion at June 30, 2023. Cash, cash equivalents and investments for operating activities totaled $3.3 billion at June 30, 2024, which represents approximately three 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 plans for UM Health-Sparrow and UM Health-West. Deferred outflows totaled $1.0 billion and $1.1 billion at June 30, 2024 and 2023, 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, and totaled $3.1 billion and $2.8 billion at June 30, 2024 and 2023, 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 plans for UM Health-Sparrow and UM Health-West, and irrevocable split-interest agreements. Deferred inflows totaled $1.2 billion and $1.4 billion at June 30, 2024 and 2023, 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:

	2024	**2023** (in millions)	**2022**
Endowment investments	$ 19,166	$ 17,876	$ 17,347
Life income investments	182	174	178
Noncurrent portion of insurance and benefits obligations investments	367	326	291
Other	858	942	22
	$ 20,573	$ 19,318	$ 17,838

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 13,000 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 $506 million and $470 million and withdrawals from funds functioning as endowment totaled $80 million and $20 million in 2024 and 2023, respectively. Total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.3 percent and 3.9 percent of the current year average fair value of the UEF for 2024 and 2023, respectively. Over the past ten years, total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.2 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 $1.2 billion in 2024 as compared to $817 million in 2023. 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 $833 million, as well as debt proceeds of $322 million and state capital appropriations of $25 million.

Construction in progress, which totaled $1.2 billion and $659 million at June 30, 2024 and 2023, respectively, includes construction of new patient care, academic, research and residential facilities.

The D. Dan and Betty Kahn Health Care 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 the relocation of 110 beds currently in semi-private rooms at University Hospital to this new facility, 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 Hadley Family Recreation and Well-Being Center is a new 200,000 square foot facility under construction which will replace the former Central Campus Recreation Building. The new facility will include modern gymnasiums, a walking and jogging track, spaces for weight and cardiovascular training, group exercise rooms, aquatics, climbing areas, courts for squash and racquetball, locker rooms and administrative space. The center is designed to enable greater access and opportunity for students, faculty and staff to improve their health and well-being as well as build a sense of community. This project is scheduled to be completed in spring 2025.

The Leinweber Computer Science and Information Building under construction will be the new home for the University's School of Information ("UMSI") and provide expansion space for the Computer Science and Engineering ("CSE") Division of Michigan Engineering, bringing these two units together under one roof for the first time. This 163,000 square foot state-of-the-art facility will strengthen the collaboration between the two disciplines to develop breakthrough technologies, conduct innovative research and facilitate an innovative learning environment. It will also provide much-needed space to meet the increasing demand for computer science and information graduates for research, industry and education. This new north campus building will connect to the existing Bob and Betty Beyster Building, current home of CSE, and bring together UMSI's community, which is currently spread across multiple buildings on central campus including leased space. This project is scheduled to be completed in summer 2025.

The new Central Campus Residential Development will enable the University to respond to the increasing demand of a growing student body for affordable, central campus housing. Along with living spaces for 2,300 undergraduate students in five residence halls, the development located between East Hoover Avenue and Hill Street will also include a 900-seat dining facility with geothermal-exchange heating and cooling, green courtyards and quadrangles, a broad pedestrian walkway, spaces for student activities and several sustainability features. The housing plan is designed to align with the University's stated carbon neutrality goals and Leadership in Energy and Environmental Design Platinum certification requirements. This project is scheduled to be completed in summer 2026.

The University of Michigan Center for Innovation ("UMCI"), a new 200,000 square foot academic building under construction in downtown Detroit, will include a world-class research, education and entrepreneurship center designed to advance innovation and talent-focused community development to propel city, region and statewide job creation and inclusive economic growth by stimulating development in the city of Detroit. Programming at the UMCI will offer a mixed-model approach that includes both masters' degrees and workforce development programs that will focus on technology and innovation. This project is scheduled to be completed in spring 2027.

Projects completed in 2024 include building renovation for UMH specialty and mail order pharmacy program expansion, and Michigan Stadium scoreboard replacement with new technology to improve reliability, efficiency, serviceability and the overall fan experience.

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 2024, 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 exceptional brand and strategic positioning, strong student demand, substantial research funding, peer leading philanthropy, market leading reputation of the University's health system, and strong budgetary and planning framework.

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

	2024			
	Beginning Balance	Additions	Reductions	Ending Balance
	(in millions)			
Commercial paper	$ 132	$ 62	$ 4	$ 190
Bonds	5,271		451	4,820
Line of credit	52		52	-
Other	-	60	60	-
	$ 5,455	$ 122	$ 567	$ 5,010

	2023			
	Beginning Balance	Additions	Reductions	Ending Balance
	(in millions)			
Commercial paper	$ 141		$ 9	$ 132
Bonds	5,440	$ 88	257	5,271
Line of credit	14	38		52
	$ 5,595	$ 126	$ 266	$ 5,455

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. Certain outstanding bonds are also supported by the University's general revenue pledge.

During 2024, the University utilized proceeds from the issuance of $62 million of taxable commercial paper to refund $62 million of existing general revenue bonds.

During 2024, the Sparrow Obligated Group, a group comprised of five UM Health-Sparrow hospitals whose collective revenues are pledged in support of all UM Health-Sparrow debt issuances, used existing resources of $102 million to retire Michigan Finance Authority Hospital Revenue Bonds Series 2017A and 2017B. The Sparrow Obligated Group also established three escrow funds using existing resources of $155 million to legally defease $66 million of Michigan Finance Authority Hospital Revenue Bonds Series 2015, $77 million of Michigan Finance Authority Hospital Revenue Bonds Series 2022A and $11 million of Michigan Finance Authority Hospital Revenue Bonds Series 2022B, resulting in a gain on defeasance of $23 million which was recognized into other nonoperating revenues.

During 2024, the University acquired three separate legal entities to facilitate the purchase of property in connection with its Central Campus Residential Development project. This acquisition resulted in an increase to capital assets of $60 million and debt of $60 million. The University utilized existing resources to fully extinguish the debt associated with the acquisition of these entities during the current year.

During 2023, the Sparrow Obligated Group issued $77 million of fixed rate, taxable Michigan Finance Authority Hospital Revenue Bonds Series 2022A with a net original issue premium of $11 million. Total bond proceeds of $88 million were utilized to refund $87 million of existing bonds and provide $1 million for bond issuance costs.

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

	2024	**2023**	**2022**
		(in millions)	
Variable rate:			
Commercial paper	$ 190	$ 132	$ 141
Bonds	372	451	426
Line of credit		52	
Fixed rate bonds	4,448	4,820	4,639
	$ 5,010	$ 5,455	$ 5,206

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 3.6 percent and 3.5 percent in 2024 and 2023, respectively. Interest expense on long-term debt totaled $171 million and $184 million in 2024 and 2023, respectively.

Obligations for Defined Benefit Pension Plans

UM Health-Sparrow and UM Health-West have defined benefit pension plans that cover a significant number of their employees, and generally provide benefits based on years of service and employee earnings. Obligations for defined benefit pension plans, net totaled $(36) million and $15 million at June 30, 2024 and 2023, respectively. The decrease in the reported net liability at June 30, 2024 was driven primarily by an increase in the underlying discount rates and an increase in the value of plan assets.

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 $4.0 billion at June 30, 2024 as compared to $3.7 billion at June 30, 2023. The increase in the reported liability at June 30, 2024 was driven primarily by an increase in both health care claims cost experience and health care claims trend assumption rates, offset by a change in cost estimates. 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 $214 million and $620 million at June 30, 2024 and 2023, 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 $1.8 billion at June 30, 2024. 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:

	2024	2023 (in millions)	2022
Net investment in capital assets	$ 4,977	$ 3,964	$ 3,522
Restricted:			
Nonexpendable:			
Permanent endowment corpus	3,221	2,959	2,822
Expendable:			
Net appreciation of permanent endowments	4,002	3,668	3,589
Funds functioning as endowment	3,636	3,386	3,218
Restricted for operations and other	837	800	807
Unrestricted	5,662	5,937	5,340
	$ 22,335	$ 20,714	$ 19,298

Net investment in capital assets represents the University's capital assets, net of accumulated depreciation, outstanding principal balances of debt, lease and subscription 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 increased 8 percent, or $621 million, to $8.5 billion at June 30, 2024, as compared to $7.9 billion at June 30, 2023.

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, 2024 totaled $5.7 billion and included funds functioning as endowment of $8.3 billion offset by unfunded obligations for postemployment benefits of $4.2 billion. Unrestricted net position at June 30, 2023 totaled $5.9 billion and included funds functioning as endowment of $7.9 billion offset by unfunded obligations for postemployment benefits of $4.1 billion. Unrestricted net position also includes other net resources which totaled $1.6 billion and $2.1 billion at June 30, 2024 and 2023, respectively.

Consolidated Statement of Revenues, Expenses and Changes in Net Position

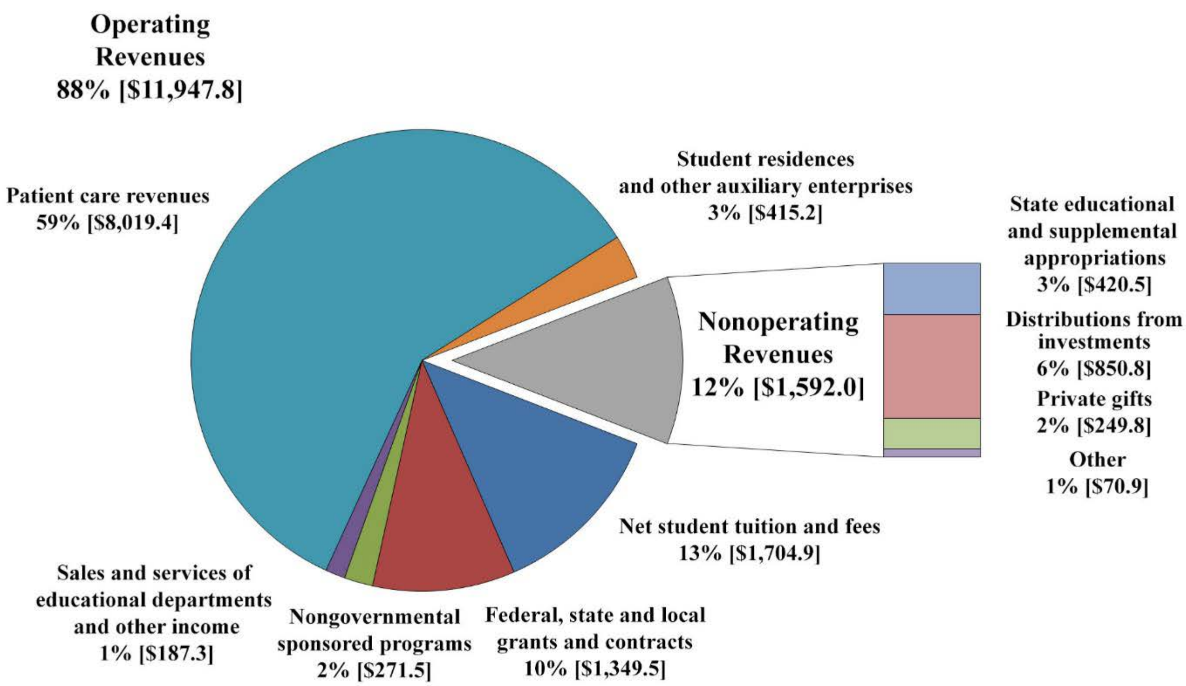
The consolidated statement of revenues, expenses and changes in net position presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. The University's revenues, expenses and changes in net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

	2024	2023	2022
		(in millions)	
Operating revenues:			
Net student tuition and fees	$ 1,704.9	$ 1,640.9	$ 1,586.1
Sponsored programs	1,621.0	1,480.7	1,361.3
Patient care revenues, net	8,019.4	7,251.4	5,605.7
Other	602.5	555.6	507.1
	11,947.8	10,928.6	9,060.2
Operating expenses	13,263.7	12,503.2	10,548.4
Operating loss	(1,315.9)	(1,574.6)	(1,488.2)
Nonoperating and other revenues (expenses):			
State educational appropriations	414.2	392.5	391.6
State supplemental appropriations	6.3		
Federal Pell grants	65.1	55.3	53.6
Federal economic relief funds	5.8	33.8	151.9
Private gifts for operating activities	249.8	193.3	219.1
Net investment income	1,932.8	1,078.3	336.3
Interest expense	(183.4)	(195.7)	(119.7)
State capital appropriations	49.9	12.9	29.8
Endowment and capital gifts and grants	393.1	177.1	235.0
Other	3.2	(16.7)	(14.0)
Nonoperating and other revenues, net	2,936.8	1,730.8	1,283.6
Increase (decrease) in net position	1,620.9	156.2	(204.6)
Net position, beginning of year	20,713.7	19,298.5	19,503.1
Affiliation with the Sparrow Health System		1,259.0	
Net position, beginning of year, as restated	20,713.7	20,557.5	19,503.1
Net position, end of year	$ 22,334.6	$ 20,713.7	$ 19,298.5

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.

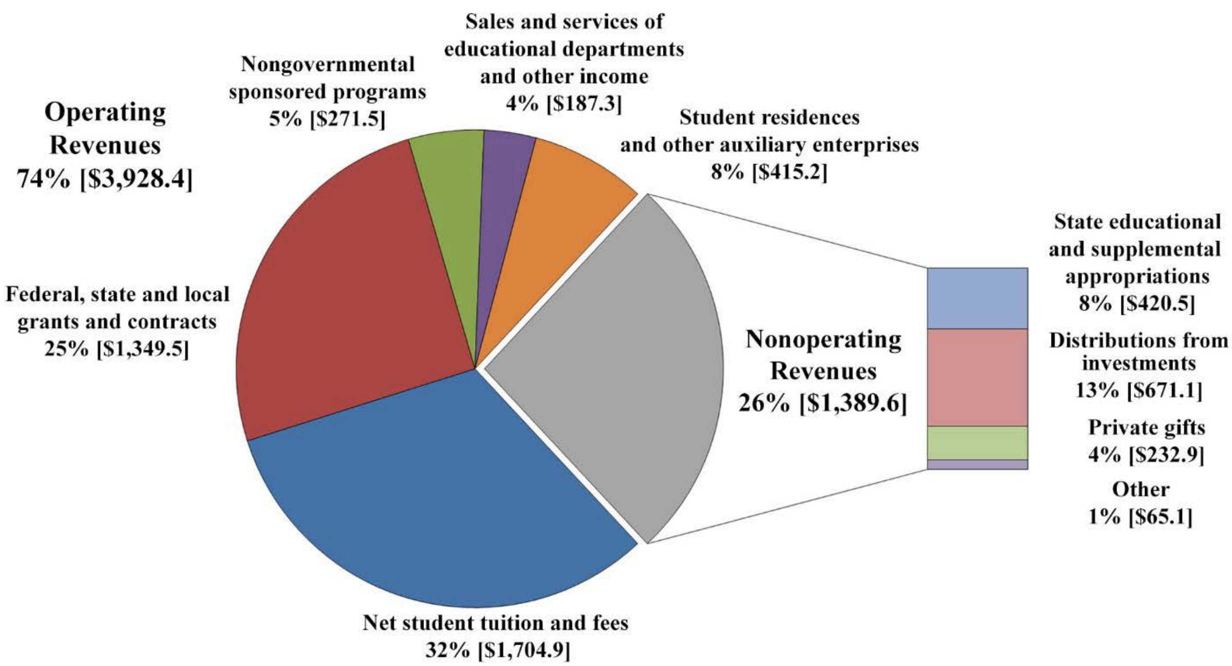
The following is a graphic illustration of revenues by source, both operating and nonoperating, which are used to fund the University's operating activities for the year ended June 30, 2024 (amounts are presented in millions of dollars). Certain recurring sources of the University's revenues are considered nonoperating, as defined by GASB, such as state appropriations, distributions from investments, private gifts and federal Pell grants.

2024 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, 2024 (amounts are presented in millions of dollars).

2024 Revenues for Operating Activities
Excluding Revenues from the Health System and Other Clinical Activities



Tuition and state educational appropriations are the primary sources of funding for the University's academic programs. There is a relationship between the growth or reduction in state support and the University's ability to restrain tuition fee increases. Together, net student tuition and fees and state educational appropriations increased 4 percent, or $86 million to $2.1 billion in 2024.

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

	2024	2023	2022
		(in millions)	
Student tuition and fees	$ 2,308.3	$ 2,186.8	$ 2,085.0
Less scholarship allowances	603.4	545.9	498.9
	$ 1,704.9	$ 1,640.9	$ 1,586.1

In 2024, net student tuition and fees revenue increased 4 percent, or $64 million, to $1.7 billion, which reflects an increase of 6 percent, or $122 million, in gross student tuition and fees revenue offset by an increase of 11 percent, or $58 million, in scholarship allowances. Tuition rate increases in 2024 were 2.9 percent for resident undergraduate students and 4.9 percent for both nonresident undergraduate students and most graduate students on the Ann Arbor campus, with a 4.4 percent and 4.9 percent tuition rate increase for most resident undergraduate students on the Dearborn and Flint campuses, respectively. During 2024, the University experienced growth in the number of students, as well as a shift in mix from nonresident to resident students.

Tuition rate increases in 2023 were 3.4 percent for resident undergraduate students and 3.9 percent for both nonresident undergraduate students and most graduate students on the Ann Arbor campus, with a 3.6 percent and 4.9 percent tuition rate increase for most resident undergraduate students on the Dearborn and Flint campuses, respectively. During 2023, the University experienced 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 educational 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 educational 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 $250 million in 2024, as compared to $193 million in 2023.

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 9 percent, or $140 million, to $1.6 billion in 2024 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 11 percent, or $768 million, to $8.0 billion in 2024, 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 is summarized as follows:

	2024	2023 (in millions)	2022
University of Michigan Health	$ 5,831.7	$ 5,305.0	$ 4,926.4
UM Health	2,010.8	1,787.7	522.4
Michigan Health Corporation	24.1	23.7	22.6
Other	152.8	135.0	134.3
	$ 8,019.4	$ 7,251.4	$ 5,605.7

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, 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 UM Health-Sparrow, a community health care provider in Mid-Michigan, and UM Health-West, a community health care provider in West Michigan. UM Health-Sparrow operates multiple hospitals with a combined 832 licensed beds, as well as outpatient clinics throughout the Mid-Michigan region. UM Health-West operates a hospital with 208 licensed beds, as well as outpatient clinics and a growing network of specialty services. Through its affiliations with UM Health-Sparrow and UM Health-West, the University is positioned 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:

	2024	**2023**	**2022**
Medicare	31%	30%	27%
Medicaid	13%	13%	13%
Blue Cross	34%	35%	38%
Other	22%	22%	22%

State supplemental appropriations provide additional support for the University's various mission related activities. During 2024, supplemental appropriations were received in support of important initiatives such as critical incident mapping and semiconductor research.

Federal economic relief funds represent amounts received from the federal government to provide economic assistance to entities that have been negatively impacted by the COVID-19 pandemic. The University recognized revenue of $6 million in 2024 as compared to $34 million in 2023, driven primarily by amounts associated with the Coronavirus State and Local Fiscal Recovery Fund.

Net investment income increased to $1.9 billion in 2024 as compared to $1.1 billion in 2023, driven primarily by positive returns in both marketable and alternative asset classes.

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, the William R. Murchie Science Building on the Flint campus and the construction of UMCI located in downtown Detroit.

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 $248 million in 2024 as compared to $118 million in 2023. Capital gifts and grants totaled $145 million in 2024 as compared to $59 million in 2023. In recent years, major gifts have been received in support of the University's wide-ranging capital initiatives which include the health system, UMCI, 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):

	2024		2023		2022	
Operating:						
Compensation and benefits	$ 8,324.3	62%	$ 7,808.4	61%	$ 6,573.9	62%
Supplies and services	4,022.1	30	3,809.0	30	3,137.1	29
Depreciation	688.1	5	685.4	5	606.5	6
Scholarships and fellowships	229.2	2	200.4	2	230.9	2
	13,263.7	99%	12,503.2	98	10,548.4	99
Nonoperating:						
Interest	183.4	1	195.7	2	119.7	1
	$ 13,447.1	100%	$ 12,698.9	100%	$ 10,668.1	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 $516 million, to $8.3 billion in 2024. Of the 2024 increase, compensation increased 7 percent, or $418 million, to $6.3 billion, driven primarily by increases in staffing levels resulting from patient activity volumes within the University's health system, and employee benefits increased 5 percent, or $98 million, to $2.0 billion, resulting primarily 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 6 percent, or $213 million, to $4.0 billion in 2024 and reflect growth in the University's mission related activities.

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):

	2024		2023		2022	
Operating:						
Instruction	$ 1,444.4	11%	$ 1,330.8	10%	$ 1,243.3	12%
Research	1,077.8	8	971.9	8	919.2	9
Public service	305.9	2	303.4	2	271.1	2
Institutional and academic support	1,048.0	8	1,083.5	9	1,084.5	10
Operations and maintenance of plant	430.9	3	370.0	3	330.4	3
Auxiliary enterprises:						
Patient care	7,779.0	58	7,368.4	58	5,459.0	51
Other	260.4	2	189.4	1	403.5	4
Depreciation	688.1	5	685.4	5	606.5	6
Scholarships and fellowships	229.2	2	200.4	2	230.9	2
	13,263.7	99	12,503.2	98	10,548.4	99
Nonoperating:						
Interest	183.4	1	195.7	2	119.7	1
	$ 13,447.1	100%	$ 12,698.9	100%	$ 10,668.1	100%

Instruction expenses increased 9 percent, or $114 million, in 2024 and reflect the growth in the related revenue sources offset by cost containment efforts.

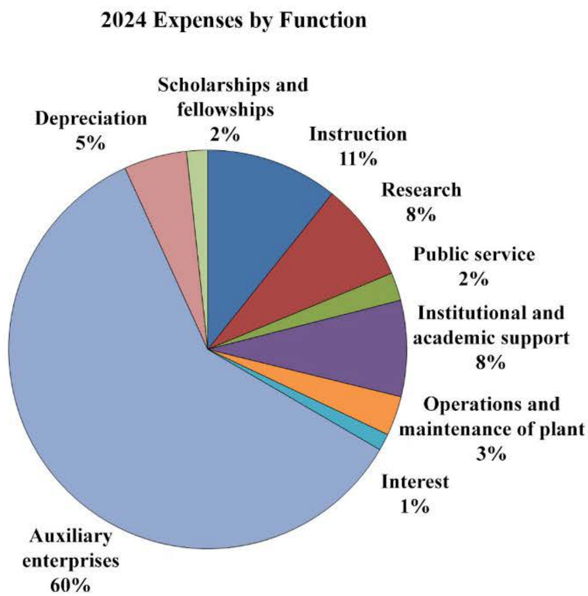
Research expenses increased 11 percent, or $106 million, in 2024 and reflect the strength of the University's overall research enterprise. To measure its total volume of research expenditures, the University considers research expenses included in the above table, as well as research related facilities and administrative expenses, research initiative and start-up expenses, and research equipment purchases. These amounts totaled $2.0 billion and $1.9 billion in 2024 and 2023, respectively.

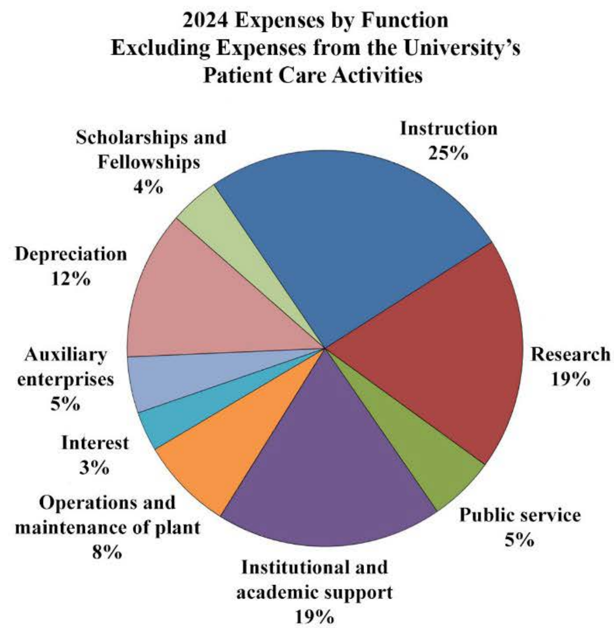
Patient care expenses increased 6 percent, or $411 million, in 2024 and reflect the impact of additional patient volume during the period. Increased medical supplies expense resulted from higher patient activity levels, new therapies and the rising cost of pharmaceuticals.

Scholarships and fellowships provided to students totaled $861 million in 2024 as compared to $773 million in 2023, an increase of 11 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:

	2024	**2023** (in millions)	**2022**
Paid directly to students	$ 229.2	$ 200.4	$ 230.9
Applied to tuition and fees	603.4	545.9	498.9
Applied to University Housing	28.2	26.4	24.8
	$ 860.8	$ 772.7	$ 754.6

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:

	2024	2023 (in millions)	2022
Cash received from operations	$ 11,662.4	$ 10,827.7	$ 8,866.2
Cash expended for operations	(12,380.1)	(12,118.8)	(9,336.1)
Net cash used in operating activities	(717.7)	(1,291.1)	(469.9)
Net cash provided by noncapital financing activities	844.0	755.8	2,626.5
Net cash used in capital and related financing activities	(1,409.1)	(957.1)	(281.0)
Net cash provided by (used in) investing activities	1,087.6	(797.4)	72.5
Net (decrease) increase in cash and cash equivalents	(195.2)	(2,289.8)	1,948.1
Cash and cash equivalents, beginning of year	750.1	2,951.9	1,003.8
Affiliation with the Sparrow Health System		88.0	
Cash and cash equivalents, beginning of year, as restated	750.1	3,039.9	1,003.8
Cash and cash equivalents, end of year	$ 554.9	$ 750.1	$ 2,951.9

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 2025 anticipates a 2.5 percent increase in state educational appropriations, a 2.9 percent tuition rate increase for Ann Arbor campus resident undergraduates and a 6.3 percent increase in centrally awarded financial aid. Nonresident undergraduate tuition rates, as well as most graduate and professional rates, will increase 4.9 percent. Resident undergraduate tuition rates for the Dearborn and Flint campuses will increase 4.7 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 $1,617 million at June 30, 2024. Funding for these projects is anticipated to include $1,587 million from internal sources, gifts, grants and proceeds from borrowings and $30 million from the State Building Authority.

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.

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, 2024	June 30, 2023
	(in thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 554,923	$ 750,138
Investments for operating activities	2,761,594	3,126,841
Investments for capital activities	462,223	510,541
Investments for student loan activities	68,858	68,387
Accounts receivable, net	1,533,684	1,239,770
Current portion of notes and pledges receivable, net	120,910	117,669
Current portion of other assets	411,289	333,506
Cash collateral held by agent		4,844
Total Current Assets	5,913,481	6,151,696
Noncurrent Assets:		
Endowment, life income and other investments	20,572,922	19,318,390
Notes and pledges receivable, net	290,198	259,798
Other assets	120,636	116,766
Capital assets, net	7,570,687	7,089,073
Total Noncurrent Assets	28,554,443	26,784,027
Total Assets	**34,467,924**	**32,935,723**
Deferred Outflows	**1,011,982**	**1,073,647**
Liabilities		
Current Liabilities:		
Accounts payable	689,962	626,498
Accrued compensation and other	761,866	726,360
Unearned revenue	520,848	441,655
Current portion of insurance and benefits reserves	283,235	253,398
Current portion of obligations for postemployment benefits	125,075	105,261
Commercial paper and current portion of bonds payable	402,592	298,184
Long-term bonds payable subject to remarketing, net	343,770	372,335
Collateral held for securities lending		4,844
Total Current Liabilities	3,127,348	2,828,535
Noncurrent Liabilities:		
Accrued compensation	13,791	15,324
Insurance and benefits reserves	211,533	212,378
Obligations for defined benefit pension plans, net	(35,571)	15,189
Obligations for postemployment benefits	3,904,973	3,611,114
Obligations under life income agreements	68,017	65,520
Government loan advances	30,919	36,448
Bonds payable	4,264,053	4,784,568
Other liabilities	322,150	324,381
Total Noncurrent Liabilities	8,779,865	9,064,922
Total Liabilities	**11,907,213**	**11,893,457**
Deferred Inflows	**1,238,069**	**1,402,152**
Net Position		
Net investment in capital assets	4,977,364	3,964,182
Restricted:		
Nonexpendable	3,221,288	2,959,142
Expendable	8,474,273	7,853,068
Unrestricted	5,661,699	5,937,369
Total Net Position	**$ 22,334,624**	**$ 20,713,761**

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, 2024	2023
	(in thousands)	
Operating Revenues		
Student tuition and fees	$ 2,308,263	$ 2,186,769
Less scholarship allowances	603,351	545,906
Net student tuition and fees	1,704,912	1,640,863
Federal grants and contracts	1,331,497	1,186,061
State and local grants and contracts	17,977	10,154
Nongovernmental sponsored programs	271,490	284,488
Sales and services of educational departments	185,445	158,707
Auxiliary enterprises:		
Patient care revenues (net of provision for bad debts of $220,622 in 2024 and $211,403 in 2023)	8,019,381	7,251,435
Student residence fees (net of scholarship allowances of $28,214 in 2024 and $26,378 in 2023)	139,628	130,896
Other revenues	275,615	264,685
Student loan interest income and fees	1,789	1,367
Total Operating Revenues	**11,947,734**	**10,928,656**
Operating Expenses		
Compensation and benefits	8,324,238	7,808,426
Supplies and services	4,022,075	3,809,009
Depreciation	688,146	685,362
Scholarships and fellowships	229,222	200,439
Total Operating Expenses	**13,263,681**	**12,503,236**
Operating Loss	(1,315,947)	(1,574,580)
Nonoperating Revenues (Expenses)		
State educational appropriations	414,207	392,473
State supplemental appropriations	6,271	
Federal Pell grants	65,144	55,299
Federal economic relief funds	5,750	33,837
Private gifts for other than capital and endowment purposes	249,839	193,284
Net investment income	1,932,833	1,078,343
Interest expense	(183,440)	(195,711)
Total Nonoperating Revenues, Net	**2,490,604**	**1,557,525**
Income (Loss) Before Other Revenues (Expenses)	1,174,657	(17,055)
Other Revenues (Expenses)		
State capital appropriations	49,857	12,911
Capital gifts and grants	145,448	59,418
Private gifts for permanent endowment purposes	247,716	117,716
Other	3,185	(16,765)
Total Other Revenues, Net	**446,206**	**173,280**
Increase in Net Position	1,620,863	156,225
Net Position, Beginning of Year	20,713,761	19,298,461
Affiliation with the Sparrow Health System		1,259,075
Net Position, Beginning of Year, as Restated	20,713,761	20,557,536
Net Position, End of Year	**$ 22,334,624**	**$ 20,713,761**

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

UNIVERSITY OF MICHIGAN

Consolidated Statement of Cash Flows

	Year Ended June 30, 2024	2023
	(in thousands)	
Cash Flows from Operating Activities		
Student tuition and fees	$ 1,705,351	$ 1,640,753
Federal, state and local grants and contracts	1,350,249	1,167,819
Nongovernmental sponsored programs	261,085	262,386
Sales and services of educational departments and other	456,195	418,478
Patient care revenues	7,737,256	7,196,113
Student residence fees	139,028	129,769
Payments to employees	(6,320,601)	(5,991,302)
Payments for benefits	(1,797,676)	(1,700,366)
Payments to suppliers	(4,026,458)	(4,221,202)
Payments for scholarships and fellowships	(229,222)	(200,439)
Student loans issued	(6,206)	(5,451)
Student loans collected	11,479	10,965
Student loan interest and fees collected	1,789	1,367
Net Cash Used in Operating Activities	**(717,731)**	**(1,291,110)**
Cash Flows from Noncapital Financing Activities		
State educational appropriations	410,255	389,670
State supplemental appropriations	6,271	35,000
Federal Pell grants	65,144	55,299
Federal economic relief funds	5,750	28,678
Private gifts and other receipts	508,255	300,347
Proceeds from issuance of debt		38,000
Principal payments on debt	(52,000)	
Interest payments on debt	(89,755)	(92,712)
Student direct lending receipts	310,723	306,502
Student direct lending disbursements	(314,844)	(303,478)
Amounts received for annuity and life income funds	5,066	4,503
Amounts paid to annuitants and life beneficiaries and related expenses	(10,848)	(5,961)
Net Cash Provided by Noncapital Financing Activities	**844,017**	**755,848**
Cash Flows from Capital and Related Financing Activities		
State capital appropriations	128,513	46,435
Private gifts and other receipts	49,670	46,629
Principal and interest payments on lease and subscription liabilities	(89,235)	(83,507)
Proceeds from issuance of capital debt	61,725	88,394
Principal payments on capital debt	(479,928)	(240,615)
Interest payments on capital debt	(107,480)	(121,991)
Payments for bond issuance costs		(817)
Purchases of capital assets	(975,561)	(692,602)
Proceeds from sales of capital assets	3,152	1,020
Net Cash Used in Capital and Related Financing Activities	**(1,409,144)**	**(957,054)**

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

Consolidated Statement of Cash Flows—Continued

	Year Ended June 30, 2024	2023
	(in thousands)	
Cash Flows from Investing Activities		
Interest and dividends on investments, net	270,691	239,061
Proceeds from sales and maturities of investments	10,139,184	8,972,888
Purchases of investments	(9,617,470)	(10,113,114)
Decrease in unexpended capital debt proceeds		305,452
Net decrease (increase) in cash equivalents from noncurrent investments	289,948	(176,071)
Net decrease (increase) in fiduciary custodial funds and other	5,290	(25,669)
Net Cash Provided by (Used in) Investing Activities	**1,087,643**	**(797,453)**
Net Decrease in Cash and Cash Equivalents	(195,215)	(2,289,769)
Cash and Cash Equivalents, Beginning of Year	750,138	2,951,905
Affiliation with the Sparrow Health System		88,002
Cash and Cash Equivalents, Beginning of Year, as Restated	750,138	3,039,907
Cash and Cash Equivalents, End of Year	**$ 554,923**	**$ 750,138**
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	$ (1,315,947)	$ (1,574,580)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	688,146	685,362
Changes in assets and liabilities:		
Accounts receivable, net	(288,500)	(51,004)
Notes and pledges receivable, net	4,744	507
Other assets	(55,870)	(36,057)
Accounts payable	23,760	27,289
Accrued compensation and other	39,494	(73,172)
Unearned revenue	(3,854)	(63,476)
Insurance and benefits reserves	28,992	(398,826)
Obligations for defined benefit pension plans, net	(50,760)	198,740
Obligations for postemployment benefits	313,673	(581,284)
Changes in deferred outflows	59,530	(26,313)
Changes in deferred inflows	(161,139)	601,704
Net Cash Used in Operating Activities	**$ (717,731)**	**$ (1,291,110)**

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

PHP Holdings, LLC
Discretely Presented Component Unit
Statement of Net Position

	December 31, 2023	December 31, 2022
	(in thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 65,605	$ 41,492
Accounts receivable, net	18,521	15,494
Current portion of other assets	973	1,546
Total Current Assets	85,099	58,532
Noncurrent Assets:		
Investments	2,729	5,814
Other assets	451	306
Capital assets, net	5,935	8,692
Total Noncurrent Assets	9,115	14,812
Total Assets	**94,214**	**73,344**
Liabilities		
Current Liabilities:		
Accounts payable	6,911	5,428
Unearned premiums	2,764	3,063
Prefunding on self-insured accounts	4,918	4,911
Current portion of other liabilities	13,085	9,240
Insurance and benefits reserves	38,123	29,520
Total Current Liabilities	65,801	52,162
Noncurrent Liabilities:		
Other liabilities	161	371
Total Liabilities	**65,962**	**52,533**
Net Position		
Net investment in capital assets	5,386	8,150
Unrestricted	22,866	12,661
Total Net Position	**$ 28,252**	**$ 20,811**

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

PHP Holdings, LLC
Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Position

	Year Ended December 31, 2023	2022
	(in thousands)	
Operating Revenues		
Gross direct written premiums	$ 269,169	$ 260,642
Ceded written premiums	(1,483)	(2,117)
Total Operating Revenues	**267,686**	**258,525**
Operating Expenses		
Losses and loss adjustment expenses, net of reinsurance	255,516	235,166
Compensation and benefits	17,867	17,296
Supplies, services and other	36,858	24,270
Depreciation	2,802	2,409
Total Operating Expenses	**313,043**	**279,141**
Operating Loss	(45,357)	(20,616)
Nonoperating Revenues (Expenses)		
Net investment income (loss)	3,832	(257)
Interest expense	(34)	(64)
Other	10,075	
Total Nonoperating Revenues (Expenses), net	**13,873**	**(321)**
Loss Before Other Revenues	(31,484)	(20,937)
Other Revenues		
Capital contributions	38,925	
Total Other Revenues	**38,925**	**-**
Increase (Decrease) in Net Position	7,441	(20,937)
Net Position, Beginning of Year	20,811	41,748
Net Position, End of Year	**$ 28,252**	**$ 20,811**

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

UNIVERSITY OF MICHIGAN

Statement of Fiduciary Net Position

	June 30, 2024	
	Custodial Funds	Pension Trust Funds
	(in thousands)	
Assets		
Receivables		$ 19,286
Investments	$ 297,665	757,668
Total Assets	**297,665**	**776,954**
Liabilities		
Due to individuals and organizations	43,930	1,514
Total Liabilities	**43,930**	**1,514**
Fiduciary Net Position		
Restricted for:		
Pensions		775,440
Organizations	253,735	
Total Fiduciary Net Position	**$ 253,735**	**$ 775,440**

	June 30, 2023	
	Custodial Funds	Pension Trust Funds
	(in thousands)	
Assets		
Receivables		$ 236
Investments	$ 274,366	742,303
Total Assets	**274,366**	**742,539**
Liabilities		
Due to individuals and organizations	37,142	980
Total Liabilities	**37,142**	**980**
Fiduciary Net Position		
Restricted for:		
Pensions		741,559
Organizations	237,224	
Total Fiduciary Net Position	**$ 237,224**	**$ 741,559**

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

Statement of Changes in Fiduciary Net Position

	Year Ended June 30, 2024	
	Custodial Funds (in thousands)	Pension Trust Funds
Additions		
Contributions:		
Organizations	$ 3,473	
Employer		$ 19,000
Total contributions	3,473	19,000
Net investment income	16,182	71,980
Total Additions	**19,655**	**90,980**
Deductions		
Benefits paid to participants		48,385
Administrative expenses		8,714
Withdrawals	3,144	
Total Deductions	**3,144**	**57,099**
Increase in Fiduciary Net Position	16,511	33,881
Fiduciary Net Position, Beginning of Year	237,224	741,559
Fiduciary Net Position, End of Year	**$ 253,735**	**$ 775,440**

	Year Ended June 30, 2023	
	Custodial Funds (in thousands)	Pension Trust Funds
Additions		
Contributions:		
Organizations	$ 3,853	
Employer		$ 898
Total contributions	3,853	898
Net investment loss	(8,358)	(128,930)
Total Additions	**(4,505)**	**(128,032)**
Deductions		
Benefits paid to participants		47,830
Administrative expenses		9,159
Withdrawals	1,363	
Total Deductions	**1,363**	**56,989**
Decrease in Fiduciary Net Position	(5,868)	(185,021)
Fiduciary Net Position, Beginning of Year	243,092	90,488
Affiliation with the Sparrow Health System		836,092
Fiduciary Net Position, Beginning of Year, as Restated	243,092	926,580
Fiduciary Net Position, End of Year	**$ 237,224**	**$ 741,559**

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 66,000 students on its three campuses. The consolidated financial statements include the individual schools, colleges and departments, the University of Michigan Health, 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 UM Health-Sparrow and UM Health-West) and Veritas Insurance Corporation (a wholly-owned captive insurance company). The University also presents financial statements for its discretely presented component unit, PHP Holdings, LLC, a health plan providing high quality health care coverage to members across Michigan. 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 and its discretely presented component unit 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 UM Health-Sparrow and UM Health-West pension plan trusts which are considered fiduciary component units.

During 2023, the University adopted GASB Statement No. 100, *Accounting Changes and Error Corrections* ("GASB 100"), which enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more relevant information for making decisions and assessing accountability. The adoption of GASB 100 has been reflected at the beginning of the earliest period presented in the consolidated financial statements, or July 1, 2022.

During 2023, the University also adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"), which establishes accounting and financial reporting requirements for subscription-based information technology arrangements ("SBITAs"). The statement requires the University to recognize right-to-use assets and related subscription liabilities for SBITAs that were previously recognized as outflows of resources. The adoption of GASB 96 has been reflected at the beginning of the earliest period presented in the consolidated financial statements, or July 1, 2022.

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

On April 1, 2023, the University completed an affiliation with the Sparrow Health System, a community health care provider in Lansing, Michigan, pursuant to which UM Health became the sole corporate member of the Sparrow Health System. The Sparrow Health System operates multiple hospitals with a combined 845 licensed beds, as well as outpatient clinics throughout Mid-Michigan. In accordance with GASB 100, this membership substitution was considered a change in reporting entity and included in the consolidated financial statements as if it occurred at the beginning of the reporting period. The University recognized, measured and combined the assets, deferred outflows, liabilities, deferred inflows and net position of the Sparrow Health System based upon GASB accounting principles applied at July 1, 2022. In connection with this affiliation, the University also received a majority equity interest in PHP Holdings, LLC, which is reported as a discretely presented component unit within the basic financial statements.

The impact of the affiliation with the Sparrow Health System and the adoption of GASB 96 has been reflected at the beginning of the earliest period presented in the consolidated financial statements, or July 1, 2022, and is summarized as follows:

	June 30, 2022 As Previously Reported	Sparrow Health System Affiliation	GASB 96 Adoption	July 1, 2022 As Restated
	(in thousands)			
Current assets	$ 6,577,801	$ 343,009		$ 6,920,810
Noncurrent assets	24,809,349	1,427,959	$ 40,488	26,277,796
Total assets	31,387,150	1,770,968	40,488	33,198,606
Deferred outflows	1,045,098	6,050		1,051,148
Current liabilities	2,827,166	266,687	10,796	3,104,649
Noncurrent liabilities	9,514,064	248,881	29,692	9,792,637
Total liabilities	12,341,230	515,568	40,488	12,897,286
Deferred inflows	792,557	2,375		794,932
Net position	$ 19,298,461	$ 1,259,075	$ -	$ 20,557,536

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, lease and subscription 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, 2024 and 2023. 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 plans for UM Health-Sparrow and UM Health-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.

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 plans for UM Health-Sparrow and UM Health-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 $4,001,852,000 and $3,668,054,000 at June 30, 2024 and 2023, 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.

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

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

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

Patient care services are provided to patients who meet certain criteria under the University's charity care policies without charge or at amounts less than its established rates. Accordingly, charity care is not reported as revenue in the accompanying statement of revenues, expenses and changes in net position. Charges forgone for charity care services totaled $160,688,000 and $120,139,000 in 2024 and 2023, 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.

State supplemental appropriations provide additional support for the University's various mission related activities. During 2024, the University recognized revenue from these appropriations in support of critical incident mapping and semiconductor research.

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 2024 and 2023, the University recognized revenue primarily from the Coronavirus State and Local Fiscal Recovery Fund.

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.

Reclassifications: Certain prior year amounts have been reclassified to conform with current year presentations.

Note 2—Cash and Investments

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

Working capital of individual University units is primarily invested in the University Investment Pool ("UIP"). Together with the University's current portion of insurance and 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 the noncurrent 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, infrastructure and natural resources.

The University also separately invests certain endowments and charitable remainder trusts, unexpended bond proceeds and other funds 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 commingled 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 commingled 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: Cash and cash equivalents, which totaled $554,923,000 and $750,138,000 at June 30, 2024 and 2023, 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 limits in the amount of $205,867,000 and $187,671,000 at June 30, 2024 and 2023, respectively.

Restricted cash, which totaled $0 and $30,414,000 at June 30, 2024 and 2023, respectively, represents cash and cash equivalents held pursuant to a legally enforceable requirement that the amounts only be used for a specific purpose.

Note 2—Cash and Investments—Continued

Cash and cash equivalents 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 $67,806,000 and $279,704,000 at June 30, 2024 and 2023, respectively. Level 2 securities, which primarily consist of commercial paper and repurchase agreements, totaled $5,959,000 and $44,610,000 at June 30, 2024 and 2023, respectively.

Investments: At June 30, 2024 and 2023, the University's investments, which are held by the University or its agents in the University's name, are summarized as follows:

	2024	2023
	(in thousands)	
Cash equivalents, noncurrent	$ 284,549	$ 559,028
Equity securities	666,983	684,059
Fixed income securities	4,816,362	4,577,802
Commingled funds	3,277,662	3,118,279
Nonmarketable alternative investments	15,105,629	14,355,447
Other investments	12,077	3,910
	24,163,262	23,298,525
Less fiduciary custodial funds	297,665	274,366
	$ 23,865,597	$ 23,024,159

Note 2—Cash and Investments—Continued

At June 30, 2024 and 2023, the fair value of the University's investments based on the inputs used to value them is summarized as follows:

	2024				
	Level 1	Level 2	Level 3 (in thousands)	NAV	Total Fair Value
Cash equivalents, noncurrent	$ 284,549	-	-	-	$ 284,549
Equity securities:					
Domestic	236,438		$ 72,084		308,522
Foreign	357,112		1,349		358,461
	593,550	-	73,433	-	666,983
Fixed income securities:					
U.S. Treasury	2,559,748				2,559,748
U.S. government agency		$ 263,899			263,899
Corporate and other		1,977,381	15,334		1,992,715
	2,559,748	2,241,280	15,334	-	4,816,362
Commingled funds:					
Absolute return				$ 1,901,986	1,901,986
Domestic equities	256,189			386,484	642,673
Global equities				426,063	426,063
U.S. fixed income	288,406				288,406
Other	18,534				18,534
	563,129	-	-	2,714,533	3,277,662
Nonmarketable alternative investments:					
Venture capital			559,333	4,866,380	5,425,713
Absolute return			20,333	2,461,225	2,481,558
Private equity				2,452,422	2,452,422
Real estate				1,659,620	1,659,620
Infrastructure				1,468,651	1,468,651
Natural resources			184,856	1,432,809	1,617,665
	-	-	764,522	14,341,107	15,105,629
Other investments	3,571	-	8,506	-	12,077
	$ 4,004,547	$ 2,241,280	$ 861,795	$ 17,055,640	24,163,262
Less fiduciary custodial funds					297,665
					$ 23,865,597

Note 2—Cash and Investments—Continued

	2023				
	Level 1	Level 2	Level 3 (in thousands)	NAV	Total Fair Value
Cash equivalents, noncurrent	$ 559,028	-	-	-	$ 559,028
Equity securities:					
Domestic	229,942		$ 70,914		300,856
Foreign	381,836		1,367		383,203
	611,778	-	72,281	-	684,059
Fixed income securities:					
U.S. Treasury	1,994,614				1,994,614
U.S. government agency		$ 261,965			261,965
Corporate and other		2,313,838	7,385		2,321,223
	1,994,614	2,575,803	7,385	-	4,577,802
Commingled funds:					
Absolute return				$ 1,838,022	1,838,022
Domestic equities	162,677			384,505	547,182
Global equities	161,741			285,277	447,018
U.S. fixed income	262,862				262,862
Other	23,195				23,195
	610,475	-	-	2,507,804	3,118,279
Nonmarketable alternative investments:					
Venture capital			206,593	4,645,788	4,852,381
Absolute return				2,419,183	2,419,183
Private equity			347,600	2,438,648	2,786,248
Real estate				1,678,278	1,678,278
Infrastructure				975,807	975,807
Natural resources			191,122	1,452,428	1,643,550
	-	-	745,315	13,610,132	14,355,447
Other investments	(4,853)	-	8,763	-	3,910
	$ 3,771,042	$ 2,575,803	$ 833,744	$ 16,117,936	23,298,525
Less fiduciary custodial funds					274,366
					$ 23,024,159

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. The net unrealized gain on the University's investments during the period was $1,480,640,000 and $605,096,000 for the years ended June 30, 2024 and 2023, respectively.

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 ("NRSROs"), 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 NRSRO 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 2.5 years at June 30, 2024 compared to 2.8 years at June 30, 2023. 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, 2024 and 2023, 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, 2024 and 2023, along with credit quality and effective duration measures, is summarized as follows:

	2024					
	U.S. Government	Investment Grade	Non-Investment Grade (in thousands)	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 2,543,770				$ 2,543,770	2.2
U.S. Treasury inflation protected	15,978				15,978	5.2
U.S. government agency	263,899				263,899	3.4
Mortgage backed		$ 70,775		$ 15,183	85,958	2.3
Asset backed		342,046		1,203	343,249	2.2
Corporate and other		1,508,857	$ 15,129	39,522	1,563,508	2.9
	$ 2,823,647	$ 1,921,678	$ 15,129	$ 55,908	$ 4,816,362	2.5

	2023					
	U.S. Government	Investment Grade	Non-Investment Grade (in thousands)	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 1,991,104				$ 1,991,104	3.1
U.S. Treasury inflation protected	3,510				3,510	4.6
U.S. government agency	261,965				261,965	3.3
Mortgage backed		$ 63,752	$ 36	$ 7,625	71,413	2.5
Asset backed		250,317		1,149	251,466	2.3
Corporate and other		1,919,856	7,912	70,576	1,998,344	2.5
	$ 2,256,579	$ 2,233,925	$ 7,948	$ 79,350	$ 4,577,802	2.8

Of the University's fixed income securities, 99 percent and 98 percent were rated investment grade or better at June 30, 2024 and 2023, respectively, and 73 percent and 62 percent of these securities consisted of either U.S. Treasury and government agencies or non-U.S. government securities rated AAA/Aaa at June 30, 2024 and 2023, respectively.

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

Note 2—Cash and Investments—Continued

Nonmarketable alternative investments consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner. The University's limited partnerships are diversified in terms of manager selection, industry and geographic focus. At June 30, 2024 and 2023, 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, 2024 is summarized as follows (amounts in thousands):

	Fair Value	Remaining Life	Outstanding Commitments	Redemption Terms	Redemption Notice
Commingled funds	$ 3,277,662	N/A	$ -	Daily, monthly, quarterly and annually, with varying notice periods	Lock-up provisions range from none to five years
Nonmarketable alternative investments	$ 15,105,629	1-12 years	$ 4,483,776	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, 2024 and 2023, 86 percent and 75 percent, respectively, are redeemable within one year, with 43 percent and 62 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 $1,522,932,000 or 6 percent of total investments at June 30, 2024, and $1,618,887,000 or 7 percent of total investments at June 30, 2023, and is summarized as follows:

	2024	**2023**
	(in thousands)	
Euro	$ 978,374	$ 972,724
British pound sterling	237,848	253,746
Swedish krona	136,889	189,547
Japanese yen	93,622	121,052
Canadian dollar	32,578	39,534
Danish krone	22,159	20,237
Other	21,462	22,047
	$ 1,522,932	$ 1,618,887

Note 2—Cash and Investments—Continued

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 $0 and $13,505,000 in securities loans outstanding at June 30, 2024 and 2023, 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 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, 2023, collateral of $13,822,000 (102 percent of securities on loan) includes invested cash of $4,844,000 and U.S. government securities of $8,978,000.

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. During 2024, the securities lending program was terminated for both the Long Term and Monthly Portfolios.

Note 3—Accounts Receivable

The composition of accounts receivable at June 30, 2024 and 2023 is summarized as follows:

	2024	2023
	(in thousands)	
Patient care	$ 1,312,964	$ 1,020,903
Sponsored programs	216,201	224,731
State appropriations, educational and capital	77,889	72,047
Student accounts	47,261	40,872
Other	101,534	76,090
	1,755,849	1,434,643
Less allowance for uncollectible accounts receivable:		
Patient care	198,077	179,904
All other	24,088	14,969
	$ 1,533,684	$ 1,239,770

Note 4—Notes and Pledges Receivable

The composition of notes and pledges receivable at June 30, 2024 and 2023 is summarized as follows:

	2024	2023
	(in thousands)	
Notes:		
Federal student loan programs	$ 35,110	$ 40,998
University student loan funds	15,032	14,349
Other	5,239	5,015
	55,381	60,362
Less allowance for uncollectible notes	3,100	3,100
Total notes receivable, net	52,281	57,262
Gift pledges:		
Capital	189,084	119,212
Operations	189,749	214,916
	378,833	334,128
Less:		
Allowance for uncollectible pledges	9,404	8,489
Unamortized discount to present value	10,602	5,434
Total pledges receivable, net	358,827	320,205
Total notes and pledges receivable, net	411,108	377,467
Less current portion	120,910	117,669
	$ 290,198	$ 259,798

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, 2024 are expected to be received in the following years ended June 30 (in thousands):

2025	$ 113,410
2026	75,045
2027	52,808
2028	36,155
2029	29,890
2030 and after	71,525
	$ 378,833

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $164,342,000 and $181,210,000 at June 30, 2024 and 2023, respectively, are not recognized as assets in the accompanying consolidated 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, 2024 and 2023 is summarized as follows:

	2024			
	Beginning Balance	Additions	Retirements	Ending Balance
	(in thousands)			
Land	$ 180,034	$ 74,269	$ 183	$ 254,120
Land improvements	187,505	16,606	981	203,130
Infrastructure	265,252	517	73	265,696
Buildings	11,426,340	284,115	52,774	11,657,681
Construction in progress	658,744	492,450		1,151,194
Equipment	2,944,250	203,403	90,466	3,057,187
Library materials	782,372	25,420		807,792
Right-to-use assets	505,578	82,858	23,183	565,253
	16,950,075	1,179,638	167,660	17,962,053
Less accumulated depreciation	9,861,002	688,146	157,782	10,391,366
	$ 7,089,073	$ 491,492	$ 9,878	$ 7,570,687

	2023			
	Beginning Balance	Additions	Retirements	Ending Balance
	(in thousands)			
Land	$ 175,424	$ 4,764	$ 154	$ 180,034
Land improvements	183,451	4,556	502	187,505
Infrastructure	264,874	378		265,252
Buildings	11,285,552	186,253	45,465	11,426,340
Construction in progress	330,057	328,687		658,744
Equipment	2,845,444	192,585	93,779	2,944,250
Library materials	754,882	27,490		782,372
Right-to-use assets	458,542	72,168	25,132	505,578
	16,298,226	816,881	165,032	16,950,075
Less accumulated depreciation	9,334,494	685,362	158,854	9,861,002
	$ 6,963,732	$ 131,519	$ 6,178	$ 7,089,073

The increase in construction in progress of $492,450,000 in 2024 represents the amount of capital expenditures for new projects of $980,290,000 net of assets placed in service of $487,840,000. The increase in construction in progress of $328,687,000 in 2023 represents the amount of capital expenditures for new projects of $632,158,000 net of assets placed in service of $303,471,000.

Note 6—Long-term Debt

Long-term debt at June 30, 2024 and 2023 is summarized as follows:

	2024	2023
	(in thousands)	
Commercial paper:		
Tax-exempt, variable rate (3.59%)*	$ 128,265	$ 132,415
Taxable, variable rate (5.39%)*	61,725	
General revenue bonds:		
Series 2022A, taxable, 3.504% to 4.454% through 2122	1,700,000	1,700,000
Series 2022B, taxable, 3.504% through 2052	300,000	300,000
Series 2022C, taxable, 2.734% to 3.599% through 2047	410,335	413,205
Series 2022D, 5.00% through 2033	54,865	55,325
unamortized premium	10,820	12,331
Series 2020A, 4.00% to 5.00% through 2050	130,485	138,430
unamortized premium	28,095	30,593
Series 2020B, taxable, 1.004% to 2.562% through 2050	850,025	850,025
Series 2019A, 5.00% through 2036	104,220	114,035
unamortized premium	12,661	15,134
Series 2019B, taxable, 2.883% to 3.416% through 2029	8,975	10,615
Series 2019C, 4.00% through 2049		61,725
unamortized premium		4,936
Series 2018A, 4.00% to 5.00% through 2048	121,360	124,390
unamortized premium	12,975	13,931
Series 2017A, 4.86% to 5.00% through 2035	202,700	229,535
unamortized premium	26,739	29,620
Series 2015, 4.00% to 5.00% through 2035	107,845	112,690
unamortized premium	12,483	13,589
Series 2014A, 4.25% to 5.00% through 2030	16,730	18,925
unamortized premium	1,116	1,219
Series 2014B, taxable, 3.516% through 2024		1,000
Series 2013A, 2.50% to 4.00% through 2029	36,015	37,830
unamortized premium	456	629
Series 2012A, variable rate (3.69%)* through 2036	50,000	50,000
Series 2012B, variable rate (4.50%)* through 2042	65,000	65,000
Series 2012D-1, variable rate (4.50%)* through 2025 with partial swap to fixed through 2025	15,625	30,535
Series 2012D-2, variable rate (3.70%)* through 2030 with partial swap to fixed through 2026 and variable rate 2027 through 2030	33,840	39,075
Series 2010A, taxable Build America Bonds, 4.926% to 5.593% through 2040	155,860	162,345
Series 2010D, taxable Build America Bonds, 4.056% to 5.333% through 2041	143,330	145,000
Series 2009B, variable rate (3.67%)* through 2039	118,710	118,710
Series 2008A, variable rate (4.50%)* through 2038	57,085	57,085
Series 2008B, variable rate (3.69%)* through 2028 with partial swap to fixed through 2026	32,075	39,250

Note 6—Long-term Debt—Continued

Michigan Finance Authority hospital revenue bonds:		
Series 2022A, 4.00% to 5.00% through 2043		76,700
unamortized premium		10,853
Series 2022B, 4.00% to 5.00% through 2037		11,030
unamortized premium		2,161
Series 2017A, 2.87% through 2043		51,230
Series 2017B**, variable rate through 2043		51,230
Series 2015, 4.00% to 5.00% through 2045		65,565
unamortized premium		5,191
Line of credit, variable rate through 2024		52,000
	5,010,415	5,455,087
Less:		
Commercial paper and current portion of bonds payable	402,592	298,184
Long-term bonds payable subject to remarketing, net	343,770	372,335
	$ 4,264,053	$ 4,784,568

* Denotes variable rate at June 30, 2024
** Denotes variable rate bonds not subject to remarketing

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, 2024 and 2023 is summarized as follows:

	2024	**2023**
	(in thousands)	
Variable rate bonds payable subject to remarketing	$ 372,335	$ 399,655
Less current principal maturities	28,565	27,320
Long-term bonds payable subject to remarketing, net	$ 343,770	$ 372,335

The University maintains six lines of credit which totaled $2,040,000,000 and were entirely unused at June 30, 2024 and 2023. In addition, the Sparrow Obligated Group, a group comprised of five UM Health-Sparrow hospitals whose collective revenues are pledged in support of all UM Health-Sparrow debt issuances, previously maintained an outstanding line of credit totaling $52,000,000, all of which was outstanding at June 30, 2023. This line of credit was paid off in full using existing resources and terminated in 2024.

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, 2024 and 2023 is summarized as follows:

	2024			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Commercial paper	$ 132,415	$ 61,725	$ 4,150	$ 189,990
Bonds:				
General revenues	4,996,712		176,287	4,820,425
Michigan Finance Authority hospital revenue bonds	273,960		273,960	-
Line of credit	52,000		52,000	-
Other	-	60,373	60,373	-
	$ 5,455,087	$ 122,098	$ 566,770	$ 5,010,415

	2023			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Commercial paper	$ 141,135		$ 8,720	$ 132,415
Bonds:				
General revenues	5,064,887		68,175	4,996,712
Michigan Finance Authority hospital revenue bonds	375,089	$ 88,394	189,523	273,960
Line of credit	14,000	38,000		52,000
	$ 5,595,111	$ 126,394	$ 266,418	$ 5,455,087

The University maintains a combination of variable and fixed rate debt supported by general revenues, with effective interest rates that averaged 3.6 percent and 3.5 percent in 2024 and 2023, respectively.

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.

Note 6—Long-term Debt—Continued

During 2024, the University issued $61,725,000 of taxable commercial paper. Total proceeds of $61,725,000 were used to refund the remaining portion of General Revenue Bonds Series 2019C, which had an interest rate of 4.0 percent at March 29, 2024 and a final maturity date of April 1, 2049. As a result of this refunding, the University increased its aggregate debt service payments over the next 25 years by $15,860,000, resulting in a present value economic loss of $9,828,000.

During 2024, the Sparrow Obligated Group used existing resources of $102,460,000 to retire Michigan Finance Authority Hospital Revenue Bonds Series 2017A and 2017B. The Sparrow Obligated Group also established three escrow funds using existing resources of $154,717,000 to legally defease $65,565,000 of Michigan Finance Authority Hospital Revenue Bonds Series 2015, $76,700,000 of Michigan Finance Authority Hospital Revenue Bonds Series 2022A and $11,030,000 of Michigan Finance Authority Hospital Revenue Bonds Series 2022B, resulting in a gain on defeasance of $23,447,000 which was recognized into other nonoperating revenues.

During 2024, the University acquired three separate legal entities to facilitate the purchase of property in connection with its Central Campus Residential Development project. This acquisition resulted in an increase to capital assets of $59,923,000 and debt of $60,373,000. The University utilized existing resources to fully extinguish the debt associated with the acquisition of these entities during the current year.

During 2023, the Sparrow Obligated Group issued $76,700,000 of fixed rate, taxable Michigan Finance Authority Hospital Revenue Bonds Series 2022A with a net original issue premium of $11,694,000. Total bond proceeds of $88,394,000 were utilized to refund $87,577,000 of existing bonds and provide $817,000 for bond issuance costs.

During 2023, the Sparrow Obligated Group also established an escrow fund using existing resources of $86,041,000 to legally defease $82,500,000 of Michigan Finance Authority Hospital Revenue Bonds Series 2015, resulting in a gain on defeasance of $4,644,000 which was recognized into other nonoperating revenues.

Deferred outflows and deferred inflows associated with the University’s refunding activity totaled $29,185,000 and $39,550,000, respectively, at June 30, 2024. Deferred outflows and deferred inflows associated with the University’s refunding activity totaled $31,556,000 and $47,948,000, respectively, at June 30, 2023. 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
2025	$ 391,530	$ 182,174	$ 573,704
2026	102,155	176,993	279,148
2027	145,010	172,346	317,356
2028	111,255	166,653	277,908
2029	90,990	161,473	252,463
2030-2034	558,355	736,767	1,295,122
2035-2039	513,500	621,132	1,134,632
2040-2044	592,560	499,965	1,092,525
2045-2049	95,055	456,745	551,800
2050-2054	1,104,660	359,255	1,463,915
2055-2119		3,474,120	3,474,120
2120-2122	1,200,000	160,344	1,360,344
Total payments	4,905,070	$ 7,167,967	$ 12,073,037
Plus unamortized premiums	105,345		
	$ 5,010,415		

* Interest on variable rate debt is estimated based on rates in effect at June 30, 2024; amounts do not reflect federal subsidies to be received for Build America Bonds interest

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 on July 1, 2024, 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 2025 would decrease to $378,590,000, total principal payments due in 2026 would increase to $238,950,000, total principal payments due in 2027 would decrease to $131,040,000, total principal payments due in 2028 would increase to $198,650,000 and total principal payments due in 2029 would increase to $186,640,000. Accordingly, principal payments due in subsequent years would be reduced to $456,905,000 in 2030 through 2034, $353,895,000 in 2035 through 2039 and $560,685,000 in 2040 through 2044. Principal payments due in 2045 through 2122 would not change. There would not be a material impact on annual interest payments as a result of these changes.

Note 6—Long-term Debt—Continued

Condensed financial information for the Sparrow Obligated Group at and for the year ended June 30, 2023 is as follows (in thousands):

Condensed Statement of Net Position	
Assets:	
Current assets	$ 469,267
Noncurrent assets	1,168,195
Total assets	1,637,462
Deferred outflows	143,931
Liabilities:	
Current liabilities	417,516
Noncurrent liabilities	323,278
Total liabilities	740,794
Deferred inflows	6,885
Net position:	
Net investment in capital assets	312,868
Unrestricted	720,846
Total net position	$ 1,033,714

Condensed Statement of Revenues, Expenses and Changes in Net Position	
Operating revenues	$ 1,235,030
Operating expenses other than depreciation expense	(1,307,214)
Depreciation expense	(57,612)
Operating loss	(129,796)
Nonoperating expenses, net	(2,266)
Other revenues, net	46,991
Decrease in net position	(85,071)
Net position, beginning of year	1,118,785
Net position, end of year	$ 1,033,714

Condensed Statement of Cash Flows	
Net cash used in operating activities	$ (207,992)
Net cash used in noncapital financing activities	(3,321)
Net cash used in capital and related financing activities	(61,470)
Net cash provided by investing activities	261,395
Net decrease in cash and cash equivalents	(11,388)
Cash and cash equivalents, beginning of year	72,163
Cash and cash equivalents, end of year	$ 60,775

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.

Derivative instruments held by the University at June 30, 2024 and 2023 are summarized as follows:

	2024	
	Notional Amount	Fair Value
	(in thousands)	
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 97,415	$ 556
Foreign currency forwards:		
Euro	761,035	5,412
Mexican peso	62,585	(3,316)
Japanese yen	63,863	3,140
South African rand	32,250	1,784
Turkish lira	17,145	1,019
Philippines peso	50,573	(988)
All other currencies	840,053	(2,794)
	1,827,504	4,257
	$ 1,924,919	$ 4,813
Other derivative instruments:		
Floating-to-fixed interest rate swap on debt	$ 15,595	$ (80)
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 24,965	$ (27)

Note 7—Derivative Instruments—Continued

	2023	
	Notional Amount	Fair Value
	(in thousands)	
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 148,952	$ (2,033)
Foreign currency forwards:		
Japanese yen	96,540	3,735
Pound sterling	69,739	(1,394)
Hungarian forint	45,135	868
Mexican peso	35,918	567
Chinese yuan	21,651	532
Turkish lira	1,516	(483)
All other currencies	780,474	1,913
	1,050,973	5,738
	$ 1,199,925	$ 3,705
Other derivative instruments:		
Floating-to-fixed interest rate swap on debt	$ 30,475	$ (353)
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 37,365	$ (32)

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.

The change in fair value of derivative instruments, which includes realized gains and losses on positions closed, for the years ended June 30, 2024 and 2023 is summarized as follows:

	2024	**2023**
	(in thousands)	
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 4,267	$ (4,171)
Foreign currency forwards	31,655	15,406
Other	3,566	802
	$ 39,488	$ 12,037
Other derivative instruments:		
Floating-to-fixed interest rate swap on debt	$ 273	$ 1,337
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 5	$ 1,312

Note 7—Derivative Instruments—Continued

Using rates in effect at June 30, 2024, 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)			
2025	$ 12,940	$ 2,248	$ (84)	$ 15,104
2026	12,045	1,797	(24)	13,818
2027	13,970	1,314		15,284
2028	16,540	749		17,289
2029	8,285	208		8,493
2030	2,135	33		2,168
	$ 65,915	$ 6,349	$ (108)	$ 72,156

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 the Secured Overnight Financing Rate ("SOFR"). Basis risk is the risk that changes in the relationship between the floating Securities Industry and Financial Markets Association Municipal Index and SOFR may impact the synthetic fixed rate of the variable rate debt. At June 30, 2024 and 2023, 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 $4,937,000 and $4,096,000 at June 30, 2024 and 2023, 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, 2024 and 2023 are summarized as follows:

	2024	**2023**
	(in thousands)	
Balance, beginning of year	$ 465,776	$ 864,602
Claims incurred and changes in estimates	1,166,683	1,128,310
Claim payments	(1,137,691)	(1,527,136)
Balance, end of year	494,768	465,776
Less current portion	283,235	253,398
	$ 211,533	$ 212,378

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 Plans

UM Health-Sparrow: UM Health-Sparrow has two noncontributory, single-employer defined benefit pension plans, both of which are closed to new participants. Plan A1 includes employees who continue to accrue benefits and Plan A2 includes employees who are not accruing additional benefits. The plans generally provide benefits based upon years of service and employee earnings. The UM Health-Sparrow Board of Directors has the authority to establish and amend benefit provisions of the plans.

The annual pension expense and net pension liability is actuarially calculated using the entry age normal level percent of pay method. UM Health-Sparrow has elected to measure its net pension liability six months prior to the fiscal year end reporting date and amounts measured at December 31, 2023 and 2022 were determined based on an actuarial valuation at January 1, 2023 and 2022, 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 December 31, 2023 and 2022 measurement dates, the number of plan participants consisted of the following:

	2024	
	Plan A1	Plan A2
Active participants	1,080	796
Vested terminated participants	226	1,350
Retirees, beneficiaries and disabled participants	1,252	1,679
	2,558	3,825

	2023	
	Plan A1	Plan A2
Active participants	1,205	870
Vested terminated participants	209	1,376
Retirees, beneficiaries and disabled participants	1,168	1,614
	2,582	3,860

Note 9—Pension Plans—Continued

Changes in the reported net pension liability for the years ended June 30, 2024 and 2023 are summarized as follows:

	2024		
	Total Pension Liability	Plan Fiduciary Net Position (in thousands)	Net Pension Liability
Balance, beginning of year	$ 691,217	$ 675,577	$ 15,640
Service cost	3,871		3,871
Interest cost	44,823		44,823
Changes in assumptions	(38,356)		(38,356)
Differences between expected and actual plan experience	6,335		6,335
Benefit payments	(43,413)	(43,413)	-
Administrative expenses		(7,794)	7,794
Net investment income:			
Expected investment earnings		43,563	(43,563)
Differences between expected and actual investment earnings		20,593	(20,593)
Balance, end of year	$ 664,477	$ 688,526	$ (24,049)

	2023		
	Total Pension Liability	Plan Fiduciary Net Position (in thousands)	Net Pension Liability
Balance, beginning of year	$ 665,557	$ 826,432	$ (160,875)
Service cost	4,429		4,429
Interest cost	44,648		44,648
Changes in assumptions	14,896		14,896
Differences between expected and actual plan experience	2,143		2,143
Benefit payments	(40,456)	(40,456)	-
Contributions from the employer		10,674	(10,674)
Administrative expenses		(8,743)	8,743
Net investment income:			
Expected investment earnings		55,935	(55,935)
Differences between expected and actual investment earnings		(168,265)	168,265
Balance, end of year	$ 691,217	$ 675,577	$ 15,640

The plan fiduciary net position as a percentage of the total pension liability was 104 percent and 98 percent at June 30, 2024 and 2023, respectively.

Note 9—Pension Plans—Continued

Significant actuarial assumptions used at the December 31, 2023 and 2022 measurement dates are as follows:

	2024	
	Plan A1	Plan A2
Discount rate	8.00%	6.40%
Increase in compensation rate (including inflation)	4.00%	N/A
Investment rate of return	8.00%	6.40%
Mortality table	Pri-2012, Scale MSS-2023	Pri-2012, Scale MSS-2023

	2023	
	Plan A1	Plan A2
Discount rate	7.25%	6.02%
Increase in compensation rate (including inflation)	4.00%	N/A
Investment rate of return	7.25%	6.02%
Mortality table	Pri-2012, Scale MSS-2022	Pri-2012, Scale MSS-2022

Discount rates are based on the expected rate of return on pension plan investments. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made based on the minimum contribution projection under provisions of ERISA and the Pension Protection Act of 2006, 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.

Note 9—Pension Plans—Continued

The long-term expected rate of return on pension plan investments was determined using the expected future rates of return for the target asset allocation of the portfolio. The target allocation and best estimate rates of return by asset class are summarized as follows:

	2024			
	Plan A1		Plan A2	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	22.0%	8.6%	10.0%	8.0%
U.S. small/mid cap	8.0%	9.0%	3.0%	8.0%
International developed	20.0%	9.3%	8.0%	9.3%
Corporate 10+ year	20.0%	6.7%	52.0%	6.6%
STRIPs			13.0%	5.3%
High yield	5.0%	7.8%	2.0%	7.8%
Emerging markets debt	5.0%	8.8%	2.0%	8.8%
Private real estate	8.0%	7.3%	10.0%	7.3%
Private equity	7.0%	11.7%		
Structured credit	5.0%	10.5%		

	2023			
	Plan A1		Plan A2	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	22.0%	8.6%	10.0%	8.0%
U.S. small/mid cap	8.0%	9.0%	3.0%	8.0%
International developed	20.0%	9.3%	8.0%	9.3%
Corporate 10+ year	20.0%	6.7%	45.5%	6.6%
STRIPs			19.5%	5.3%
High yield	5.0%	7.8%	2.0%	7.8%
Emerging markets debt	5.0%	8.8%	2.0%	8.8%
Private real estate	8.0%	7.3%	10.0%	7.3%
Private equity	7.0%	11.7%		
Structured credit	5.0%	10.5%		

Note 9—Pension Plans—Continued

A one-percentage point change in the discount rate would impact the reported net pension liability at June 30, 2024 and 2023 as follows:

	2024		2023	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	(in thousands)			
Net pension liability	$ 66,033	$ (56,617)	$ 73,092	$ (62,364)

The components of pension expense for the years ended June 30, 2024 and 2023 are summarized as follows:

	2024	2023
	(in thousands)	
Service cost	$ 3,871	$ 4,429
Interest cost	44,823	44,648
Expected investment earnings	(43,563)	(55,935)
Administrative expenses	7,794	8,743
Amortization of deferred outflows and deferred inflows	25,054	41,938
	$ 37,979	$ 43,823

Deferred outflows and deferred inflows related to the reported net pension liability at June 30, 2024 and 2023 are summarized as follows:

	2024		2023	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Changes in assumptions	$ 256	$ 24,109	$ 7,006	
Differences between expected and actual plan experience	5,066		1,969	$ 221
Differences between expected and actual investment earnings	84,485		134,613	
	89,807	24,109	143,588	221
Contributions made after measurement date	5,107			
	$ 94,914	$ 24,109	$ 143,588	$ 221

Note 9—Pension Plans—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):

2025	$ 20,432
2026	23,623
2027	25,762
2028	(4,119)
	$ 65,698

The inputs used to determine the fair value of the plan's investments reported at June 30, 2024 and 2023 are summarized as follows:

	2024		
	Level 1	NAV (in thousands)	Total Fair Value
Cash and cash equivalents	$ 3,954		$ 3,954
Fixed income securities	35,088		35,088
Commingled funds	514,226	$ 135,258	649,484
	$ 553,268	$ 135,258	$ 688,526

	2023		
	Level 1	NAV (in thousands)	Total Fair Value
Cash and cash equivalents	$ 3,957		$ 3,957
Fixed income securities	56,818		56,818
Commingled funds	470,012	$ 144,790	614,802
	$ 530,787	$ 144,790	$ 675,577

Note 9—Pension Plans—Continued

UM Health-West: UM Health-West has a noncontributory, single-employer defined benefit pension plan, which is closed to new participants. The plan generally provides benefits based on years of service and employee earnings. The UM Health-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. UM Health-West has elected to measure the net pension liability nine months prior to the fiscal year end reporting date and amounts measured at September 30, 2023 and 2022 were determined based on an actuarial valuation at October 1, 2022 and 2021, 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 September 30, 2023 and 2022 measurement dates, the number of plan participants consisted of the following:

	2024	**2023**
Active participants	326	369
Vested terminated participants	722	791
Retirees, beneficiaries and disabled participants	602	553
	1,650	1,713

Note 9—Pension Plans—Continued

Changes in the reported net pension liability for the years ended June 30, 2024 and 2023 are summarized as follows:

	2024		
	Total Pension Liability	Plan Fiduciary Net Position (in thousands)	Net Pension Liability
Balance, beginning of year	$ 66,512	$ 66,963	$ (451)
Interest cost	4,477		4,477
Changes in assumptions	(8,224)		(8,224)
Differences between expected and actual plan experience	115		115
Benefit payments	(4,973)	(4,973)	-
Administrative expenses		(151)	151
Net investment income:			
Expected investment earnings		4,503	(4,503)
Differences between expected and actual investment earnings		3,087	(3,087)
Balance, end of year	$ 57,907	$ 69,429	$ (11,522)

	2023		
	Total Pension Liability	Plan Fiduciary Net Position (in thousands)	Net Pension Liability
Balance, beginning of year	$ 67,758	$ 90,433	$ (22,675)
Interest cost	4,569		4,569
Changes in assumptions	165		165
Differences between expected and actual plan experience	1,394		1,394
Benefit payments	(7,374)	(7,374)	-
Contributions from the employer		1,781	(1,781)
Administrative expenses		(147)	147
Net investment income:			
Expected investment earnings		5,314	(5,314)
Differences between expected and actual investment earnings		(23,044)	23,044
Balance, end of year	$ 66,512	$ 66,963	$ (451)

Note 9—Pension Plans—Continued

The plan fiduciary net position as a percentage of the total pension liability was 120 percent and 101 percent at June 30, 2024 and 2023, respectively.

Significant actuarial assumptions used at the September 30, 2023 and 2022 measurement dates are as follows:

	2024	**2023**
Discount rate	8.5%	7.0%
Inflation	2.0%	2.0%
Investment rate of return	8.5%	7.0%
Mortality table	Pri-2012, Scale MP-2021	Pri-2012, Scale MP-2021

Discount rates are based on the expected rate of return on pension plan investments. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made based on the minimum contribution projection under provisions of ERISA and the Pension Protection Act of 2006, 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 was determined using the expected future rates of return for the target asset allocation of the portfolio. The target allocation and best estimate rates of return by asset class are summarized as follows:

	2024		**2023**	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	25.0%	9.4%	25.0%	7.9%
U.S. mid cap	10.5%	10.2%	10.5%	8.7%
U.S. small cap	6.5%	10.5%	6.5%	9.3%
International developed	14.0%	7.4%	14.0%	6.0%
Emerging market	9.0%	7.5%	9.0%	5.6%
STRIPs	7.0%	7.6%	7.0%	3.9%
Corporate 10+ year	28.0%	5.8%	28.0%	4.5%

Note 9—Pension Plans—Continued

A one-percentage point change in the discount rate would impact the reported net pension liability at June 30, 2024 and 2023 as follows:

	2024		**2023**	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	(in thousands)			
Net pension liability	$ 5,109	$ (4,420)	$ 6,790	$ (5,798)

The components of pension expense for the years ended June 30, 2024 and 2023 are summarized as follows:

	2024	**2023**
	(in thousands)	
Interest cost	$ 4,477	$ 4,569
Expected investment earnings	(4,503)	(5,314)
Administrative expenses	151	147
Amortization of deferred outflows and deferred inflows	(3,982)	2,497
	$ (3,857)	$ 1,899

Deferred outflows and deferred inflows related to the reported net pension liability at June 30, 2024 and 2023 are summarized as follows:

	2024		**2023**	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
	(in thousands)			
Changes in assumptions		$ 2,668	$ 63	
Differences between expected and actual plan experience	$ 37		534	
Differences between expected and actual investment earnings	5,120		18,890	$ 9,783
	$ 5,157	$ 2,668	$ 19,487	$ 9,783

Note 9—Pension Plans—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):

2025	$ (1,644)
2026	759
2027	3,991
2028	(617)
	$ 2,489

The inputs used to determine the fair value of the plan’s investments reported at June 30, 2024 and 2023 are summarized as follows:

	2024			
	Level 1	Level 2	NAV	Total Fair Value
	(in thousands)			
Equity securities	$ 42,268			$ 42,268
Fixed income securities		$ 19,076		19,076
Nonmarketable alternative investments			$ 8,085	8,085
	$ 42,268	$ 19,076	$ 8,085	$ 69,429

	2023			
	Level 1	Level 2	NAV	Total Fair Value
	(in thousands)			
Equity securities	$ 42,590			$ 42,590
Fixed income securities		$ 16,490		16,490
Nonmarketable alternative investments			$ 7,883	7,883
	$ 42,590	$ 16,490	$ 7,883	$ 66,963

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, 2023 and 2022 were determined based on an actuarial valuation at January 1, 2023 and 2022, 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, 2023 and 2022 measurement dates, the number of plan participants consisted of the following:

	2023		**2022**	
	Retiree Health and Welfare	Long-term Disability	Retiree Health and Welfare	Long-term Disability
Active employees	45,821	38,365	44,196	38,612
Retirees receiving benefits	12,693		12,243	
Surviving spouses	921		922	
Participants receiving disability benefits		541		544
	59,435	38,906	57,361	39,156

Changes in the reported total liability for postemployment benefits obligations for the years ended June 30, 2024 and 2023 are summarized as follows:

	2024		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 3,399,860	$ 316,515	$ 3,716,375
Service cost	114,182	29,148	143,330
Interest cost	123,192	11,595	134,787
Changes in assumptions	133,174	(6,729)	126,445
Differences between expected and actual plan experience	4,386	9,986	14,372
Benefit payments	(68,697)	(36,564)	(105,261)
Balance, end of year	3,706,097	323,951	4,030,048
Less current portion	84,945	40,130	125,075
	$ 3,621,152	$ 283,821	$ 3,904,973

Note 10—Postemployment Benefits—Continued

	2023		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 3,982,200	$ 315,459	$ 4,297,659
Service cost	165,821	32,124	197,945
Interest cost	88,911	7,148	96,059
Changes in assumptions	(775,254)	(15,101)	(790,355)
Differences between expected and actual plan experience	2,073	10,348	12,421
Benefit payments	(63,891)	(33,463)	(97,354)
Balance, end of year	3,399,860	316,515	3,716,375
Less current portion	68,697	36,564	105,261
	$ 3,331,163	$ 279,951	$ 3,611,114

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 $214,019,000 and $619,599,000 at June 30, 2024 and 2023, respectively.

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 $448,000,000 and $365,000,000 at June 30, 2024 and 2023, 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, 2024 and 2023, as a percentage of covered payroll of $5,222,386,000 and $4,889,673,000 were 77 percent and 76 percent, respectively.

Note 10—Postemployment Benefits—Continued

Significant actuarial assumptions used at the June 30, 2023 and 2022 measurement dates are as follows:

	2023	2022
Discount rate*	3.65%	3.54%
Inflation rate	2.00%	2.00%
Immediate/ultimate administrative trend rate	0.0%/3.0%	0.0%/3.0%
Immediate/ultimate medical trend rate	5.75%/4.5%	6.0%/4.5%
Immediate/ultimate Rx trend rate	11.0%/4.5%	7.5%/4.5%
Increase in compensation rate faculty/staff/union	4.50%/4.75%/4.5%	4.50%/4.75%/3.75%
Mortality table**	PUB-2010 Teachers Head Count Table, Scale MP-2021	PUB-2010 Teachers Head Count Table, Scale MP-2021
Average future work life expectancy (years):		
Retiree health and welfare	9.45	9.33
Long-term disability	12.01	12.00

* 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

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, 2024 and 2023 as follows:

	2024		2023	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	(in thousands)			
Discount rate:				
Retiree health and welfare	$ 759,408	$ (596,005)	$ 702,617	$ (552,156)
Long-term disability	$ 12,638	$ (19,272)	$ 10,955	$ (16,739)
Health care cost trend rates:				
Retiree health and welfare	$ (710,025)	$ 954,950	$ (613,511)	$ 816,955
Long-term disability	$ (10,202)	$ 10,845	$ (10,044)	$ 10,817

Note 10—Postemployment Benefits—Continued

The components of postemployment benefits expense for the years ended June 30, 2024 and 2023 are summarized as follows:

	2024		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Service cost	$ 114,182	$ 29,148	$ 143,330
Interest cost	123,192	11,595	134,787
Amortization of deferred outflows and deferred inflows	(20,684)	769	(19,915)
	$ 216,690	$ 41,512	$ 258,202

	2023		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Service cost	$ 165,821	$ 32,124	$ 197,945
Interest cost	88,911	7,148	96,059
Amortization of deferred outflows and deferred inflows	(35,240)	498	(34,742)
	$ 219,492	$ 39,770	$ 259,262

Deferred outflows and deferred inflows related to the reported total liability for postemployment benefits obligations at June 30, 2024 and 2023 are summarized as follows:

	2024		2023	
	Deferred Outflows	Deferred Inflows (in thousands)	Deferred Outflows	Deferred Inflows
Changes in assumptions	$ 647,555	$ 1,034,760	$ 654,212	$ 1,209,737
Differences between expected and actual plan experience	108,795	13,584	118,394	15,595
	756,350	1,048,344	772,606	1,225,332
Benefit payments made after measurement date	125,075		105,261	
	$ 881,425	$ 1,048,344	$ 877,867	$ 1,225,332

Note 10—Postemployment Benefits—Continued

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 (in thousands):

2025	$ 19,915
2026	31,936
2027	38,700
2028	3,820
2029	22,714
2030 and beyond	174,909
	$ 291,994

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, 2024 and 2023 are summarized as follows:

	2024	2023
	(in thousands)	
University contributions	$ 398,235	$ 372,331
Employee contributions	$ 209,392	$ 197,125
Payroll covered under plan	$ 5,222,386	$ 4,889,673
Total payroll	$ 5,406,433	$ 5,058,307

Note 12—Net Position

The composition of net position at June 30, 2024 and 2023 is summarized as follows:

	2024	2023
	(in thousands)	
Net investment in capital assets	$ 4,977,364	$ 3,964,182
Restricted:		
Nonexpendable:		
Permanent endowment corpus	3,221,288	2,959,142
Expendable:		
Net appreciation of permanent endowments	4,001,852	3,668,054
Funds functioning as endowment	3,636,132	3,385,536
Restricted for operations and other	836,289	799,478
Unrestricted	5,661,699	5,937,369
	$ 22,334,624	$ 20,713,761

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, 2024 and 2023, 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 $314,844,000 and $303,478,000 during the years ended June 30, 2024 and 2023, 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 consolidated financial statements. The statement of net position includes a receivable of $5,347,000 and $1,226,000 at June 30, 2024 and 2023, respectively, for DoED funding received subsequent to distribution.

Note 14—Commitments and Contingencies

Authorized expenditures for construction and other projects unexpended at June 30, 2024 were $1,616,635,000. Of these expenditures, the University expects that $1,586,635,000 will be funded by internal sources, gifts, grants and proceeds from borrowings and $30,000,000 by the State Building Authority.

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, infrastructure, natural resources and absolute return strategies. At June 30, 2024, the University had committed, but not paid, a total of $4,483,776,000 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):

2025	$ 1,690,408
2026	1,052,301
2027	698,195
2028	401,095
2029	243,424
2030 and beyond	398,353
	$ 4,483,776

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

Note 14—Commitments and Contingencies—Continued

The University has entered into leases for certain space and equipment, as well as SBITAs, which expire at various dates through 2040. Future 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
2025	$ 70,093	$ 11,966	$ 82,059
2026	55,588	10,176	65,764
2027	42,746	8,664	51,410
2028	33,417	7,483	40,900
2029	23,851	6,492	30,343
2030-2034	92,713	20,407	113,120
2035-2039	38,466	4,344	42,810
2040	1,424	6	1,430
	$ 358,298	$ 69,538	$ 427,836

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, 2024 and 2023 are summarized as follows:

	2024				
	Compensation and Benefits	Supplies and Services	Depreciation (in thousands)	Scholarships and Fellowships	Total
Instruction	$ 1,271,054	$ 173,386			$ 1,444,440
Research	733,099	344,702			1,077,801
Public service	187,410	118,439			305,849
Academic support	385,149	84,599			469,748
Student services	131,653	49,343			180,996
Institutional support	260,920	136,298			397,218
Operations and maintenance of plant	108,240	322,672			430,912
Auxiliary enterprises	5,246,713	2,792,636			8,039,349
Depreciation			$ 688,146		688,146
Scholarships and fellowships				$ 229,222	229,222
	$ 8,324,238	$ 4,022,075	$ 688,146	$ 229,222	$ 13,263,681

	2023				
	Compensation and Benefits	Supplies and Services	Depreciation (in thousands)	Scholarships and Fellowships	Total
Instruction	$ 1,171,937	$ 158,866			$ 1,330,803
Research	675,755	296,123			971,878
Public service	182,356	121,021			303,377
Academic support	351,126	77,526			428,652
Student services	121,608	45,954			167,562
Institutional support	223,685	263,632			487,317
Operations and maintenance of plant	103,073	266,925			369,998
Auxiliary enterprises	4,978,886	2,578,962			7,557,848
Depreciation			$ 685,362		685,362
Scholarships and fellowships				$ 200,439	200,439
	$ 7,808,426	$ 3,809,009	$ 685,362	$ 200,439	$ 12,503,236

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, 2024 and 2023 is as follows:

	2024	2023
	(in thousands)	
Condensed Statement of Net Position		
Assets:		
Current assets	$ 544,473	$ 446,069
Noncurrent assets	1,610,202	1,638,665
Total assets	2,154,675	2,084,734
Deferred outflows	100,406	163,418
Liabilities:		
Current liabilities	576,667	358,034
Noncurrent liabilities	330,727	621,547
Total liabilities	907,394	979,581
Deferred inflows	53,917	19,238
Net position:		
Net investment in capital assets	683,141	427,642
Restricted:		
Nonexpendable	10,881	10,429
Expendable	55,193	49,531
Unrestricted	544,555	761,731
Total net position	$ 1,293,770	$ 1,249,333
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Operating revenues	$ 2,017,185	$ 1,794,435
Operating expenses other than depreciation expense	(1,972,696)	(1,871,017)
Depreciation expense	(104,592)	(107,118)
Operating loss	(60,103)	(183,700)
Nonoperating revenues, net	44,353	52,216
Other expenses, net	(1,041)	(10,228)
Loss before transfers	(16,791)	(141,712)
Transfers from other University units	61,228	3,875
Increase (decrease) in net position	44,437	(137,837)
Net position, beginning of year	1,249,333	121,983
Affiliation with the Sparrow Health System		1,265,187
Net position, beginning of year, as restated	1,249,333	1,387,170
Net position, end of year	$ 1,293,770	$ 1,249,333

Note 16—UM Health—Continued

	2024	2023
	(in thousands)	
Condensed Statement of Cash Flows		
Net cash provided by (used in) operating activities	$ 77,777	$ (67,203)
Net cash provided by noncapital financing activities	55,993	51,374
Net cash used in capital and related financing activities	(198,093)	(192,668)
Net cash provided by investing activities	89,943	184,905
Net increase (decrease) in cash and cash equivalents	25,620	(23,592)
Cash and cash equivalents, beginning of year	86,357	21,947
Affiliation with the Sparrow Health System		88,002
Cash and cash equivalents, beginning of year, as restated	86,357	109,949
Cash and cash equivalents, end of year	$ 111,977	$ 86,357

Required Supplementary Information (Unaudited)

Pension Plans

UM Health-Sparrow

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

	2024	2023
Total Pension Liability		
Service cost	$ 3,871	$ 4,429
Interest cost	44,823	44,648
Changes in assumptions	(38,356)	14,896
Differences between expected and actual plan experience	6,335	2,143
Benefit payments	(43,413)	(40,456)
Net change in total pension liability	(26,740)	25,660
Total pension liability, end of year	$ 664,477	$ 691,217
Plan Fiduciary Net Position		
Benefit payments	$ (43,413)	$ (40,456)
Contributions from the employer		10,674
Administrative expenses	(7,794)	(8,743)
Net investment income:		
Expected investment earnings	43,563	55,935
Differences between expected and actual investment earnings	20,593	(168,265)
Net change in plan fiduciary net position	12,949	(150,855)
Plan fiduciary net position, end of year	$ 688,526	$ 675,577
Net pension liability, end of year	$ (24,049)	$ 15,640
Plan fiduciary net position as a percentage of the total pension liability	104%	98%

Pension Plans—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 Contributions
2024	$ 5,107	$ 5,107	$ -
2023	$ 4,611	$ -	$ 4,611

* Reflects no employer contributions after June 30 of the prior 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, ARPA and IIJA). 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 December 31, contributions are due by September 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
2024	4.75%	5.00%	5.74%	5.26%
2023	4.75%	5.18%	5.92%	5.43%

Mortality	Tables prescribed by the Secretary of Treasury

Required Supplementary Information (Unaudited)—Continued

Pension Plans—Continued

UM Health-West

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

	2024	2023	2022	2021
Total Pension Liability				
Interest cost	$ 4,477	$ 4,569	$ 4,543	$ 4,687
Changes in assumptions	(8,224)	165	89	(3,540)
Differences between expected and actual plan experience	115	1,394	989	(1,662)
Benefit payments	(4,973)	(7,374)	(5,598)	(7,714)
Net change in total pension liability	(8,605)	(1,246)	23	(8,229)
Total pension liability, end of year	$ 57,907	$ 66,512	$ 67,758	$ 67,735
Plan Fiduciary Net Position				
Benefit payments	$ (4,973)	$ (7,374)	$ (5,598)	$ (7,714)
Contributions from the employer		1,781	891	900
Administrative expenses	(151)	(147)	(76)	
Net investment income:				
Expected investment earnings	4,503	5,314	4,997	4,797
Differences between expected and actual investment earnings	3,087	(23,044)	16,162	(1,137)
Net change in plan fiduciary net position	2,466	(23,470)	16,376	(3,154)
Plan fiduciary net position, end of year	$ 69,429	$ 66,963	$ 90,433	$ 74,057
Net pension liability, end of year	$ (11,522)	$ (451)	$ (22,675)	$ (6,322)
Plan fiduciary net position as a percentage of the total pension liability	120%	101%	133%	109%

Required Supplementary Information (Unaudited)—Continued

Pension Plans—Continued

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

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

Pension Plans—Continued

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

	Employer Contributions*	Actuarially Determined Contributions	Excess (Deficient) Contributions
2024	$ -	$ -	$ -
2023	$ 445	$ -	$ 445
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 prior 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, ARPA and IIJA). 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
2024	4.75%	5.00%	5.74%	5.28%
2023	4.75%	5.36%	6.11%	5.61%
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):

	2024	2023	2022	2021
Service cost	$ 143,330	$ 197,945	$ 213,029	$ 151,925
Interest cost	134,787	96,059	101,166	125,421
Changes in assumptions	126,445	(790,355)	(368,216)	731,220
Differences between expected and actual plan experience	14,372	12,421	35,115	18,776
Benefit payments	(105,261)	(97,354)	(95,581)	(92,684)
Net change	$ 313,673	$ (581,284)	$ (114,487)	$ 934,658
Total liability, end of year	$ 4,030,048	$ 3,716,375	$ 4,297,659	$ 4,412,146
Covered employee payroll	$ 5,222,386	$ 4,889,673	$ 4,502,421	$ 4,255,709
Total liability as a percentage of covered employee payroll	77%	76%	95%	104%

	2020	2019	2018	2017
Service cost	$ 134,115	$ 141,933	$ 143,787	$ 122,073
Interest cost	124,023	121,800	94,153	108,561
Changes in assumptions	154,777	(383,315)	(107,874)	255,041
Differences between expected and actual plan experience	38,230	17,535	52,721	14,028
Benefit payments	(87,712)	(87,638)	(77,374)	(72,302)
Net change	$ 363,433	$ (189,685)	$ 105,413	$ 427,401
Total liability, end of year	$ 3,477,488	$ 3,114,055	$ 3,303,740	$ 3,198,327
Covered employee payroll	$ 4,214,627	$ 4,013,983	$ 3,792,553	$ 3,568,918
Total liability as a percentage of covered employee payroll	83%	78%	87%	90%

Postemployment Benefits—Continued

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

2024	3.65%
2023	3.54%
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, 2024 and 2023
with
REPORT OF INDEPENDENT AUDITORS

UNIVERSITY OF MICHIGAN HEALTH

June 30, 2024 and 2023

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"), 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, 2024 and 2023, 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 (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, 2024 and 2023, 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 the University of Michigan 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 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, 2024 and 2023, 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 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 4 through 20 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 17, 2024

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, 2024 and 2023 and its activities for the two fiscal years ended June 30, 2024. 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 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 UM Health-Sparrow and UM Health-West). 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 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.

Michigan Medicine and UMH have been recognized by several external organizations. During 2024, this recognition included the following:

- Named to the U.S. News & World Report Honor Roll as one of the best adult hospitals in the nation, as well as Best Hospital in Michigan and Detroit Metro area and receiving top tier national rank in 12 adult specialties.
- UMH earned the No. 37 spot in Newsweek's list of "World's Best Hospitals" and the No. 10 spot in the United States. UMH also earned an "Infection Prevention Award" and "Patient Experience Award".
- C.S. Mott Children's Hospital is the top-ranked children's hospital in the state of Michigan and is the only hospital in the state to be nationally ranked in all ten pediatric specialties, according to U.S. News & World Report.
- Named one of the world's best smart hospitals by Newsweek, recognizing achievements in electronic functionalities, telemedicine, digital imaging, artificial intelligence and robotics. UMH was cited as standing out when it comes to robotics.
- Michigan Medicine earned a five-star rating from the Centers for Medicare and Medicaid Services for overall hospital quality. The methodology utilizes ratings in areas such as mortality, safety of care, readmission, patient experience, and timely and effective care.
- Named the best health care employer in the state of Michigan by Forbes.
- Named the fifth best place in the country to work as a nurse by NurseJournal, making it the top-ranked place for nurses to work in the state of Michigan.
- Michigan Medicine was named one of the top 150 places to work in healthcare by Becker's Hospital Review.
- The Leapfrog Group has named UMH one of its Top Teaching Hospitals, recognizing hospitals that have achieved true excellence in meeting the nation's highest standards for safety and quality.
- Michigan Medicine received the designation as an "LGBTQ+ Healthcare Equality Leader" from the Human Rights Campaign, based on the ability to deliver LGBTQ+ inclusive policies and services for patients, visitors and employees.
- UMH received recognition from Practice Greenhealth for its commitment to environmental stability, including the "Emerald Award" and the "Greening the OR Award", the 21st consecutive year of recognition for supporting planetary health.

Financial Highlights

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

	2024	2023	2022
		(in millions)	
Operating revenues	$ 5,924.2	$ 5,385.9	$ 5,003.9
Operating income (loss)	$ 230.0	$ (17.3)	$ 94.0
Increase (decrease) in net position	$ 151.7	$ (173.7)	$ 195.0

Operating revenues increased in 2024 due to growth in outpatient activity, increases to payment rates and one-time receipts. Operating income increased in 2024, inclusive of increased operating expenses due to costs associated with compensation and benefits and increased patient activity, including increased expenses associated with supplies due to inflation. Net position, which represents the residual interest in UMH's assets and deferred outflows after liabilities and deferred inflows are deducted, increased $151.7 million in 2024, driven by positive operating and investment performance, partially offset by transfers to support the academic mission of 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 Governmental Accounting Standards Board ("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:

	2024	**2023** (in millions)	**2022**
Current assets	$ 1,189.9	$ 1,132.8	$ 1,237.0
Noncurrent assets:			
Unexpended debt proceeds	37.1	281.8	394.8
Investments	2,095.3	2,016.4	2,086.0
Capital assets, net	1,740.2	1,524.8	1,351.3
Other	119.2	105.2	40.3
Total assets	5,181.7	5,061.0	5,109.4
Deferred outflows	253.3	249.6	289.0
Current liabilities	532.0	532.6	488.4
Noncurrent liabilities:			
Long-term debt	1,302.6	1,363.2	1,340.1
Obligations for postemployment benefits	823.5	726.4	913.9
Other	147.5	161.0	154.0
Total liabilities	2,805.6	2,783.2	2,896.4
Deferred inflows	310.4	360.1	160.9
Net position	$ 2,319.0	$ 2,167.3	$ 2,341.1

Current assets consist primarily of cash equivalents and accounts receivable. Cash equivalents on deposit with the University totaled $182.5 million and $378.4 million at June 30, 2024 and 2023, respectively. The net decrease in cash equivalents in 2024 is primarily attributable to increased capital spending and transfers to the Medical School.

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 $761.6 million and $580.9 million at June 30, 2024 and 2023, respectively. The increase in 2024 is primarily due to increased outpatient volumes and timing of collections.

Inventory and other current assets totaled $231.7 million and $159.7 million at June 30, 2024 and 2023, respectively. The increase in 2024 is primarily due to an increase in pharmacy inventory driven by the opening of a specialty and mail order pharmacy facility in Dexter, Michigan.

Unexpended debt proceeds totaled $37.1 million and $281.8 million at June 30, 2024 and 2023, respectively. The net decrease in unexpended debt proceeds represents increased capital spending on the construction of the D. Dan and Betty Kahn Health Care Pavilion inpatient tower.

Investments, consisting principally of long-term assets held in the University Endowment Fund ("UEF"), totaled $2.1 billion and $2.0 billion at June 30, 2024 and 2023, respectively. Investments increased in 2024 due to favorable market performance, partially offset by withdrawals of $66.0 million from the Long Term Portfolio to fund construction of the D. Dan and Betty Kahn Health Care Pavilion inpatient tower.

Total cash equivalents and investments, excluding unexpended debt proceeds, amounted to $2.3 billion at June 30, 2024, which represents 145 days of operating expenses (excluding depreciation and non-cash postemployment benefits expense) as compared to $2.4 billion and 163 days at June 30, 2023. The decrease in 2024 is primarily attributed to increased capital spending and transfers to the Medical School.

Net capital assets, defined as gross capital assets less accumulated depreciation, totaled $1.7 billion and $1.5 billion at June 30, 2024 and 2023, respectively. Capital additions totaled $405.2 million in 2024, which was primarily due to spending on the D. Dan and Betty Kahn Health Care Pavilion inpatient tower, as well as other facility and infrastructure improvements.

The University has approved a line of credit not to exceed $125.0 million between UMH and UM Health-West to better achieve the goals and objectives of providing accessible, quality patient care and performing approved investments. The outstanding principal balance on the line of credit totaled $100.3 million and $58.0 million at June 30, 2024 and 2023, respectively, of which $78.0 million and $58.0 million, is reported as other noncurrent assets in the statement of net position. $22.3 million is reported as other current assets at June 30, 2024. The increase in 2024 is due to increased working capital and capital investment needs at UM Health-West.

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 $253.3 million and $249.6 million at June 30, 2024 and 2023, 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 $60.1 million and $92.2 million at June 30, 2024 and 2023, respectively. The decrease in 2024 is due to activity related to prior year estimates and the establishment of current year positions. Unearned revenue totaled $31.5 million and $39.0 million at June 30, 2024 and 2023, respectively.

Outstanding debt totaled $1,363.2 million and $1,421.8 million, with effective interest rates that averaged 3.5 percent at both June 30, 2024 and 2023. UMH received proceeds of $58.0 million from the University during 2023, payable over 20 years at an average interest rate of 4.5 percent, to provide funding for an expansion of the specialty and mail order pharmacy program.

Obligations for postemployment benefits totaled $857.2 million and $753.5 million at June 30, 2024 and 2023, respectively, of which $33.7 million and $27.1 million is current. The liability represents the actuarially determined present value of certain medical and dental insurance, prescription drug coverage, group life insurance and long-term disability benefits to eligible retirees and their eligible dependents. The increase in the reported liability at June 30, 2024 was driven primarily by an increase in both health care claims cost experience and health care claims trend assumption rates, offset by a change in cost estimates.

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 $310.4 million and $360.1 million at June 30, 2024 and 2023, 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:

	2024	2023 (in millions)	2022
Net investment in capital assets	$ 263.3	$ 228.8	$ 238.8
Restricted:			
Nonexpendable	26.7	17.1	14.9
Expendable	137.6	126.3	85.9
Unrestricted	1,891.4	1,795.1	2,001.5
	$ 2,319.0	$ 2,167.3	$ 2,341.1

Net investment in capital assets represents UMH's capital assets net of accumulated depreciation, outstanding principal balances of debt, lease and subscription 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. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. UMH's revenues, expenses and changes in net position for the years ended June 30 are summarized as follows:

	2024	2023	2022
		(in millions)	
Operating revenues	$ 5,924.2	$ 5,385.9	$ 5,003.9
Operating expenses	5,694.2	5,403.2	4,909.9
Operating income (loss)	230.0	(17.3)	94.0
Total nonoperating and other revenues, net	208.0	43.2	228.9
Income before transfers	438.0	25.9	322.9
Transfers to other University units, net	(286.3)	(199.6)	(127.9)
Increase (decrease) in net position	$ 151.7	$ (173.7)	$ 195.0

Operating Revenues

Revenues from patient care services represented 98.4 percent and 98.5 percent of operating revenues for the years ended June 30, 2024 and 2023, respectively. The majority of net patient service revenue is received under contractual arrangements with governmental payers (Medicare and Medicaid) and private insurers.

In June 2022, the United States Supreme Court ruled that the Centers for Medicare & Medicaid Services had not met the requirements to vary the payment rates for certain outpatient prescription drugs. Under this ruling, affected hospitals were paid a one-time lump sum amount to approximate what they would have been paid during this time period had the 340B payment policy never existed. Accordingly, in 2024, $74.2 million of revenue was received from Medicare as a lump sum and is included in net patient service revenue.

Net patient service revenue increased in 2024, driven primarily by an increase in outpatient volumes. A summary of patient activity statistics for the years ended June 30 is as follows:

				% Change	
	2024	**2023**	**2022**	**2024**	**2023**
Inpatient discharges	46,819	46,600	46,803	0.5%	(0.4)%
Patient days	320,593	328,149	323,658	(2.3)%	1.4%
Observation cases	20,400	18,666	16,638	9.3%	12.2%
Surgeries	60,103	58,788	56,260	2.2%	4.5%
Outpatient visits	3,104,490	2,937,401	2,860,683	5.7%	2.7%
Adjusted cases	198,797	193,458	196,925	2.8%	(1.8)%

Adjusted cases, which is an aggregate acuity adjusted activity measurement combining inpatient discharges and outpatient case activity, increased 2.8 percent in 2024 and decreased 1.8 percent in 2023.

Operating Expenses

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

	2024	2023 (in millions)	2022
Compensation	$ 1,753.7	$ 1,678.4	$ 1,511.0
Benefits	603.5	564.8	545.3
Expenses reimbursed by other Michigan Medicine units	(1.1)	(1.2)	(1.0)
Supplies	1,502.0	1,357.3	1,211.7
Depreciation	189.5	188.6	212.0
Michigan Medicine Administrative Services	349.0	338.4	314.8
Medical School faculty and other services	870.7	801.5	745.5
Other operating expenses	426.9	475.4	370.6
	$ 5,694.2	$ 5,403.2	$ 4,909.9

Compensation and benefits totaled $2.4 billion and $2.2 billion for the years ended June 30, 2024 and 2023, respectively, and represents 41.4 percent and 41.5 percent of total operating expenses, respectively. The growth in 2024 is primarily driven by hiring additional employees to meet increases in patient demand and a competitive labor market.

Supplies expense totaled $1.5 billion and $1.4 billion for the years ended June 30, 2024 and 2023, respectively. The increase reflects growth in patient volumes, driven by new capacity created from the opening of a specialty and mail order pharmacy facility in Dexter, Michigan, as well as new therapies and increased costs of prescription drugs and infusion treatments.

Medical School faculty and other services expense totaled $870.7 million and $801.5 million for the years ended June 30, 2024 and 2023, respectively. The increase in 2024 is primarily due to increased payments for faculty service coverage. Michigan Medicine Administrative Services expense totaled $349.0 million and $338.4 million for the years ended June 30, 2024 and 2023, respectively. The increase in 2024 is primarily due to funding new information technology initiatives and programs within Michigan Medicine.

Other operating expenses totaled $426.9 million and $475.4 million for the years ended June 30, 2024 and 2023, respectively. The decrease in 2024 is primarily due to reduced contract labor, partially offset by increased maintenance and facility costs associated with capacity expansion and routine maintenance.

Nonoperating and Other Revenues (Expenses)

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

	2024	2023	2022
		(in millions)	
Federal economic relief funds	$ 4.9	$ 17.0	$ 30.0
Interest expense	(51.4)	(52.9)	(48.8)
Net investment income	224.7	23.0	233.0
Private gifts for other than capital and permanent endowment purposes	11.4	6.5	6.3
State capital appropriations	7.7		
Capital and permanent endowment gifts and other	10.7	49.6	8.4
	$ 208.0	$ 43.2	$ 228.9

UMH received federal funding through the state of Michigan as a result of the Coronavirus State and Local Fiscal Recovery Fund to help hospitals with workforce recruitment, retention and training. The funding is recognized as federal economic relief funds and totaled $4.9 million and $16.6 million for the years ended June 30, 2024 and 2023, 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 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 $0.4 million for the year ended June 30, 2023.

State capital appropriations are funds allocated from the state of Michigan for capital projects, such as construction, renovations and major equipment. State capital appropriations recognized for the year ended June 30, 2024, totaled $2.7 million for the expansion of pediatric emergency and psychiatric services and $5.0 million for the replacement of a rotor-wing aircraft used to support patient movement and transportation of organs between locations within the state of Michigan and surrounding states.

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.

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

	2024	2023 (in millions)	2022
Income distributions and other investment income	$ 89.8	$ 95.0	$ 70.9
Net increase (decrease) in the fair value of investments	134.9	(72.0)	162.1
Net investment income	$ 224.7	$ 23.0	$ 233.0

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:

	2024	2023 (in millions)	2022
Transfers to:			
Medical School academic and non-patient care purposes	$ (238.9)	$ (186.0)	$ (126.0)
Other University units	(54.1)	(30.4)	(8.4)
	(293.0)	(216.4)	(134.4)
Transfers from:			
Medical School academic and non-patient care purposes	1.2	0.4	0.1
Other University units	5.5	16.4	6.4
	6.7	16.8	6.5
Transfers to other University units, net	$ (286.3)	$ (199.6)	$ (127.9)

Transfers to other University units increased in 2024, primarily driven by increased 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:

	2024	2023 (in millions)	2022
Cash received from operations	$ 5,707.3	$ 5,379.9	$ 4,845.3
Cash expended for operations	(5,530.2)	(5,243.0)	(4,633.3)
Net cash provided by operating activities	177.1	136.9	212.0
Net cash used in noncapital financing activities	(273.1)	(153.7)	(92.5)
Net cash (used in) provided by capital and related financing activities	(491.3)	(344.7)	158.4
Net cash provided by (used in) investing activities	391.4	204.8	(285.9)
Net decrease in cash equivalents	(195.9)	(156.7)	(8.0)
Cash equivalents, beginning of year	378.4	535.1	543.1
Cash equivalents, end of year	$ 182.5	$ 378.4	$ 535.1

Cash received from operations primarily consists of net patient care revenues. Cash expended from operations primarily consists of payments to employees, suppliers and other University units. 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 used in capital and related financing activities primarily consists of purchases of capital assets offset by proceeds from issuance of capital debt. Net cash provided by investing activities primarily consists of the change in unexpended capital debt proceeds and realized investment income.

Economic Factors That May Affect the Future

In keeping with efforts to enhance a growing statewide network of care, the Board of Regents approved the purchase of 7.28 acres of vacant land in Oakland County, Michigan where UMH plans to build a multi-specialty facility to expand specialty clinical services and increase patient access to the Oakland County region. The facility will focus on advanced specialty and diagnostic services, allowing Michigan residents the ability to receive world class care close to home. In alignment with Michigan Medicine's commitment to sustainability, the building will follow University guidelines regarding Leadership in Energy and Environmental Design ("LEED") to minimize negative environmental impacts.

UMH remains committed to expanding access to more patients by focusing on Care at Home. This program, which was launched in February 2024, allows UMH to discharge patients sooner and finish their hospital-level care at home with appropriate monitoring, equipment and house visits. Care at Home brings 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 better serve patient needs and ensure statewide care coordination, the Board of Regents approved a definitive agreement for UM Health-Sparrow, to join Michigan Medicine in April 2023. This agreement strengthens Michigan Medicine's ability to provide quality health care in communities beyond southeast Michigan, expanding its mission as a statewide referral site for the most critically ill patients. It is also an important step toward the organization's vision of a statewide system of highly coordinated care. The agreement builds upon an affiliation agreement signed by both organizations that paved the way for ongoing collaboration between the two systems and a successful partnership formed through Michigan Medicine at Sparrow Children's Center and a membership interest in PHP Holdings, LLC, to enhance and expand provider-sponsored health insurance in the state of Michigan. UM Health-Sparrow has more than 120 sites of care and is one of the largest health systems in Michigan, with nearly 10,000 caregivers and approximately 600 employed primary-care providers and specialists. With the addition of UM Health-Sparrow, Michigan Medicine now oversees more than 200 care sites across the state. The financial results of UMH do not include the consolidated activity of UM Health-West and UM Health-Sparrow.

In support of Michigan Medicine's tripartite mission, the Board of Regents approved plans in 2019 for the construction of the D. Dan and Betty Kahn Health Care Pavilion, a 690,000 square foot clinical inpatient tower with an estimated cost of $920 million. The facility is estimated to be open for patient care by fall 2025 and 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 design will emphasize sustainability with the expectation to achieve LEED Platinum certification, exceeding current energy efficiency standards.

During December 2022, in an effort to improve health equity, reduce disparities and address social and other determinants of health in the local communities, the Board of Regents approved the relocation and expansion of UMH's Ypsilanti Health Center. The Ypsilanti Health Center will be adding many more specialty services in a welcoming and reimagined space in an accessible, downtown location. The comprehensive $35 million project will have nearly 50,000 square feet of space and will provide a wide range of adult and pediatric services. It will also offer diagnostic imaging, laboratory, social support and community service spaces. In addition, UMH opened a new mobile mammography unit at the Ypsilanti Health Center, which greatly benefits the community by bringing breast cancer screening and potential earlier access to cancer care to the Ypsilanti area. Construction is scheduled for completion in fall of 2024.

In October 2022, the Board of Regents approved the joint operating agreement between UMH and Trinity Health Michigan Oakland. The unique collaboration brings advanced pediatric specialty care to Trinity Health Oakland hospital and the communities it serves. The agreement builds on the two health systems' existing affiliation agreement and follows a joint venture at Chelsea Hospital, a professional services agreement that provides for UMH inpatient services on the fourth floor of Trinity Health Ann Arbor, and UMH joint operating agreements expanding cancer and cardiovascular services on the west side of the state. It is the first-time specialists from Michigan's top-ranked children's hospital will have a multi-specialty presence east of I-275, providing services both in outpatient clinics and through inpatient consultation and procedures.

To provide higher quality and more convenient care for all patients, UMH plans to significantly expand its specialty and mail order pharmacy program. 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 was completed in fall 2023. Michigan Medicine has also partnered with Zipline to offer drone delivery services for prescription drugs in 2024. This partnership will support the overall effort to improve patient access to specialty pharmacy services.

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.

Like many other large healthcare organizations, UMH relies on systems and technologies in support of its operations, including electronic health data. Hospitals are subject to potential cybersecurity risks from outside third parties attempting to access systems and patient information for the purpose of misappropriating assets or causing operational disruption. UMH has taken steps to prevent unauthorized data access and safeguard data and assets and is committed to deterring attacks on its electronic systems and responding to any such attacks to minimize their impact to operations.

On February 21, 2024, UMH was made aware that Change Healthcare, a unit of UnitedHealth Group, was impacted by a cybersecurity attack involving its information technology systems that disrupted processing of claims, among other transaction services it provides. Certain aspects of UMH's operations that directly or indirectly utilize Change Healthcare's services experienced reimbursement delays due to the incident. UMH will continue to monitor but does not believe the incident will have a material effect on its financial position.

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 October 2022, UMH approved a four-year contract with the University of Michigan Professional Nurse Council. In June 2023, UMH approved a four-year contract with the University of Michigan House Officers Association. Negotiations with other existing and newly formed unions continued throughout 2024. 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, coordination 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 arrangement and integration allow 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.

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

UNIVERSITY OF MICHIGAN HEALTH

Statement of Net Position

	June 30, 2024	June 30, 2023
	(in thousands)	
Assets		
Current Assets:		
Cash equivalents on deposit with the University	$ 182,511	$ 378,390
Accounts receivable, net	761,574	580,875
Receivable from other University units	2,627	1,680
Current portion of pledges receivable, net	11,475	12,141
Inventory and other current assets	231,736	159,710
Total Current Assets	1,189,923	1,132,796
Noncurrent Assets:		
Unexpended debt proceeds on deposit with the University	37,119	281,840
Investments on deposit with the University	2,095,251	2,016,363
Pledges receivable, net	24,939	33,563
Other assets	94,248	71,655
Capital assets, net	1,740,218	1,524,806
Total Noncurrent Assets	3,991,775	3,928,227
Total Assets	**5,181,698**	**5,061,023**
Deferred Outflows	**253,287**	**249,604**
Liabilities		
Current Liabilities:		
Accrued compensation	125,061	116,512
Accounts payable and accrued expenses	220,085	192,939
Unearned revenue	31,463	39,000
Payable to other University units	1,097	6,400
Current portion of obligations for postemployment benefits	33,681	27,085
Current portion of long-term debt	60,591	58,558
Third-party settlements and reserves	60,058	92,153
Total Current Liabilities	532,036	532,647
Noncurrent Liabilities:		
Long-term debt	1,302,602	1,363,194
Payable to other University units	15,556	14,836
Obligations for postemployment benefits	823,489	726,410
Other	131,906	146,154
Total Noncurrent Liabilities	2,273,553	2,250,594
Total Liabilities	**2,805,589**	**2,783,241**
Deferred Inflows	**310,349**	**360,051**
Net Position		
Net investment in capital assets	263,310	228,790
Restricted:		
Nonexpendable	26,685	17,090
Expendable	137,599	126,300
Unrestricted	1,891,453	1,795,155
Total Net Position	**$ 2,319,047**	**$ 2,167,335**

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, 2024	2023
	(in thousands)	
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $159,596 in 2024 and $166,213 in 2023)	$ 5,831,653	$ 5,305,024
Other revenue	92,595	80,847
Total Operating Revenues	**5,924,248**	**5,385,871**
Operating Expenses		
Compensation and benefits	2,356,110	2,241,956
Supplies, services and other	1,928,880	1,832,727
Depreciation	189,533	188,640
Michigan Medicine Administrative Services	349,045	338,351
Medical School faculty and other services	870,680	801,524
Total Operating Expenses	**5,694,248**	**5,403,198**
Operating Income (Loss)	230,000	(17,327)
Nonoperating Revenues (Expenses)		
Federal economic relief funds	4,900	16,967
Interest expense	(51,355)	(52,878)
Net investment income	224,698	23,015
Private gifts for other than capital and permanent endowment purposes	11,421	6,489
Total Nonoperating Revenues (Expenses), Net	**189,664**	**(6,407)**
Income (Loss) Before Other Revenues and Transfers	419,664	(23,734)
Other Revenues (Expenses)		
State capital appropriations	7,712	
Capital and permanent endowment gifts	10,807	49,718
Loss on disposal of capital assets	(142)	(81)
Total Other Revenues, Net	**18,377**	**49,637**
Income Before Transfers	438,041	25,903
Transfers to other University units, net	(286,329)	(199,626)
Increase (Decrease) in Net Position	151,712	(173,723)
Net Position, Beginning of Year	2,167,335	2,341,058
Net Position, End of Year	**$ 2,319,047**	**$ 2,167,335**

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

UNIVERSITY OF MICHIGAN HEALTH

Statement of Cash Flows

	Year Ended June 30, 2024	2023
	(in thousands)	
Cash Flows from Operating Activities		
Received from patient care services	$ 5,615,807	$ 5,297,985
Received from non-patient sources	91,237	81,282
Expenses reimbursed by other University units	287	656
Payments to employees	(2,291,896)	(2,197,887)
Payments to suppliers	(1,829,737)	(1,726,865)
Payments to other University units	(1,408,647)	(1,318,286)
Net Cash Provided by Operating Activities	**177,051**	**136,885**
Cash Flows from Noncapital Financing Activities		
Federal economic relief funds	4,900	16,967
Private gifts and other receipts	10,526	7,974
Transfers to other University units, net	(288,506)	(178,626)
Net Cash Used in Noncapital Financing Activities	**(273,080)**	**(153,685)**
Cash Flows from Capital and Related Financing Activities		
State capital appropriations	5,133	
Purchases of capital assets, net	(380,567)	(296,476)
Interest payments on capital debt	(51,428)	(51,961)
Proceeds from issuance of capital debt		58,000
Principal payments on capital debt	(54,240)	(40,825)
Principal and interest payments on lease and subscription liabilities	(33,326)	(31,701)
Private gifts and other receipts	20,992	15,680
Transfers from other University units for capital projects	2,177	2,545
Net Cash Used in Capital and Related Financing Activities	**(491,259)**	**(344,738)**
Cash Flows from Investing Activities		
Investment income	90,697	94,245
Net decrease (increase) in noncurrent investments and other assets	55,991	(2,375)
Decrease in unexpended capital debt proceeds	244,721	112,938
Net Cash Provided by Investing Activities	**391,409**	**204,808**
Net Decrease in Cash Equivalents	(195,879)	(156,730)
Cash Equivalents on Deposit with the University, Beginning of Year	378,390	535,120
Cash Equivalents on Deposit with the University, End of Year	**$ 182,511**	**$ 378,390**

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

UNIVERSITY OF MICHIGAN HEALTH

Statement of Cash Flows—Continued

	Year Ended June 30, 2024	2023
	(in thousands)	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ 230,000	$ (17,327)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	189,533	188,640
Changes in assets and liabilities:		
Accounts receivable, net	(180,699)	(5,062)
Receivable from other University units	(20,947)	(39,662)
Inventory and other current assets	(72,904)	(39,455)
Accrued compensation	8,549	(14,129)
Accounts payable and accrued expenses	17,445	13,964
Unearned revenue	(7,537)	(18,708)
Payable to other University units	(4,583)	3,879
Third-party settlements and reserves	(32,095)	11,507
Obligations for postemployment benefits	103,675	(185,248)
Changes in deferred outflows	(3,683)	39,386
Changes in deferred inflows	(49,703)	199,100
Net Cash Provided by Operating Activities	**$ 177,051**	**$ 136,885**

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 UM Health-Sparrow and UM Health-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

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation, outstanding principal balances of debt, lease and subscription 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.

Accounts receivable consists primarily of patient activity and is recorded net of allowances for uncollectible accounts receivable, which totaled $154,857,000 and $142,279,000 at June 30, 2024 and 2023, 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.

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.

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.

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.

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. During 2024 and 2023, UMH recognized $4,900,000 and $16,600,000, respectively, in federal funding received through the state of Michigan as a result of the Coronavirus State and Local Fiscal Recovery Fund, to help hospitals with workforce recruitment, retention and training. 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 $367,000 in 2023.

State capital appropriations are funds allocated from the state of Michigan for capital projects, such as construction, renovations and major equipment. State capital appropriations recognized for the year ended June 30, 2024, totaled $2,712,000 for the expansion of pediatric emergency and psychiatric services, and $5,000,000 for the replacement of a rotor-wing aircraft used to support patient movement and transportation of organs between locations within the state of Michigan and surrounding states.

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, 2024 and 2023 are summarized as follows:

	2024	2023
	(in thousands)	
Cash equivalents – University Investment Pool	$ 182,511	$ 378,390
Investments:		
University Endowment Fund	2,095,235	2,016,326
Other investments	16	37
Total investments	2,095,251	2,016,363
Total cash equivalents and investments	$ 2,277,762	$ 2,394,753

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, 2024 and 2023, the Long Term Portfolio consisted of cash equivalents (1 percent and 3 percent), fixed income securities (8 percent and 5 percent), U.S. and non-U.S. equities (3 percent and 4 percent), commingled funds (14 percent and 14 percent) and nonmarketable alternative investments (74 percent and 74 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, infrastructure, 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 6 percent and 7 percent of the portfolio at June 30, 2024 and 2023, 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 on UIP shares are also made to UMH based on the 90-day U.S. Treasury Bill rate, with such rate not to exceed 2.5 percent. 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
Greater than $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. The net unrealized gain (loss) on investments during the period was $134,879,000 and $(71,963,000) for the years ended June 30, 2024 and 2023, respectively.

Note 3—Pledges Receivable

The composition of pledges receivable at June 30, 2024 and 2023 is summarized as follows:

	2024	**2023**
	(in thousands)	
Gift pledges outstanding:		
Capital	$ 32,300	$ 43,100
Operations	6,482	5,321
	38,782	48,421
Less:		
Allowance for uncollectible pledges	806	987
Unamortized discount to present value	1,562	1,730
Total pledges receivable, net	36,414	45,704
Less current portion	11,475	12,141
	$ 24,939	$ 33,563

Payments on pledges receivable at June 30, 2024 are expected to be received in the following years ended June 30 (in thousands):

2025	$ 12,198
2026	11,768
2027	10,273
2028	4,543
	$ 38,782

Note 4—Capital Assets

Capital assets activity for the years ended June 30, 2024 and 2023 is summarized as follows:

	2024			
	Beginning Balance	Additions	Retirements	Ending Balance
		(in thousands)		
Land	$ 30,928			$ 30,928
Land improvements	30,690	$ 2,949	$ 416	33,223
Buildings	2,176,289	96,420	26,202	2,246,507
Equipment	638,311	51,616	49,871	640,056
IT Infrastructure	295,530	16,809	13,982	298,357
Construction in progress	362,932	213,906		576,838
Right-to-use assets	228,239	23,489	5,105	246,623
	3,762,919	405,189	95,576	4,072,532
Less accumulated depreciation	2,238,113	189,533	95,332	2,332,314
	$ 1,524,806	$ 215,656	$ 244	$ 1,740,218

	2023			
	Beginning Balance	Additions	Retirements	Ending Balance
		(in thousands)		
Land	$ 30,928			$ 30,928
Land improvements	31,081	$ 83	$ 474	30,690
Buildings	2,173,489	35,118	32,318	2,176,289
Equipment	625,118	55,885	42,692	638,311
IT Infrastructure	298,446	11,501	14,417	295,530
Construction in progress	135,931	227,001		362,932
Right-to-use assets	213,050	33,679	18,490	228,239
	3,508,043	363,267	108,391	3,762,919
Less accumulated depreciation	2,156,758	188,640	107,285	2,238,113
	$ 1,351,285	$ 174,627	$ 1,106	$ 1,524,806

The increase in construction in progress of $213,906,000 in 2024 represents the amount of capital expenditures for new projects of $405,189,000 net of capital assets placed in service of $191,283,000. The increase in construction in progress of $227,001,000 in 2023 represents the amount of capital expenditures for new projects of $363,267,000 net of capital assets placed in service of $136,266,000. Retirements of $95,576,000 and $108,391,000 in 2024 and 2023, 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, 2024 and 2023 is summarized as follows:

	2024	2023
	(in thousands)	
Payable to the University:		
2022, 4.50% through 2043	$ 58,000	$ 58,000
unamortized discount	(2,459)	(2,600)
2020, 3.00% through 2052	403,825	412,955
unamortized premium	24,882	26,212
2020, 4.05% to 5.05% through 2050	69,665	71,000
unamortized premium	14,149	15,407
2018, 4.05% to 5.05% through 2048	43,215	44,195
unamortized premium	4,553	4,888
2017, 4.05% to 5.05% through 2047	91,730	93,840
unamortized premium	9,764	10,816
2012, 4.71% through 2025	15,625	30,535
2012, 3.23% to 3.25% through 2030	33,840	39,075
2012, 2.60% to 3.25% through 2033	57,085	57,660
2012, 3.65% through 2038	64,940	64,940
2012, 2.00% to 5.00% through 2042	50,775	53,875
2012, 2.00% to 5.00% through 2032	23,745	23,745
unamortized premium	831	912
2010, 0.68% to 5.00% through 2041	107,095	107,095
unamortized discount	(245)	(266)
2010, 3.20% to 3.64% through 2040	141,470	141,470
unamortized discount	(298)	(338)
2010, 2.00% to 5.00% through 2027	40,300	52,320
unamortized premium	599	1,027
2009, 2.00% to 5.00% through 2039	109,750	114,595
unamortized premium	357	394
	1,363,193	1,421,752
Less current portion	60,591	58,558
	$ 1,302,602	$ 1,363,194

Note 5—Long-term Debt—Continued

Long-term debt activity for the years ended June 30, 2024 and 2023 is summarized as follows:

	2024			
	Beginning Balance	Additions	Reductions	Ending Balance
		(in thousands)		
Payable to the University	$ 1,421,752	$ -	$ 58,559	$ 1,363,193

	2023			
	Beginning Balance	Additions	Reductions	Ending Balance
		(in thousands)		
Payable to the University	$ 1,384,327	$ 81,544	$ 44,119	$ 1,421,752

During 2024, the balance of long-term debt from the University decreased by $58,559,000 due to regular principal payments. During 2023, the balance of long-term debt from the University increased by $81,544,000, of which $58,000,000 is to provide funding for an expansion of the specialty and mail order pharmacy program.

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	Total
		(in thousands)	
2025	$ 56,540	$ 48,835	$ 105,375
2026	55,550	46,982	102,532
2027	61,070	44,605	105,675
2028	63,735	42,379	106,114
2029	53,965	40,096	94,061
2030-2034	302,510	169,625	472,135
2035-2039	322,330	109,049	431,379
2040-2044	191,455	55,197	246,652
2045-2049	138,585	24,779	163,364
2050-2052	65,320	3,913	69,233
	1,311,060	$ 585,460	$ 1,896,520
Plus unamortized premiums, net	52,133		
	$ 1,363,193		

Note 5—Long-term Debt—Continued

UMH participates in the University's internal loan program which provides for uniform lending rates and terms across the University based on the program's policy. Periodically, the University reviews payments made under the internal loans as compared to actual interest payments made by the University to outside debt holders and may utilize excess interest paid by units, if any, to support future strategic projects. UMH maintains fixed rate debt with an effective interest rate that averaged 3.5 percent in both 2024 and 2023.

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 amounts due to UMH or payable to Medicare and Medicaid 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. Significant settlements from prior periods that resolved in 2024 related to multiple fiscal years for Medicare, Medicaid and Blue Cross and Blue Shield of Michigan and resulted in net amounts received of $29,596,000. This amount included $74,245,000 received from 340B appeal amounts attributable to Medicare calendar years 2018-2022 and is reported as net patient service revenue in the statement of revenue, expenses and changes in net position offset by Medicaid payables of $3,152,000 and Blue Cross Blue Shield payables of $41,573,000 attributable to fiscal years 2020-2021 and are reported as changes to third-party settlements and reserves in the statement of net position.

Note 6—Third-Party Payment and Reimbursement—Continued

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, 2024 and 2023 were $96,617,000 and $71,821,000, respectively.

The distribution of net patient care service revenue by primary payer source for the years ended June 30, 2024 and 2023 is as follows:

	2024	**2023**
Medicare	27.8%	27.7%
Medicaid	12.4%	12.1%
Blue Cross	38.1%	38.9%
Other	21.7%	21.3%

Note 7—Transactions with Other University of Michigan Units

UMH has amounts receivable from and payable to other University units at June 30, 2024 and 2023 as follows:

	2024	**2023**
	(in thousands)	
Amounts receivable from other University units:		
UM Health-West	$ 101,053	$ 58,597
Other	$ 1,824	$ 1,083
Amounts payable to other University units:		
Medical School	$ 77	$ 6,400
Michigan Medicine Administrative Services	$ 15,556	$ 14,836
Other	$ 1,020	

UMH established a line of credit for UM Health-West to better achieve the goals and objectives of providing accessible, quality patient care and performing approved investments. At June 30, 2024 and 2023, amounts receivable from other University units primarily consists of the outstanding balance on the line of credit for UM Health-West.

Amounts payable consists primarily 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, 2024 and 2023 which are summarized as follows:

	2024	2023
	(in thousands)	
Operating (expenses) revenues:		
Clinical services provided by the Medical School	$ (870,680)	$ (801,524)
Amounts received from the Medical School to reimburse UMH for expenses related to Medical School revenue and operating support, net	1,084	1,168
Services provided to other University units	150	150
Services provided by other University units	(78,516)	(71,357)
Insurance premiums	(63,572)	(71,933)
Services provided by Michigan Medicine Administrative Services	(349,045)	(338,351)
Equity transfers to:		
Medical School academic and other non-patient care purposes, net	(237,741)	(185,569)
Other University units, net	(48,588)	(14,057)

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 $870,680,000 and $801,524,000 of expense for services provided by the Medical School in 2024 and 2023, 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 $1,084,000 and $1,168,000 in 2024 and 2023, 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 incurred $78,516,000 and $71,357,000 in operating expenses for these services during 2024 and 2023, respectively. Services provided by UMH include those of University Occupational Health Services and risk management administration. Various University units reimbursed UMH $150,000 in both 2024 and 2023, in connection with these services, 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 and are reported within other noncurrent liabilities.

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 2024 and 2023, $349,045,000 and $338,351,000, 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 $26,101,000 and $12,177,000 to the Medical School during 2024 and 2023, 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, 2024 and 2023 are summarized as follows:

	2024		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 717,099	$ 36,396	$ 753,495
Net benefits expense	51,943	3,977	55,920
(Decrease) increase in deferred outflows	(2,320)	372	(1,948)
Decrease (increase) in deferred inflows	49,782	(79)	49,703
Balance, end of year	816,504	40,666	857,170
Less current portion	27,573	6,108	33,681
	$ 788,931	$ 34,558	$ 823,489

	2023		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 903,099	$ 35,644	$ 938,743
Net benefits expense	53,420	1,582	55,002
(Decrease) increase in deferred outflows	(41,585)	435	(41,150)
Increase in deferred inflows	(197,835)	(1,265)	(199,100)
Balance, end of year	717,099	36,396	753,495
Less current portion	21,942	5,143	27,085
	$ 695,157	$ 31,253	$ 726,410

At June 30, 2024 and 2023, deferred outflows reported in the statement of net position include benefit payments made after the measurement date of $27,573,000 and $21,942,000, 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, 2024 and 2023 as a percentage of covered payroll of $1,725,384,000 and $1,645,215,000 were 50 percent and 46 percent, respectively.

Note 8—Postemployment Benefits—Continued

Significant actuarial assumptions used at the June 30, 2023 and 2022 measurement dates are as follows:

	2023	**2022**
Discount rate*	3.65%	3.54%
Inflation rate	2.00%	2.00%
Immediate/ultimate administrative trend rate	0.0%/3.0%	0.0%/3.0%
Immediate/ultimate medical trend rate	5.75%/4.5%	6.0%/4.5%
Immediate/ultimate Rx trend rate	11.0%/4.5%	7.5%/4.5%
Increase in compensation rate faculty/staff/union	4.50%/4.75%/4.5%	4.50%/4.75%/3.75%
Mortality table**	PUB-2010 Teachers Head Count Table, Scale MP-2021	PUB-2010 Teachers Head Count Table, Scale MP-2021
Average future work life expectancy (years):		
Retiree health and welfare	9.45	9.33
Long-term disability	12.01	12.00

* 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, 2024 and 2023 are summarized as follows:

	2024	**2023**
	(in thousands)	
UMH contributions	$ 134,913	$ 128,544
Employee contributions	$ 70,937	$ 68,055
Payroll covered under plan	$ 1,725,384	$ 1,645,215
Total payroll	$ 1,761,041	$ 1,686,059

Note 10—Commitments and Contingencies

UMH has entered into leases for certain space and equipment, as well as subscription-based information technology arrangements, which expire at various dates through 2040. Future 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
2025	$ 28,967	$ 4,291	$ 33,258
2026	19,713	3,754	23,467
2027	14,060	3,394	17,454
2028	11,342	3,124	14,466
2029	8,840	2,882	11,722
2030-2034	37,012	10,787	47,799
2035-2039	29,687	3,837	33,524
2040	1,388	5	1,393
	$ 151,009	$ 32,074	$ 183,083

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.

As a result of the COVID-19 pandemic, UMH received federal relief funding from various sources. 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, 2024 and 2023
with
REPORT OF INDEPENDENT AUDITORS

THE VERITAS INSURANCE CORPORATION

June 30, 2024 and 2023

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, 2024 and 2023, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2024 and 2023, 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 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.

PricewaterhouseCoopers LLP, 101 Seaport Blvd, Boston, MA 02210
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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 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 4 through 14 be presented to supplement the basic financial statements. Such information is the responsibility of management, 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

Boston, Massachusetts
October 17, 2024

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, 2024 and 2023 and its activities for the two fiscal years ended June 30, 2024. 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 per occurrence and aggregate loss limits. For policies incepted in 2024 and 2023, the per occurrence limits were $50.0 million for medical professional liability, $5.0 million for cyber liability and property damage, $4.0 million for auto liability, educators’ liability and general liability, and $2.0 million for workers’ compensation liability. The annual aggregate loss limits were $70.0 million for medical professional liability, $10.0 million for cyber 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 2024, the Corporation wrote a medical professional tail liability policy with a per occurrence and an annual aggregate loss limit of $50.0 million.

The Corporation writes, on a direct basis, basket aggregate umbrella liability coverage with a per occurrence and annual aggregate limit of $20.0 million. Through July 2022, the Corporation wrote, on a direct basis, additional excess liability coverage for medical professional liability on a claims made basis. This policy was fully reinsured by multiple insurance providers.

Financial Highlights

For the year ended June 30, 2024, the Corporation’s net position increased by $47.5 million to $188.5 million. Operating activities increased net position by $16.0 million, while net investment income increased net position by $31.5 million.

The Corporation’s Board of Directors (the “Board”) did not declare any premium credits in 2024.

During 2024, the Corporation revised its presentation of losses receivable from the University on unpaid claims and reinsurance recoverable on unpaid losses reported at June 30, 2023. Revisions to the June 30, 2023 financial statements are summarized as follows:

	June 30, 2023 As Previously Reported	Revisions (in millions)	June 30, 2023 As Revised
Statement of Net Position			
Current Assets			
Losses receivable from the University	$ 19.8	$ (18.5)	$ 1.3
Noncurrent Assets			
Reinsurance recoverable on unpaid losses	1.2	(1.2)	-
Current Liabilities			
Reserves for losses and loss adjustment expenses	86.7	(18.5)	68.2
Noncurrent Liabilities			
Reserves for losses and loss adjustment expenses	172.5	(1.2)	171.3
Statement of Cash Flows			
Cash Flows from Operating Activities			
Recovery for losses paid		135.5	135.5
Payments for losses and loss adjustment expenses	(64.1)		(64.1)
Payments for losses recoverable	(0.9)	(134.6)	(135.5)
Cash Flows from Investing Activities			
Recovery for University losses paid		7.4	7.4
Payments for University losses recoverable		(8.3)	(8.3)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Losses receivable from the University	121.0	(121.0)	-
Reinsurance recoverable on unpaid losses	0.9	(0.9)	-
Reserves for losses and loss adjustment expenses	(112.0)	122.7	10.7

Revisions to the June 30, 2022 financial statements, as presented in management's discussion and analysis, are summarized as follows:

	June 30, 2022 As Previously Reported	Revisions (in millions)	June 30, 2022 As Revised
Statement of Net Position			
Current Assets			
Losses receivable from the University	$ 140.8	$ (140.3)	$ 0.5
Noncurrent Assets			
Reinsurance recoverable on unpaid losses	2.1	(2.1)	-
Current Liabilities			
Reserves for losses and loss adjustment expenses	201.8	(140.3)	61.5
Noncurrent Liabilities			
Reserves for losses and loss adjustment expenses	169.4	(2.1)	167.3
Statement of Cash Flows			
Cash Flows from Operating Activities			
Collections for losses recoverable	5.5	0.4	5.9
Cash Flows from Investing Activities			
Recovery for University losses paid		1.0	1.0
Payments for University losses recoverable		(1.4)	(1.4)

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, 2024 and 2023, 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:

	2024	**2023** (in millions)	**2022**
Cash equivalents and investments	$ 442.9	$ 387.8	$ 360.4
Other assets	11.0	1.3	0.5
Total assets	453.9	389.1	360.9
Reserves for losses and loss adjustment expenses	255.3	239.6	228.8
Other liabilities	10.1	8.5	8.5
Total liabilities	265.4	248.1	237.3
Unrestricted net position	$ 188.5	$ 141.0	$ 123.6

The assets of the Corporation totaled $453.9 million at June 30, 2024, an increase of $64.8 million as compared to the prior year, driven primarily by an increase in investments.

The major components of assets at June 30, 2024 were $250,000 in cash equivalents, $215.2 million in the University's Daily and Monthly Portfolios and $227.4 million in the University's Long Term Portfolio. The major components of assets at June 30, 2023 were $250,000 in cash equivalents, $192.0 million in the University's Daily and Monthly Portfolios and $195.5 million in the University's Long Term Portfolio. The asset allocations for both 2024 and 2023 are consistent with the asset allocation target ranges adopted by the Board.

The major components of liabilities are reserves for losses and loss adjustment expenses ("LAE"). At June 30, 2024, reserves for losses and LAE totaled $255.3 million, an increase of $15.7 million, or 6.6 percent from the prior year. Of this amount, $74.4 million related to reserves on known claims and $180.9 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 2024 and 2023. The increase in reserves for losses and LAE is primarily due to the addition of a medical professional tail liability policy issued in 2024, offset by a decrease in reserves due to payments on claims.

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

	2024	**2023** (in millions)	**2022**
Gross reserves for losses and LAE, beginning of year	$ 259.3	$ 371.2	$ 267.7
Less receivables from the University for unpaid losses	18.5	140.3	43.2
Less reinsurance recoverable on unpaid losses	1.2	2.1	1.8
Reserves for losses and LAE, beginning of year	239.6	228.8	222.7
Incurred losses and LAE related to:			
Current year	89.7	70.3	76.3
Prior years	(1.5)	4.3	(24.4)
Total incurred losses and LAE	88.2	74.6	51.9
Total paid losses and LAE	(72.5)	(63.8)	(45.8)
Gross reserves for losses and LAE, end of year	264.2	259.3	371.2
Less receivables from the University for unpaid losses	8.1	18.5	140.3
Less reinsurance recoverable on unpaid losses	0.8	1.2	2.1
Reserves for losses and LAE, end of year	$ 255.3	$ 239.6	$ 228.8

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

	2024	2023	2022
Medical professional liability	78.1%	83.7%	83.2%
Medical professional tail liability	6.0		
Workers' compensation	5.2	6.2	6.6
Educators' legal liability	6.0	5.7	5.7
Property damage	1.4	1.7	2.1
Basket aggregate liability and excess insurance	1.0	0.7	0.6
Auto liability	0.3	0.4	0.3
General liability	1.0	1.1	0.9
Hospital premises liability	0.1	0.1	0.2
Cyber liability	0.9	0.4	0.4
	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 may declare 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, 2024 and 2023.

Net position is unrestricted and totaled $188.5 million and $141.0 million at June 30, 2024 and 2023, 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 2024 is due primarily to net investment income of $31.5 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:

	2024	2023 (in millions)	2022
Gross written premiums	$ 107.5	$ 79.4	$ 80.0
Change in unearned premiums	(2.8)	(0.3)	(0.5)
Ceded written premiums expired			(1.2)
Total operating revenues	104.7	79.1	78.3
Losses and loss adjustment expenses	88.2	74.6	51.9
Other operating expenses	0.5	0.4	0.4
Total operating expenses	88.7	75.0	52.3
Operating income	16.0	4.1	26.0
Nonoperating revenues	31.5	13.3	3.5
Increase in net position	$ 47.5	$ 17.4	$ 29.5

Management's Discussion and Analysis (Unaudited)—Continued

The Corporation's operating revenues totaled $104.7 million in 2024, compared to $79.1 million in 2023, an increase of $25.6 million, or 32.4 percent. The 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 written premiums needed for 2024 were $28.1 million higher than 2023, with the increase being driven primarily by the addition of a medical professional tail liability policy in 2024.

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

	2024	**2023**	**2022**
Medical professional liability	56.0%	70.2%	71.8%
Medical professional tail liability	17.1		
Workers' compensation	5.1	5.6	6.1
Educators' legal liability	6.6	8.0	6.7
Property damage	8.3	8.1	7.9
Basket aggregate liability and excess insurance	3.0	3.3	3.0
Auto liability	0.7	0.6	0.6
General liability	1.4	1.9	1.8
Hospital premises liability	0.2	0.2	0.2
Cyber liability	1.6	2.1	1.9
	100.0%	100.0%	100.0%

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

	2024	**2023** (in millions)	**2022**
Incurred losses and LAE related to:			
Current year	$ 89.7	$ 70.3	$ 76.3
Prior years	(1.5)	4.3	(24.4)
Total incurred losses and LAE	$ 88.2	$ 74.6	$ 51.9

In 2024, total incurred losses and LAE increased $13.6 million, or 18.2 percent, to $88.2 million. The increase is primarily due to a combination of changes in exposures and severity resulting in current policy year incurred losses of $89.7 million and prior policy year favorable claims development of $1.5 million.

In 2024, favorable prior year loss development totaling $1.5 million is mainly attributable to medical professional liability. For medical professional liability prior years incurred losses decreased by $4.9 million mainly due to overall claims emergence lower than actuarially expected for most of the policy years. Cyber liability decreased by $1.0 million due to overall claims emergence lower than actuarially expected for most of the policy years. For educators' legal liability losses increased by $5.8 million due to unfavorable development greater than actuarially expected for policy year 2022/23. Other lines of business had favorable claims emergence of $1.4 million.

In 2023, unfavorable prior year loss development totaling $4.3 million is mainly attributable to educators' legal liability. For educators' legal liability prior years incurred losses increased by $7.8 million mainly due to unfavorable development greater than actuarially expected for policy years 2019/20 and 2021/22. Workers' compensation losses increased by $2.8 million due to unfavorable development greater than actuarially expected for policy year 2021/22. Property damage losses increased by $1.7 million due to unfavorable development greater than actuarially expected for policy years 2020/21 and 2021/22. Auto liability losses increased by $1.1 million due to unfavorable development greater than actuarially expected for policy year 2018/19. Medical professional liability losses decreased by $7.5 million due to overall lower claims emergence than actuarially expected. Other lines of business had favorable claims emergence of $1.6 million.

Nonoperating revenues, representing net investment income, increased $18.2 million to $31.5 million in 2024, as compared to $13.3 million in 2023. This increase was primarily a result of higher 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:

	2024	**2023** (in millions)	**2022**
Cash received from operations	$ 99.2	$ 214.9	$ 85.9
Cash expended for operations	(75.1)	(200.0)	(44.5)
Net cash provided by operating activities	24.1	14.9	41.4
Net cash used in investing activities	(24.1)	(14.9)	(41.4)
Net change in cash equivalents	$ -	$ -	$ -

The primary source of cash received from operations is the collection of premiums and recovery for losses paid. Premiums collected totaled $98.3 million in 2024, as compared to $79.4 million in 2023.

Cash expended for operations primarily represents payments of losses and LAE and payments for losses recoverable which totaled $75.1 million in 2024, as compared to $200.0 million in 2023. The decrease in 2024 is due to a reduction in payments for losses recoverable.

Cash used in investing activities, which primarily represents the purchase, sale or maturity of investments, totaled $24.1 million in 2024, as compared to $14.9 million in 2023. The increase in 2024 is primarily due to $128.3 million of investment purchases offset by $104.7 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 2024, 2023 and 2022, and was approved by the Vermont Department of Financial Regulation. 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 VERITAS INSURANCE CORPORATION

Statement of Net Position

	June 30, 2024	June 30, 2023
Assets		
Current Assets:		
Cash equivalents	$ 250,000	$ 250,000
Investments on deposit with the University	215,219,190	192,015,298
Losses receivable from the University	1,782,475	1,313,599
Premiums receivable from the University	9,166,020	
Other premiums receivable	73,043	
Prepaid premium tax	12,464	5,831
Total Current Assets	226,503,192	193,584,728
Noncurrent Assets:		
Investments on deposit with the University	227,400,592	195,493,294
Total Noncurrent Assets	227,400,592	195,493,294
Total Assets	**453,903,784**	**389,078,022**
Liabilities		
Current Liabilities:		
Reserves for losses and loss adjustment expenses	70,718,308	68,235,643
Unearned premium reserves	7,954,479	5,179,366
Losses payable and accrued liabilities	2,195,225	3,398,505
Total Current Liabilities	80,868,012	76,813,514
Noncurrent Liabilities:		
Reserves for losses and loss adjustment expenses	184,523,110	171,312,891
Total Liabilities	**265,391,122**	**248,126,405**
Net Position		
Unrestricted	188,512,662	140,951,617
Total Net Position	**$ 188,512,662**	**$ 140,951,617**

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, 2024	2023
Operating Revenues		
Gross written premiums	$ 107,506,619	$ 79,389,103
Change in unearned premiums	(2,775,113)	(281,139)
Total written premiums earned	104,731,506	79,107,964
Total Operating Revenues	**104,731,506**	**79,107,964**
Operating Expenses		
Losses and loss adjustment expenses	88,183,486	74,647,703
Management fees	77,836	75,938
Premium tax	275,776	195,131
Other expenses	162,727	121,478
Total Operating Expenses	**88,699,825**	**75,040,250**
Operating Income	16,031,681	4,067,714
Nonoperating Revenues		
Net investment income	31,529,364	13,331,111
Total Nonoperating Revenues	**31,529,364**	**13,331,111**
Increase in Net Position	47,561,045	17,398,825
Net Position, Beginning of Year	140,951,617	123,552,792
Net Position, End of Year	**$ 188,512,662**	**$ 140,951,617**

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

THE VERITAS INSURANCE CORPORATION

Statement of Cash Flows

	Year Ended June 30, 2024	Year Ended June 30, 2023
Cash Flows from Operating Activities		
Insurance premiums collected, net	$ 98,267,556	$ 79,389,103
Recovery for losses paid	878,320	135,500,000
Payments for losses and loss adjustment expenses	(74,648,918)	(64,102,789)
Payments for losses recoverable		(135,500,000)
Payments for other expenses	(229,363)	(197,415)
Payments for premium tax	(196,163)	(191,267)
Net Cash Provided by Operating Activities	**24,071,432**	**14,897,632**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	104,732,644	141,210,370
Purchases of investments	(128,326,966)	(155,265,018)
Interest, dividends and fees, net	12,496	7,920
Recovery for University losses paid	2,406,572	7,466,344
Payments for University losses recoverable	(2,896,178)	(8,317,248)
Net Cash Used in Investing Activities	**(24,071,432)**	**(14,897,632)**
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	$ 16,031,681	$ 4,067,714
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Losses receivable from the University	20,730	(12,276)
Prepaid premium tax	(6,633)	3,864
Premium receivable from the University	(9,166,020)	
Other premiums receivable	(73,043)	
Reserves for losses and loss adjustment expenses	15,692,884	10,696,092
Unearned premium reserves	2,775,113	281,139
Premium tax payable	86,245	
Losses payable and accrued liabilities	(1,289,525)	(138,901)
Net Cash Provided by Operating Activities	**$ 24,071,432**	**$ 14,897,632**

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 per occurrence and aggregate loss limits. For policies incepted in 2024 and 2023, the per occurrence limits were $50,000,000 for medical professional liability, $5,000,000 for cyber liability and property damage, $4,000,000 for auto liability, educators' liability and general liability, and $2,000,000 for workers' compensation liability. The annual aggregate loss limits were $70,000,000 for medical professional liability, $10,000,000 for cyber 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. In 2024, the Corporation wrote a medical professional tail liability policy with a per occurrence limit and an annual aggregate loss limit of $50,000,000.

The Corporation writes, on a direct basis, basket aggregate umbrella liability coverage with a per occurrence and an annual aggregate limit of $20,000,000. Through July 2022, the Corporation wrote, on a direct basis, additional excess liability coverage for medical professional liability on a claims made basis. This policy was fully reinsured by multiple insurance providers. 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, excess medical professional liability, and medical professional tail 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.

During 2024, the Corporation revised its presentation of losses receivable from the University on unpaid claims and reinsurance recoverable on unpaid losses reported at June 30, 2023. Revisions to the June 30, 2023 financial statements are summarized as follows:

	June 30, 2023 As Previously Reported	Revisions	June 30, 2023 As Revised
Statement of Net Position			
Current Assets			
Losses receivable from the University	$ 19,798,799	$ (18,485,200)	$ 1,313,599
Noncurrent Assets			
Reinsurance recoverable on unpaid losses	1,224,991	(1,224,991)	-
Current Liabilities			
Reserves for losses and loss adjustment expenses	86,720,843	(18,485,200)	68,235,643
Noncurrent Liabilities			
Reserves for losses and loss adjustment expenses	172,537,882	(1,224,991)	171,312,891
Statement of Cash Flows			
Cash Flows from Operating Activities			
Recovery for losses paid		135,500,000	135,500,000
Payments for losses and loss adjustment expenses	(64,090,513)	(12,276)	(64,102,789)
Payments for losses recoverable	(863,180)	(134,636,820)	(135,500,000)
Cash Flows from Investing Activities			
Recovery for University losses paid		7,466,344	7,466,344
Payments for University losses recoverable		(8,317,248)	(8,317,248)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Losses receivable from the University	120,942,620	(120,954,896)	(12,276)
Reinsurance recoverable on unpaid losses	875,105	(875,105)	-
Reserves for losses and loss adjustment expenses	(111,984,813)	122,680,905	10,696,092

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

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.

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, 2024 and 2023. 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 net of reinsurance on unpaid claims and losses receivable from the University on unpaid claims 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, 2024 and 2023 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.

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

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. Reserves for unpaid claims are presented net of the amounts recoverable from reinsurers and amounts receivable from the University related to unpaid losses. The Corporation is contingently liable should the reinsurers become unable to meet their contractual obligations.

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 may consider distributing, 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 2024 or 2023.

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, 2024 and 2023 are summarized as follows:

	Cost Basis	Unrealized Gains	Fair Value
2024			
Cash equivalents	$ 250,000		$ 250,000
Daily and Monthly Portfolios	207,972,601	$ 7,246,589	215,219,190
Long Term Portfolio	190,596,238	36,804,354	227,400,592
	$ 398,818,839	$ 44,050,943	$ 442,869,782
2023			
Cash equivalents	$ 250,000		$ 250,000
Daily and Monthly Portfolios	189,541,574	$ 2,473,724	192,015,298
Long Term Portfolio	165,743,191	29,750,103	195,493,294
	$ 355,534,765	$ 32,223,827	$ 387,758,592

Note 2—Cash Equivalents and Investments—Continued

At June 30, 2024 and 2023, the Daily and Monthly Portfolios were comprised of 3 percent and 10 percent money market securities, 80 percent and 71 percent fixed income securities and the remaining 17 percent and 19 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, 98 percent were rated investment grade, and 64 percent consisted of U.S. Treasury and government agencies and non-U.S. government securities rated AAA/Aaa at June 30, 2024, compared to 98 percent and 66 percent, respectively, at June 30, 2023. 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 1.6 years and 1.8 years at June 30, 2024 and 2023, 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, 2024 and 2023, the Long Term Portfolio consisted of cash equivalents (1 percent and 3 percent), fixed income securities (8 percent and 5 percent), U.S. and non-U.S. equities (3 percent and 4 percent), commingled funds (14 percent and 14 percent) and nonmarketable alternative investments (74 percent and 74 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, infrastructure, 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 6 and 7 percent of the portfolio at June 30, 2024 and 2023, 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. The net unrealized gain on investments during the period was $31,517,000 and $13,323,000 for the years ended June 30, 2024 and 2023, respectively.

Note 3—Reserves for Losses and Loss Adjustment Expenses

Activity in the reserves for losses and LAE for the years ended June 30, 2024 and 2023 is summarized as follows:

	2024	2023
Gross reserves for losses and LAE, beginning of year	$ 259,258,725	$ 371,243,538
Less receivables from the University for unpaid losses	18,485,200	140,291,004
Less reinsurance recoverable on unpaid losses	1,224,991	2,100,096
Reserves for losses and LAE, beginning of year	239,548,534	228,852,438
Add incurred losses and LAE related to:		
Current year	89,739,408	70,354,706
Prior years	(1,555,922)	4,292,997
Total incurred losses and LAE	88,183,486	74,647,703
Less paid losses and LAE related to:		
Current year	12,086,596	6,921,520
Prior years	60,404,006	57,030,091
Total paid losses and LAE	72,490,602	63,951,611
Gross reserves for losses and LAE, end of year	264,149,351	259,258,725
Less receivables from the University for unpaid losses	8,121,000	18,485,200
Less reinsurance recoverable on unpaid losses	786,933	1,224,991
Reserves for losses and LAE, end of year	255,241,418	239,548,534
Less current portion	70,718,308	68,235,643
	$ 184,523,110	$ 171,312,891

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 $36,613,471 and $34,349,162 at June 30, 2024 and 2023, respectively.

In 2024, incurred losses and LAE related to policies incepted during the year increased $19,384,702. Incurred losses and LAE related to prior years totaled ($1,555,922) due to net favorable loss development. Educators' legal liability increased $5,757,687, which was offset by favorable development in medical professional liability of $4,949,522, cyber liability of $1,032,363, and other lines of $1,331,724. The net favorable development is primarily due to lower reported claims experience compared to previously projected for recent prior policy years.

In 2023, incurred losses and LAE related to policies incepted during the year decreased $5,973,883. Incurred losses and LAE related to prior years totaled $4,292,997 due to net unfavorable loss development. Educators' legal liability increased $7,784,352, workers compensation liability increased $2,801,497, property liability increased $1,754,364 and auto liability increased $1,078,044, which was offset by a favorable development in medical professional liability of $7,490,345, and other lines of $1,634,915. The net unfavorable development is primarily due to higher reported claims experience compared to previously projected for recent prior policy years.

Note 4—Transactions with the University of Michigan

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

For the years ended June 30, 2024 and 2023, the University provided claims administration and risk management services, with an estimated value of $3,959,000 and $3,142,000, 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 reserves are reported net of the receivables from the University for unpaid losses.

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.

In 2023, the Corporation received $135,500,000 from the University as reimbursement for indemnity costs incurred in connection with certain claims.

Note 5—Unrestricted Net Position

The Corporation is required to file an Annual Report 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 Report for the years ended June 30, 2024 and 2023.

Unrestricted net position at June 30, 2024 and 2023 is summarized as follows:

	2024	2023
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	183,058,329	135,497,284
	$ 188,512,662	$ 140,951,617

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2024 and 2023
with
REPORT OF INDEPENDENT AUDITORS

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

June 30, 2024 and 2023

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, 2024 and 2023, 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 (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ICA as of June 30, 2024 and 2023, 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 the University of Michigan 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 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 purpose to, and do not, present fairly the financial position of the University of Michigan as of June 30, 2024 and 2023, 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 4 through 10 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 17, 2024

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, 2024 and 2023, and its activities for the two fiscal years ended June 30, 2024. 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 $889.5 million and total liabilities and deferred inflows of $405.4 million at June 30, 2024 as compared to total assets and deferred outflows of $868.9 million and total liabilities and deferred inflows of $398.2 million at June 30, 2023. Net position, which represents the residual interest in ICA's total assets and deferred outflows after total liabilities and deferred inflows are deducted, totaled $484.1 million and $470.7 million at June 30, 2024 and 2023, respectively. ICA's change in net position for the years ended June 30 is summarized as follows:

	2024	**2023** (in millions)	**2022**
Operating revenues	$ 210.8	$ 205.6	$ 187.6
Operating expenses	$ 251.7	$ 234.5	$ 200.6
Net nonoperating and other activities	$ 54.3	$ 14.6	$ 33.6
Increase (decrease) in net position	$ 13.4	$ (14.3)	$ 20.6

During 2023, the University adopted Governmental Accounting Standards Board ("GASB") Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"), which establishes accounting and financial reporting requirements for subscription-based information technology arrangements ("SBITAs"). The statement requires the University to recognize right-to-use assets and related subscription liabilities for SBITAs that were previously recognized as outflows of resources. The adoption of GASB 96 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2022, resulting in an increase to capital assets, net of $1.2 million, accounts payable and accrued expenses of $364,000 and other noncurrent liabilities of $868,000.

For purposes of management's discussion and analysis, the statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows presented for the year ended June 30, 2022 do not reflect the adoption of GASB 96.

ICA's operating revenues increased $5.2 million in 2024 due primarily to increased other team income related to coach contract buyouts associated with the football program, conference distributions, preferred seat contributions and corporate sponsorships, offset by a decrease in spectator admissions.

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 increased $39.7 million in 2024 due primarily to an increase in net investment income and capital and endowment gifts.

ICA's operating expenses increased $17.2 million in 2024 due primarily to increases in salaries, wages and benefits, operations and maintenance of plant expenses, other operating and administrative expenses, and financial aid.

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:

	2024	**2023**	**2022**
		(in thousands)	
Net current assets (liabilities):			
Cash equivalents	$ 87,680	$ 113,354	$ 124,062
Receivables and other assets, net	28,718	24,285	23,569
Advance sale of game tickets	(57,989)	(50,396)	(52,804)
Current portion of notes payable	(15,193)	(8,786)	(12,463)
Other current liabilities	(24,014)	(28,421)	(16,491)
Total net current assets	19,202	50,036	65,873
Net noncurrent assets, deferred outflows, (liabilities) and deferred (inflows):			
Investments	255,515	219,786	216,015
Unexpended debt proceeds	14,527		
Pledges receivable, net	28,546	29,941	37,389
Other noncurrent assets	15,889	15,656	14,870
Capital assets, net	447,784	454,971	459,994
Deferred outflows	10,803	10,918	12,781
Other liabilities	(2,356)	(1,877)	(2,189)
Unearned revenues	(2,292)	(3,484)	(4,777)
Obligations for postemployment benefits	(43,886)	(40,062)	(47,504)
Notes payable	(237,603)	(241,795)	(250,521)
Deferred inflows	(22,049)	(23,428)	(16,925)
Total net noncurrent assets and net deferred (inflows)	464,878	420,626	419,133
Net position	$ 484,080	$ 470,662	$ 485,006

Outstanding debt at June 30, 2024 and 2023 totaled $252.8 million and $250.6 million, respectively. In 2024, ICA borrowed $17.5 million to finance the renovation of locker rooms at both Michigan Stadium and Crisler Arena.

ICA's net position increased $13.4 million in 2024. The composition of ICA's net position at June 30 is summarized as follows:

	2024	**2023** (in thousands)	**2022**
Net investment in capital assets	$ 208,090	$ 202,094	$ 194,580
Restricted:			
Nonexpendable	137,115	118,315	107,733
Expendable	181,254	186,224	215,086
Unrestricted	(42,379)	(35,971)	(32,393)
	$ 484,080	$ 470,662	$ 485,006

Management's Discussion and Analysis (Unaudited)—Continued

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:

	2024	2023	2022
		(in thousands)	
Revenues:			
Spectator admissions	$ 58,487	$ 65,107	$ 55,266
Conference distributions	62,724	58,971	58,703
Preferred seat contributions, net	35,602	32,763	32,612
Private gifts for other than capital and endowment purposes, current funds	8,421	9,928	10,924
Corporate sponsorships and other media rights	21,653	20,389	17,826
Licensing royalties	12,762	12,638	9,615
Facilities revenues	6,615	6,017	4,751
Concessions, publications and parking	4,777	5,697	4,251
Other revenues	8,190	3,980	4,568
Investment income, current funds	9,904	9,007	6,996
Total Revenues	229,135	224,497	205,512
Expenses and other uses:			
Salaries, wages and benefits, current funds	97,793	87,216	76,701
Financial aid	33,742	32,375	28,153
Team and game	49,253	50,175	36,892
Other operating and administrative	18,820	16,773	13,033
Equity transfers to the University, current funds	3,810	3,300	1,750
Operations and maintenance of plant, current funds	11,474	10,896	10,133
Deferred maintenance transfer		5,500	6,000
Debt service transfer	17,496	17,547	22,489
Total expenses and other uses	232,388	223,782	195,151
(Deficit) excess of revenues over expenses and other uses	$ (3,253)	$ 715	$ 10,361

ICA's revenues (as defined herein) increased $4.6 million in 2024 primarily due to increased other team income related to coach contract buyouts associated with the football program, conference distributions, preferred seat contributions and corporate sponsorships, offset by a decrease in spectator admissions. ICA's expenses and other uses (as defined herein) increased $8.6 million in 2024 due primarily to increases in salaries, wages and benefits, operations and maintenance of plant expenses, other operating and administrative expenses, and financial aid.

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 summarized as follows:

	2024	2023	2022
		(in thousands)	
Net cash (used in) provided by operating activities	$ (4,570)	$ 2,300	$ 30,968
Net cash provided by noncapital financing activities	5,948	6,775	1,821
Net cash used in capital and related financing activities	(37,117)	(29,797)	(11,286)
Net cash provided by investing activities	10,065	10,014	7,023
Net (decrease) increase in cash equivalents	$ (25,674)	$ (10,708)	$ 28,526

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, revenue sharing with student-athletes, increased 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 and potential changes to employment status.

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

INTERCOLLEGIATE ATHLETICS
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Statement of Net Position

	June 30, 2024	June 30, 2023
	(in thousands)	
Assets		
Current Assets:		
Cash equivalents on deposit with the University	$ 87,680	$ 113,354
Accounts receivable, net	9,503	9,059
Current portion of pledges receivable, net	13,947	12,816
Current portion of prepaid expenses and other assets	5,268	2,410
Total Current Assets	116,398	137,639
Noncurrent Assets:		
Endowment investments on deposit with the University	255,515	219,786
Unexpended debt proceeds on deposit with the University	14,527	
Pledges receivable, net	28,546	29,941
Prepaid expenses and other assets	15,889	15,656
Capital assets, net	447,784	454,971
Total Noncurrent Assets	762,261	720,354
Total Assets	**878,659**	**857,993**
Deferred Outflows	**10,803**	**10,918**
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	10,935	16,454
Accrued compensation	8,464	8,959
Advance sale of game tickets	57,989	50,396
Current portion of unearned revenues	4,615	3,008
Current portion of notes payable to the University	15,193	8,786
Total Current Liabilities	97,196	87,603
Noncurrent Liabilities:		
Other liabilities	2,356	1,877
Unearned revenues	2,292	3,484
Obligations for postemployment benefits	43,886	40,062
Notes payable to the University	237,603	241,795
Total Noncurrent Liabilities	286,137	287,218
Total Liabilities	**383,333**	**374,821**
Deferred Inflows	**22,049**	**23,428**
Net Position		
Net investment in capital assets	208,090	202,094
Restricted:		
Nonexpendable	137,115	118,315
Expendable	181,254	186,224
Unrestricted	(42,379)	(35,971)
Total Net Position	**$ 484,080**	**$ 470,662**

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, 2024	2023
	(in thousands)	
Operating Revenues		
Spectator admissions	$ 58,487	$ 65,107
Conference distributions	62,724	58,971
Preferred seat contributions, net	35,602	32,763
Corporate sponsorships and other media rights	21,653	20,389
Licensing royalties	12,762	12,638
Facilities revenues	6,615	6,017
Concessions, publications and parking	4,777	5,697
Other revenues	8,190	3,980
Total Operating Revenues	**210,810**	**205,562**
Operating Expenses		
Salaries, wages and benefits	99,546	89,138
Financial aid	33,742	32,375
Team and game	47,753	50,175
Other operating and administrative	18,367	16,341
Operations and maintenance of plant	20,424	16,145
Depreciation	31,862	30,359
Total Operating Expenses	**251,694**	**234,533**
Operating Loss	(40,884)	(28,971)
Nonoperating Revenues (Expenses)		
Private gifts for other than capital and endowment purposes	8,421	9,928
Net investment income	27,225	3,336
Interest expense and other, net	(11,500)	(10,191)
Total Nonoperating Revenues, Net	**24,146**	**3,073**
Loss Before Other Revenues and Transfers	(16,738)	(25,898)
Other Revenues		
Capital gifts	13,240	4,030
Private gifts for permanent endowment purposes	18,571	10,446
Total Other Revenues	**31,811**	**14,476**
Income (Loss) Before Transfers	15,073	(11,422)
Transfers to other University units, net	(1,655)	(2,922)
Increase (Decrease) in Net Position	13,418	(14,344)
Net Position, Beginning of Year	470,662	485,006
Net Position, End of Year	**$ 484,080**	**$ 470,662**

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

Statement of Cash Flows

	Year Ended June 30, 2024	2023
	(in thousands)	
Cash Flows from Operating Activities		
Spectator admissions	$ 66,832	$ 61,993
Conference distributions	62,724	58,971
Preferred seat contributions, net	35,602	32,876
Corporate sponsorships and other media rights	14,770	11,508
Licensing royalties	14,735	16,359
Facilities revenues	6,531	5,960
Concessions, publications and parking	4,673	5,361
Other revenues	8,222	4,294
Payments for salaries, wages and benefits	(98,520)	(84,711)
Payments for financial aid	(33,742)	(32,375)
Payments for team and game expenses	(47,342)	(45,755)
Payments for other operating and administrative expenses	(18,446)	(16,922)
Payments for operations and maintenance of plant	(20,609)	(15,259)
Net Cash (Used in) Provided by Operating Activities	**(4,570)**	**2,300**
Cash Flows from Noncapital Financing Activities		
Private gifts for other than capital and endowment purposes	9,158	9,696
Transfers to other University units, net	(3,210)	(2,921)
Net Cash Provided by Noncapital Financing Activities	**5,948**	**6,775**
Cash Flows from Capital and Related Financing Activities		
Capital gifts	12,767	10,392
Proceeds from issuance of capital debt	17,510	95
Principal payments on capital debt	(15,295)	(12,498)
Interest payments on capital debt	(11,586)	(10,275)
Purchases of capital assets	(27,540)	(17,511)
Transfers from other University units, net	1,554	
Net Cash Used in Capital and Related Financing Activities	**(22,590)**	**(29,797)**
Cash Flows from Investing Activities		
Investment income	10,434	10,260
Increase in investments on deposit with the University, net	(369)	(246)
Net increase in unexpended capital debt proceeds	(14,527)	
Net Cash Provided by Investing Activities	**(4,462)**	**10,014**
Net Decrease in Cash Equivalents	(25,674)	(10,708)
Cash Equivalents on Deposit with the University, Beginning of Year	113,354	124,062
Cash Equivalents on Deposit with the University, End of Year	**$ 87,680**	**$ 113,354**

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

INTERCOLLEGIATE ATHLETICS
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Statement of Cash Flows—Continued

	Year Ended June 30, 2024	2023
	(in thousands)	
Reconciliation of Operating Loss to Net Cash (Used in) Provided by Operating Activities:		
Operating loss	$ (40,884)	$ (28,971)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation expense	31,862	30,359
Changes in assets and liabilities:		
Accounts receivable, net	(444)	817
Prepaid expenses and other assets	(2,037)	(1,935)
Accounts payable and accrued expenses	(2,083)	2,329
Accrued compensation	3,328	(5,463)
Advance sale of game tickets	7,593	(2,408)
Unearned revenues	414	(1,729)
Changes in deferred outflows	115	1,863
Changes in deferred inflows	(2,434)	7,438
Net Cash (Used in) Provided by Operating Activities	**$ (4,570)**	**$ 2,300**

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 2023, the University adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"), which establishes accounting and financial reporting requirements for subscription-based information technology arrangements ("SBITAs"). The statement requires the University to recognize right-to-use assets and related subscription liabilities for SBITAs that were previously recognized as outflows of resources. The adoption of GASB 96 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2022, resulting in an increase to capital assets, net of $1,232,000, accounts payable and accrued expenses of $364,000 and other noncurrent liabilities of $868,000.

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 and subscription 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.

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.

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

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. 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.

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 $97,571,000 and $82,740,000 at June 30, 2024 and 2023, respectively, is available to meet spending policy rate distributions and is recorded in restricted expendable net position. The University's endowment spending rule is further discussed in Note 2.

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

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

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 $3,256,000 and $3,204,000 at June 30, 2024 and 2023, 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, 2024 and 2023, the Long Term Portfolio consisted of cash equivalents (1 percent and 3 percent), fixed income securities (8 percent and 5 percent), U.S. and non-U.S. equities (3 percent and 4 percent), commingled funds (14 percent and 14 percent) and nonmarketable alternative investments (74 percent and 74 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, infrastructure, 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 6 percent and 7 percent of the portfolio at June 30, 2024 and 2023, 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 on UIP shares are also made to ICA based on the 90-day U.S. Treasury Bill rate, with such rate not to exceed 2.5 percent. 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
Greater than $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. The net unrealized gain (loss) on investments during the period was $16,278,000 and $(6,913,000) for the years ended June 30, 2024 and 2023, respectively.

Note 3—Pledges Receivable

The composition of pledges receivable at June 30, 2024 and 2023 is summarized as follows:

	2024	2023
	(in thousands)	
Gift pledges outstanding:		
Capital	$ 35,819	$ 35,051
Operations	8,739	9,421
	44,558	44,472
Less:		
Allowance for uncollectible pledges	1,136	1,137
Unamortized discount to present value	929	578
Total pledges receivable, net	42,493	42,757
Less current portion	13,947	12,816
	$ 28,546	$ 29,941

Payments on pledges receivable at June 30, 2024, are expected to be received in the following years ended June 30 (in thousands):

2025	$ 14,582
2026	7,944
2027	8,877
2028	6,161
2029	4,494
2030 and after	2,500
	$ 44,558

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $29,727,000 and $30,578,000 at June 30, 2024 and 2023, 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, 2024 and 2023 is summarized as follows:

2024 (in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 1,818			$ 1,818
Land improvements	24,487	$ 42		24,529
Infrastructure	2,840			2,840
Buildings	785,481	34,209	$ 1,053	818,637
Construction in progress	24,449	(11,065)		13,384
Equipment	14,625	733	421	14,937
Right-to-use assets	1,287	967		2,254
	854,987	24,886	1,474	878,399
Less accumulated depreciation	400,016	31,862	1,263	430,615
	$ 454,971	$ (6,976)	$ 211	$ 447,784

2023 (in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 1,818			$ 1,818
Land improvements	23,671	$ 816		24,487
Infrastructure	2,840			2,840
Buildings	784,476	1,005		785,481
Construction in progress	2,810	21,639		24,449
Equipment	14,363	647	$ 385	14,625
Right-to-use assets	1,301		14	1,287
	831,279	24,107	399	854,987
Less accumulated depreciation	370,053	30,359	396	400,016
	$ 461,226	$ (6,252)	$ 3	$ 454,971

In 2024, the decrease in construction in progress of $11,065,000 represents the amount of capital expenditures for new projects of $23,186,000, net of assets placed in service of $34,251,000. In 2023, the increase in construction in progress of $21,639,000 represents the amount of capital expenditures for new projects of $23,460,000, net of assets placed in service of $1,821,000.

Note 5—Notes Payable to the University of Michigan

Long-term debt activity for the years ended June 30, 2024 and 2023 is summarized as follows:

	2024			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Payable to the University	$ 250,581	$ 17,510	$ 15,295	$ 252,796
Less current portion	8,786			15,193
	$ 241,795			$ 237,603

	2023			
	Beginning Balance	Additions (in thousands)	Reductions	Ending Balance
Payable to the University	$ 262,984	$ 95	$ 12,498	$ 250,581
Less current portion	12,463			8,786
	$ 250,521			$ 241,795

In 2024, ICA borrowed $17,510,000 to finance the renovation of locker rooms at both Michigan Stadium and Crisler Arena.

ICA participates in the University's internal loan program which provides for uniform lending rates and terms across the University based on the program's policy. Periodically, the University reviews payments made under the internal loans as compared to actual interest payments made by the University to outside debt holders and may utilize excess interest paid by units, if any, to support future strategic projects. Fixed interest rates on debt obligations outstanding at June 30, 2024 and 2023, range from 2.25 to 5.40 percent.

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

In 2024 and 2023, ICA incurred interest costs totaling $10,708,000 and $10,527,000, 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)	Total
2025	$ 15,295	$ 9,239	$ 24,534
2026	13,795	8,877	22,672
2027	9,876	8,500	18,376
2028	9,910	8,103	18,013
2029	10,325	7,686	18,011
2030-2034	58,530	31,274	89,804
2035-2039	102,750	15,124	117,874
2040-2044	20,335	4,612	24,947
2045-2047	8,360	857	9,217
	249,176	$ 94,272	$ 343,448
Plus unamortized premiums, net	3,620		
	$ 252,796		

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, 2024 and 2023 as follows:

	2024	**2023**
	(in thousands)	
Financial Aid (Tuition and Housing)	$ 24,796	$ 23,791
Goods and Services:		
Utilities	4,207	4,007
Plant services	1,089	1,469
Technology/telecommunications	1,446	1,104
Insurance coverage	1,748	1,537
Security	974	974
Medical services	1,313	1,402
Business and finance allocation	881	847
Budget administration allocation	675	642
Marching Band support	489	470
Other	1,279	1,000
Total Goods and Services	14,101	13,452
Equity Transfers:		
Recreational Sports and Unions infrastructure renewal	1,800	1,800
Television revenue sharing	2,000	1,500
Total Equity Transfers	3,800	3,300
	$ 42,697	$ 40,543

During 2024 and 2023, ICA provided the University with $2,000,000 and $1,500,000 respectively, in connection with the television distributions received from the Big Ten Conference. The recurring allocation is based on an agreed upon amount and presented within transfers to other University units, net.

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.

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

During 2024 and 2023, ICA received $38,000 and $142,000, 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.

Note 7—Postemployment Benefits—Continued

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.

Changes in the reported total liability for ICA's postemployment benefits obligations for the years ended June 30, 2024 and 2023 are summarized as follows:

	2024		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 40,009	$ 1,038	$ 41,047
Net benefits expense	1,905	80	1,985
(Decrease) increase in deferred outflows	(357)	11	(346)
Decrease in deferred inflows	2,434		2,434
Balance, end of year	43,991	1,129	45,120
Less current portion	1,104	130	1,234
	$ 42,887	$ 999	$ 43,886

	2023		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 47,405	$ 1,022	$ 48,427
Net benefits expense	1,946	30	1,976
(Decrease) increase in deferred outflows	(1,931)	13	(1,918)
Increase in deferred inflows	(7,411)	(27)	(7,438)
Balance, end of year	40,009	1,038	41,047
Less current portion	872	113	985
	$ 39,137	$ 925	$ 40,062

Note 7—Postemployment Benefits—Continued

At June 30, 2024 and 2023, deferred outflows reported in the statement of net position include benefit payments made after the measurement date of $1,104,000 and $872,000, 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, 2024 and 2023, as a percentage of covered payroll of $74,614,000 and $65,558,000 were 60 percent and 63 percent, respectively.

Significant actuarial assumptions used at the June 30, 2023 and 2022 measurement dates are as follows:

	2023	**2022**
Discount rate*	3.65%	3.54%
Inflation rate	2.00%	2.00%
Immediate/ultimate administrative trend rate	0.0%/3.0%	0.0%/3.0%
Immediate/ultimate medical trend rate	5.75%/4.5%	6.0%/4.5%
Immediate/ultimate Rx trend rate	11.0%/4.5%	7.5%/4.5%
Increase in compensation rate faculty/staff/union	4.50%/ 4.75%/ 4.5%	4.50%/4.75%/3.75%
Mortality table**	PUB-2010 Teachers Head Count Table, Scale MP-2021	PUB-2010 Teachers Head Count Table, Scale MP-2021
Average future work life expectancy (years):		
Retiree health and welfare	9.45	9.33
Long-term disability	12.01	12.00

* 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, 2024 and 2023 are summarized as follows:

	2024 (in thousands)	**2023**
ICA contributions	$ 3,295	$ 3,129
Employee contributions	$ 1,733	$ 1,657
Payroll covered under plan	$ 74,614	$ 65,558
Total payroll	$ 79,553	$ 69,975

Note 9—Commitments and Contingencies

ICA's authorized expenditures for construction and other projects unexpended at June 30, 2024 were $18,624,000.

ICA has entered into leases for equipment as well as subscription-based information technology arrangements which expire at various dates through 2028. Future payments, including both principal and interest, on these commitments for the next four years are as follows:

	Principal	Interest (in thousands)	Total
2025	$ 698	$ 45	$ 743
2026	343	24	367
2027	380	9	389
2028	5		5
	$ 1,426	$ 78	$ 1,504