

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

ACTION REQUEST

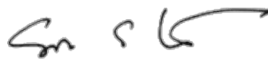
Subject: The University of Michigan Financial Statements for the Year  
Ended June 30, 2025

Action  
Requested: Adoption of Financial Statements

The Board of Regents has received the University's consolidated audited financial statements for fiscal year 2025, 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 the adoption of the University's consolidated audited financial statements as submitted.

Respectfully submitted,



Geoffrey S. Chatas  
Executive Vice President and  
Chief Financial Officer

October 2025



**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2025 and 2024  
with  
REPORT OF INDEPENDENT AUDITORS**

THE UNIVERSITY OF MICHIGAN

June 30, 2025 and 2024

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## **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, 2025 and 2024, including the related notes, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the fiduciary activities of the University as of June 30, 2025 and 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinions***

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

### ***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 89 through 96 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 16, 2025

# 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, 2025 and 2024 and its activities for the two fiscal years ended June 30, 2025. 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 67,000 students and approximately 9,200 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's Academic Medical Center ("AMC"), 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's Medical School and Michigan Health Corporation (a wholly-owned corporation created for joint venture and managed care initiatives).

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.

UNIVERSITY OF MICHIGAN

**Management’s Discussion and Analysis (Unaudited)—Continued**

**Financial Highlights**

The University’s financial position remains strong, with total assets and deferred outflows of \$38.0 billion and total liabilities and deferred inflows of \$13.1 billion at June 30, 2025, compared to total assets and deferred outflows of \$35.5 billion and total liabilities and deferred inflows of \$13.2 billion at June 30, 2024. 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 \$24.9 billion and \$22.3 billion at June 30, 2025 and 2024, respectively. Changes in net position represent the University’s results of operations and are summarized for the years ended June 30 as follows:

	2025	2024	2023
	(in millions)		
Operating revenues, educational appropriations and supplemental appropriations	\$ 13,481	\$ 12,433	\$ 11,377
Private gifts for operating activities	280	250	193
Operating and interest expenses	(14,587)	(13,454)	(12,699)
	(826)	(771)	(1,129)
Net investment income	3,222	1,933	1,078
Endowment, capital gifts and grants, and other	290	452	207
Increase in net position	\$ 2,686	\$ 1,614	\$ 156

During 2025, the University adopted Governmental Accounting Standards Board (“GASB”) Statement No. 101, *Compensated Absences* (“GASB 101”), which establishes a unified recognition and measurement model for compensated absence liabilities. The adoption of GASB 101 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2023, and is summarized as follows:

	June 30, 2023		
	As Previously Reported	GASB 101 Adoption	July 1, 2023 As Restated
	(in millions)		
Accrued compensation and other	\$ 726	\$ 50	\$ 776
Accrued compensation	\$ 15	\$ 24	\$ 39
Net position	\$ 20,714	\$ (74)	\$ 20,640

## UNIVERSITY OF MICHIGAN

### **Management's Discussion and Analysis (Unaudited)—Continued**

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, 2023 do not reflect the impact of the adoption of GASB 101.

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 educational 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 projects and initiatives.

#### **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.

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**Management’s Discussion and Analysis (Unaudited)—Continued**

**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:

	2025	2024	2023
	(in millions)		
Current assets	\$ 5,877	\$ 5,913	\$ 6,152
Noncurrent assets:			
Endowment, life income and other investments	22,554	20,573	19,318
Capital assets, net	8,283	7,571	7,089
Other	474	411	377
Total assets	37,188	34,468	32,936
Deferred outflows	825	1,012	1,074
Current liabilities	3,116	3,192	2,829
Noncurrent liabilities	8,560	8,796	9,065
Total liabilities	11,676	11,988	11,894
Deferred inflows	1,397	1,238	1,402
Net position	<u>\$ 24,940</u>	<u>\$ 22,254</u>	<u>\$ 20,714</u>

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 totaled \$5.9 billion at both June 30, 2025 and June 30, 2024. Cash, cash equivalents and investments for operating activities totaled \$3.2 billion at June 30, 2025, which represents approximately three months of total expenses excluding depreciation.

## UNIVERSITY OF MICHIGAN

### **Management's Discussion and Analysis (Unaudited)—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. Deferred outflows totaled \$0.8 billion and \$1.0 billion at June 30, 2025 and 2024, 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 \$3.2 billion at June 30, 2025 and 2024, 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 \$1.4 billion and \$1.2 billion at June 30, 2025 and 2024, respectively.

#### **Endowment, Life Income and Other Investments**

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.

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**Management’s Discussion and Analysis (Unaudited)—Continued**

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

	2025	2024	2023
	(in millions)		
Endowment investments	\$ 21,201	\$ 19,166	\$ 17,876
Life income investments	206	182	174
Noncurrent portion of insurance and benefits obligations investments	436	367	326
Other	711	858	942
	\$ 22,554	\$ 20,573	\$ 19,318

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 13,300 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.

## UNIVERSITY OF MICHIGAN

### **Management's Discussion and Analysis (Unaudited)—Continued**

Endowment spending rate distributions totaled \$538 million and \$506 million and withdrawals from funds functioning as endowment totaled \$454 million and \$80 million in 2025 and 2024, respectively. Total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 6.9 percent and 4.3 percent of the current year average fair value of the UEF for 2025 and 2024, respectively. Over the past ten years, total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.5 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 \$1.4 billion in 2025 as compared to \$1.2 billion in 2024. 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 \$1,102 million, as well as debt proceeds of \$281 million and state capital appropriations of \$55 million.

Construction in progress, which totaled \$1.6 billion and \$1.2 billion at June 30, 2025 and 2024, respectively, includes construction of new patient care, wellness, academic, research and residential facilities.

## UNIVERSITY OF MICHIGAN

### **Management's Discussion and Analysis (Unaudited)—Continued**

The D. Dan and Betty Kahn Health Care Pavilion 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 fall 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 fall 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.

Construction of the new College of Pharmacy building continues at the corner of Glen Avenue and East Huron Street, near the university's central and medical campuses. This six-floor, 142,000 square foot state-of-the-art facility will address the need to modernize and increase physical space for the college's active learning-style classrooms, laboratories, associated support spaces, faculty and administrative offices, and student-focused areas. It will also bring together the college's teaching, research, and office spaces which are currently distributed across multiple locations. In addition, incorporation of mass-timber structures and other sustainable features will reduce greenhouse gas emissions and emphasize a shared culture of sustainability. This project is scheduled to be completed in summer 2025.

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**Management’s Discussion and Analysis (Unaudited)—Continued**

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 2025 include construction of the Leinweber Computer Science and Information Building on the University’s north campus along with an adjacent geothermal plant to supply heating and cooling. The Leinweber Building, which is the new home for the University’s School of Information (“UMSI”) and provides expansion space for the Computer Science and Engineering (“CSE”) Division of Michigan Engineering, is the first large-scale University building that does not rely on natural gas for heating. It provides much-needed space to meet the increasing demand for computer science and information graduates for research, industry and education. It also brings together the UMSI community, which was previously spread across multiple buildings on central campus including leased space, and connects to the existing Bob and Betty Beyster Building, the current home of CSE.

UNIVERSITY OF MICHIGAN

**Management’s Discussion and Analysis (Unaudited)—Continued**

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 2025, 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. In 2024, Moody’s 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:

<b>2025</b>				
	Beginning Balance	Additions	Reductions	Ending Balance
	(in millions)			
Commercial paper	\$ 190	\$ 57	\$ 4	\$ 243
Bonds	4,820		269	4,551
	\$ 5,010	\$ 57	\$ 273	\$ 4,794
<b>2024</b>				
	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

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

During 2025, the University utilized proceeds from the issuance of \$57 million of taxable commercial paper to refund \$57 million of existing general revenue bonds.

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**Management’s Discussion and Analysis (Unaudited)—Continued**

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 University used existing resources of \$102 million to retire Michigan Finance Authority Hospital Revenue Bonds Series 2017A and 2017B. The University 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 2024.

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

	2025	2024	2023
	(in millions)		
Variable rate:			
Commercial paper	\$ 243	\$ 190	\$ 132
Bonds	287	372	451
Line of credit			52
Fixed rate bonds	4,264	4,448	4,820
	\$ 4,794	\$ 5,010	\$ 5,455

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.

## UNIVERSITY OF MICHIGAN

### Management's Discussion and Analysis (Unaudited)—Continued

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 3.5 percent and 3.6 percent in 2025 and 2024, respectively. Interest expense on long-term debt totaled \$168 million and \$171 million in 2025 and 2024, 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 \$(39) million and \$(36) million at June 30, 2025 and 2024, respectively. The decrease in the reported net liability at June 30, 2025 was driven primarily by pension asset gains within all pension plans, offset by an increase in the total pension liability for the UM Health-Sparrow pension plans as a result of a decrease in the discount rate.

#### 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 \$3.8 billion at June 30, 2025 as compared to \$4.0 billion at June 30, 2024. The decrease in the reported liability at June 30, 2025 was driven primarily by an increase in the discount rate. 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 \$91 million and \$83 million at June 30, 2025 and 2024, respectively.

By implementing a series of health benefit initiatives over the past several years, the University has favorably impacted its total liability for postemployment benefits by \$2.1 billion at June 30, 2025. These initiatives have included cost sharing changes, elimination of Medicare Part B reimbursements for certain retirees and the adjustment of retirement eligibility criteria.

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**Management’s Discussion and Analysis (Unaudited)—Continued**

**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:

	2025	2024	2023
	(in millions)		
Net investment in capital assets	\$ 5,539	\$ 4,977	\$ 3,964
Restricted:			
Nonexpendable:			
Permanent endowment corpus	3,367	3,221	2,959
Expendable:			
Net appreciation of permanent endowments	4,805	4,002	3,668
Funds functioning as endowment	3,984	3,636	3,386
Restricted for operations and other	933	830	800
Unrestricted	6,312	5,588	5,937
	\$ 24,940	\$ 22,254	\$ 20,714

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 15 percent, or \$1.2 billion, to \$9.7 billion at June 30, 2025, as compared to \$8.5 billion at June 30, 2024.

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, 2025 totaled \$6.3 billion and included funds functioning as endowment of \$9.0 billion offset by unfunded obligations for postemployment benefits of \$4.3 billion. Unrestricted net position at June 30, 2024 totaled \$5.6 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 also includes other net resources which totaled \$1.6 billion and \$1.5 billion at June 30, 2025 and 2024, respectively.

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**Management's Discussion and Analysis (Unaudited)—Continued**

**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:

	<b>2025</b>	<b>2024</b>	<b>2023</b>
	(in millions)		
Operating revenues:			
Net student tuition and fees	\$ 1,791	\$ 1,705	\$ 1,641
Sponsored programs	1,713	1,621	1,481
Patient care revenues, net	8,746	8,019	7,251
Other	652	603	556
	12,902	11,948	10,929
Operating expenses	14,405	13,271	12,503
Operating loss	(1,503)	(1,323)	(1,574)
Nonoperating and other revenues (expenses):			
State educational appropriations	425	414	393
State supplemental appropriations	70	6	
Federal Pell grants	84	65	55
Private gifts for operating activities	280	250	193
Net investment income	3,222	1,933	1,078
Interest expense	(182)	(183)	(196)
State capital appropriations	111	50	13
Endowment and capital gifts and grants	182	393	177
Other	(3)	9	17
Nonoperating and other revenues, net	4,189	2,937	1,730
Increase in net position	2,686	1,614	156
Net position, beginning of year	22,254	20,714	19,299
Adoption of GASB 101		(74)	
Affiliation with the Sparrow Health System			1,259
Net position, beginning of year, as restated	22,254	20,640	20,558
Net position, end of year	\$ 24,940	\$ 22,254	\$ 20,714

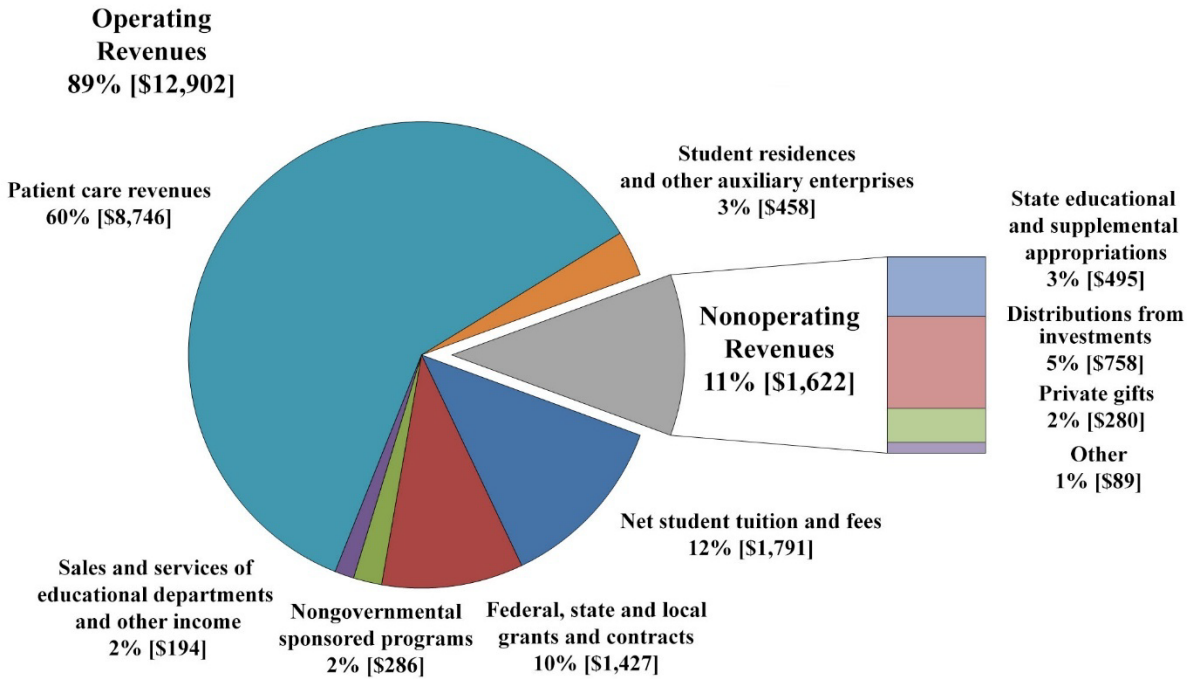
UNIVERSITY OF MICHIGAN

Management’s Discussion and Analysis (Unaudited)—Continued

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, 2025 (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.

2025 Revenues for Operating Activities

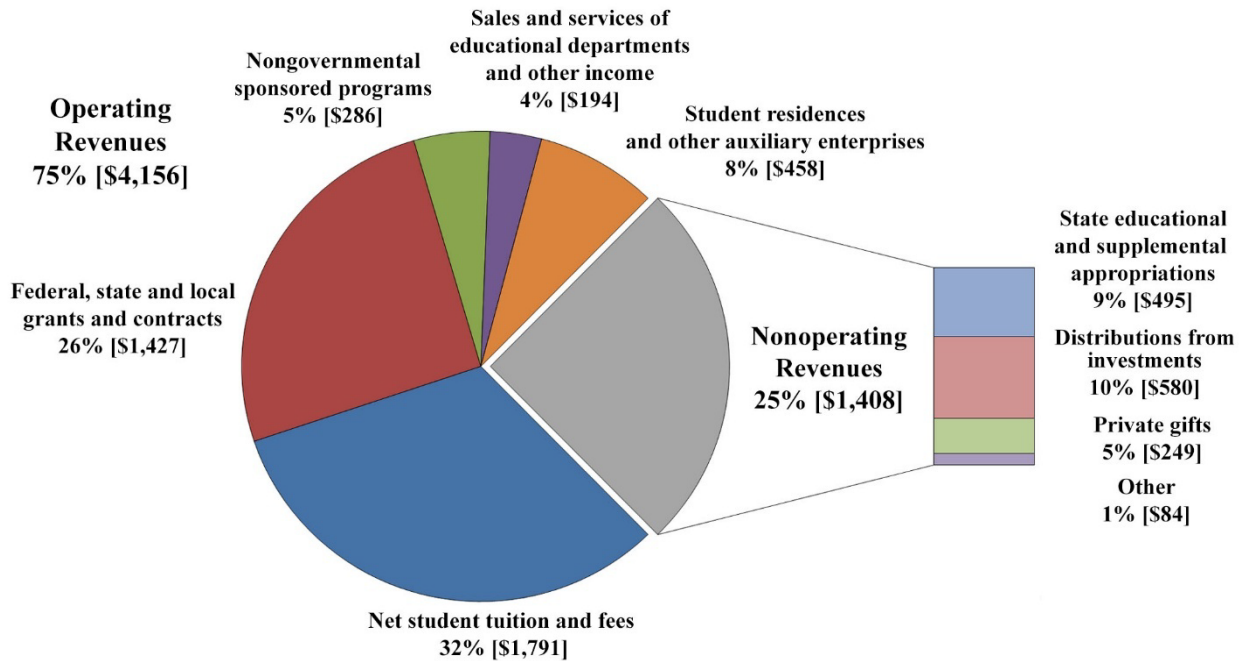


UNIVERSITY OF MICHIGAN

Management’s Discussion and Analysis (Unaudited)—Continued

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, 2025 (amounts are presented in millions of dollars).

**2025 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 5 percent, or \$97 million to \$2.2 billion in 2025.

UNIVERSITY OF MICHIGAN

**Management’s Discussion and Analysis (Unaudited)—Continued**

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

	<b>2025</b>	<b>2024</b>	<b>2023</b>
	(in millions)		
Student tuition and fees	\$ 2,443	\$ 2,308	\$ 2,187
Less scholarship allowances	652	603	546
	<b>\$ 1,791</b>	<b>\$ 1,705</b>	<b>\$ 1,641</b>

In 2025, net student tuition and fees revenue increased 5 percent, or \$86 million, to \$1.8 billion, which reflects an increase of 6 percent, or \$135 million, in gross student tuition and fees revenue offset by an increase of 8 percent, or \$49 million, in scholarship allowances. Tuition rate increases in 2025 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 4.7 percent and 4.9 percent tuition rate increase for most resident undergraduate students on the Dearborn and Flint campuses, respectively. During 2025, the University also experienced growth in the number of students, offset by a shift in mix from nonresident to resident students.

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.

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 \$280 million in 2025, as compared to \$250 million in 2024.

UNIVERSITY OF MICHIGAN

**Management’s Discussion and Analysis (Unaudited)—Continued**

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 6 percent, or \$92 million, to \$1.7 billion in 2025 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 9 percent, or \$727 million, to \$8.7 billion in 2025, 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:

	2025	2024	2023
	(in millions)		
Academic Medical Center	\$ 6,335	\$ 5,832	\$ 5,305
UM Health	2,151	1,966	1,741
Michigan Health Corporation	26	24	24
Other	234	197	181
	\$ 8,746	\$ 8,019	\$ 7,251

The largest component of patient care revenues is generated by AMC, a national leader in advanced patient care and comprehensive education of physicians and medical scientists. AMC 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 AMC patients are provided by the University’s Medical School faculty. AMC 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 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. 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.

UNIVERSITY OF MICHIGAN

**Management’s Discussion and Analysis (Unaudited)—Continued**

Other patient care revenues primarily 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:

	2025	2024	2023
Medicare	29%	31%	30%
Medicaid	14%	13%	13%
Blue Cross	35%	34%	35%
Other	22%	22%	22%

State supplemental appropriations provide additional support for the University’s various mission related activities and totaled \$70 million and \$6 million in 2025 and 2024, respectively. During 2025, supplemental appropriations were recognized in support of the Electric Vehicle Center within the College of Engineering. During 2024, supplemental appropriations were recognized in support of initiatives such as critical incident mapping and semiconductor research.

Net investment income increased to \$3.2 billion in 2025 as compared to \$1.9 billion in 2024, 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 the construction of the Leinweber Computer Science and Information Building, the Electric Vehicle Center and UMCI, as well as renovations of the W.K. Kellogg Institute and Dental Building.

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 \$133 million in 2025 as compared to \$248 million in 2024. Capital gifts and grants totaled \$49 million in 2025 as compared to \$145 million in 2024. In recent years, major gifts have been received in support of the University’s wide-ranging capital initiatives which include the health system, UMCI and Intercollegiate Athletics.

UNIVERSITY OF MICHIGAN

**Management’s Discussion and Analysis (Unaudited)—Continued**

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 61 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):

	2025		2024		2023	
Operating:						
Compensation and benefits	\$ 8,957	61%	\$ 8,331	62%	\$ 7,809	61%
Supplies and services	4,466	31	4,023	30	3,809	30
Depreciation	720	5	688	5	685	5
Scholarships and fellowships	262	2	229	2	200	2
	14,405	99	13,271	99	12,503	98
Nonoperating:						
Interest	182	1	183	1	196	2
	\$ 14,587	100%	\$ 13,454	100%	\$ 12,699	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 8 percent, or \$626 million, to \$9.0 billion in 2025. Of the 2025 increase, compensation increased 8 percent, or \$490 million, to \$6.9 billion, driven primarily by increases in staffing levels resulting from patient activity volumes within the University’s health system, and employee benefits increased 7 percent, or \$136 million, to \$2.1 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.

UNIVERSITY OF MICHIGAN

**Management’s Discussion and Analysis (Unaudited)—Continued**

Supplies and services expenses increased 11 percent, or \$443 million, to \$4.5 billion in 2025 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):

	2025		2024		2023	
Operating:						
Instruction	\$ 1,557	11%	\$ 1,445	11%	\$ 1,331	10%
Research	1,142	8	1,079	8	972	8
Public service	341	2	306	2	303	2
Institutional and academic support	1,093	7	1,050	8	1,084	9
Operations and maintenance of plant	470	3	431	3	370	3
Auxiliary enterprises:						
Patient care	8,570	59	7,782	58	7,369	58
Other	250	2	261	2	189	1
Depreciation	720	5	688	5	685	5
Scholarships and fellowships	262	2	229	2	200	2
	14,405	99	13,271	99	12,503	98
Nonoperating:						
Interest	182	1	183	1	196	2
	\$ 14,587	100%	\$ 13,454	100%	\$ 12,699	100%

Instruction expenses increased 8 percent, or \$112 million, in 2025 and reflect the growth in the related revenue sources offset by cost containment efforts.

Research expenses increased 6 percent, or \$63 million, in 2025 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 \$2.2 billion and \$2.0 billion in 2025 and 2024, respectively.

Patient care expenses increased 10 percent, or \$788 million, in 2025 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.

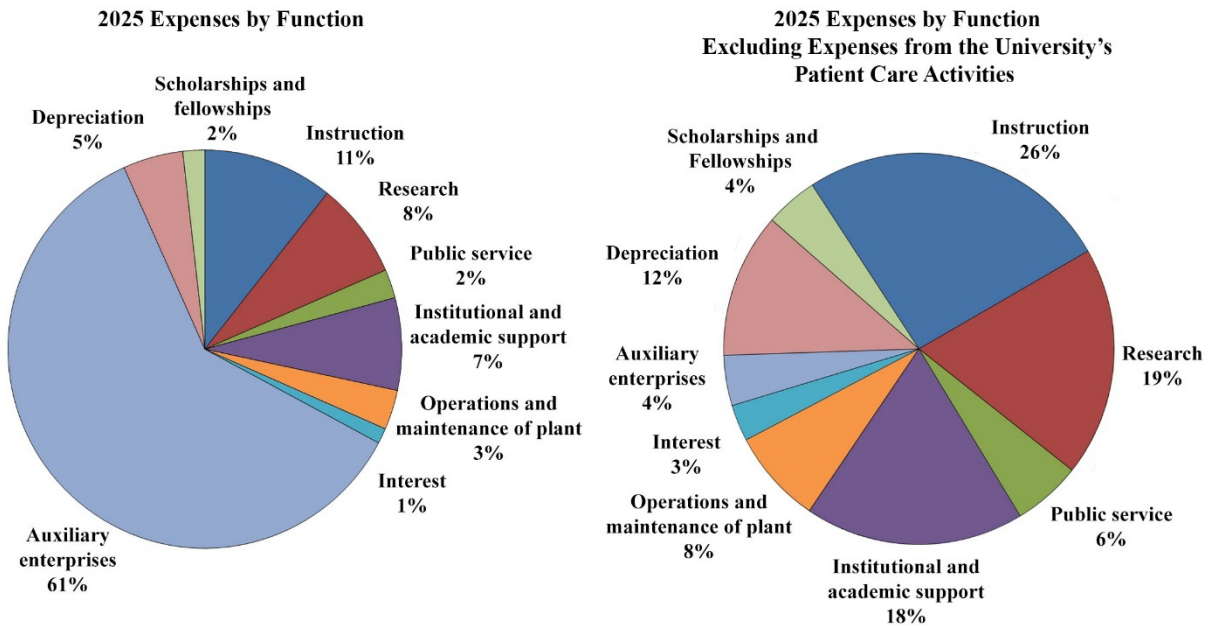
UNIVERSITY OF MICHIGAN

Management’s Discussion and Analysis (Unaudited)—Continued

Scholarships and fellowships provided to students totaled \$943 million in 2025 as compared to \$861 million in 2024, an increase of 10 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:

	2025	2024	2023
	(in millions)		
Paid directly to students	\$ 262	\$ 229	\$ 200
Applied to tuition and fees	652	603	546
Applied to University Housing	29	28	27
	<u>\$ 943</u>	<u>\$ 860</u>	<u>\$ 773</u>

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



UNIVERSITY OF MICHIGAN

**Management’s Discussion and Analysis (Unaudited)—Continued**

**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:

	2025	2024 (in millions)	2023
Cash received from operations	\$ 12,837	\$ 11,662	\$ 10,828
Cash expended for operations	(13,450)	(12,380)	(12,119)
Net cash used in operating activities	(613)	(718)	(1,291)
Net cash provided by noncapital financing activities	666	844	756
Net cash used in capital and related financing activities	(1,404)	(1,409)	(957)
Net cash provided by (used in) investing activities	1,505	1,088	(798)
Net increase (decrease) in cash and cash equivalents	154	(195)	(2,290)
Cash and cash equivalents, beginning of year	555	750	2,952
Affiliation with the Sparrow Health System			88
Cash and cash equivalents, beginning of year, as restated	555	750	3,040
Cash and cash equivalents, end of year	\$ 709	\$ 555	\$ 750

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.

## UNIVERSITY OF MICHIGAN

### **Management's Discussion and Analysis (Unaudited)—Continued**

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 changes in the state's 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 2026 anticipates no change in the level of base state educational appropriations, a 3.4 percent tuition rate increase for Ann Arbor campus resident undergraduates and a 4.5 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 3.9 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 \$1,020 million at June 30, 2025. Funding for these projects is anticipated to include \$1,000 million from internal sources, gifts, grants and proceeds from borrowings and \$20 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.

UNIVERSITY OF MICHIGAN

**Management's Discussion and Analysis (Unaudited)—Continued**

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,	
	2025	2024
	(in thousands)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 708,864	\$ 554,923
Investments for operating activities	2,493,686	2,761,594
Investments for capital activities	542,561	462,223
Investments for student loan activities	72,176	68,858
Accounts receivable, net	1,581,424	1,533,684
Current portion of notes and pledges receivable, net	131,347	120,910
Current portion of other assets	346,637	411,289
Total Current Assets	<u>5,876,695</u>	<u>5,913,481</u>
Noncurrent Assets:		
Endowment, life income and other investments	22,554,331	20,572,922
Notes and pledges receivable, net	345,522	290,198
Other assets	128,224	120,636
Capital assets, net	8,283,387	7,570,687
Total Noncurrent Assets	<u>31,311,464</u>	<u>28,554,443</u>
<b>Total Assets</b>	<b><u>37,188,159</u></b>	<b><u>34,467,924</u></b>
	<b><u>824,874</u></b>	<b><u>1,011,982</u></b>
<b>Deferred Outflows</b>		
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable	805,246	689,962
Accrued compensation and other	965,942	826,093
Unearned revenue	406,716	520,848
Current portion of insurance and benefits reserves	203,401	283,235
Current portion of obligations for postemployment benefits	104,080	125,075
Commercial paper and current portion of bonds payable	355,557	402,592
Long-term bonds payable subject to remarketing	274,640	343,770
Total Current Liabilities	<u>3,115,582</u>	<u>3,191,575</u>
Noncurrent Liabilities:		
Accrued compensation	19,832	29,884
Insurance and benefits reserves	207,244	211,533
Obligations for defined benefit pension plans, net	(38,601)	(35,571)
Obligations for postemployment benefits	3,732,881	3,904,973
Obligations under life income agreements	73,367	68,017
Government loan advances	26,109	30,919
Bonds payable	4,163,581	4,264,053
Other liabilities	375,747	322,150
Total Noncurrent Liabilities	<u>8,560,160</u>	<u>8,795,958</u>
<b>Total Liabilities</b>	<b><u>11,675,742</u></b>	<b><u>11,987,533</u></b>
	<b><u>1,397,672</u></b>	<b><u>1,238,069</u></b>
<b>Deferred Inflows</b>		
<b>Net Position</b>		
Net investment in capital assets	5,538,698	4,977,364
Restricted:		
Nonexpendable	3,367,264	3,221,288
Expendable	9,721,386	8,467,425
Unrestricted	6,312,271	5,588,227
<b>Total Net Position</b>	<b><u>\$ 24,939,619</u></b>	<b><u>\$ 22,254,304</u></b>

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**

	<b>Year Ended June 30,</b>	
	<b>2025</b>	<b>2024</b>
	(in thousands)	
<b>Operating Revenues</b>		
Student tuition and fees	\$ 2,442,737	\$ 2,308,263
Less scholarship allowances	651,600	603,351
Net student tuition and fees	1,791,137	1,704,912
Federal grants and contracts	1,408,864	1,331,497
State and local grants and contracts	18,226	17,977
Nongovernmental sponsored programs	285,989	271,490
Sales and services of educational departments	192,697	185,445
Auxiliary enterprises:		
Patient care revenues (net of provision for bad debts of \$293,740 in 2025 and \$220,622 in 2024)	8,746,306	8,019,381
Student residence fees (net of scholarship allowances of \$29,000 in 2025 and \$28,214 in 2024)	143,910	139,628
Other revenues	313,661	275,615
Student loan interest income and fees	1,471	1,789
<b>Total Operating Revenues</b>	<b>12,902,261</b>	<b>11,947,734</b>
<b>Operating Expenses</b>		
Compensation and benefits	8,956,896	8,330,970
Supplies and services	4,465,956	4,022,075
Depreciation	719,931	688,146
Scholarships and fellowships	262,564	229,222
<b>Total Operating Expenses</b>	<b>14,405,347</b>	<b>13,270,413</b>
Operating Loss	(1,503,086)	(1,322,679)
<b>Nonoperating Revenues (Expenses)</b>		
State educational appropriations	424,670	414,207
State supplemental appropriations	69,700	6,271
Federal Pell grants	84,412	65,144
Private gifts for other than capital and endowment purposes	280,115	249,839
Net investment income	3,221,410	1,932,833
Interest expense	(182,371)	(183,440)
<b>Total Nonoperating Revenues, Net</b>	<b>3,897,936</b>	<b>2,484,854</b>
Income Before Other Revenues (Expenses)	2,394,850	1,162,175
<b>Other Revenues (Expenses)</b>		
State capital appropriations	111,386	49,857
Capital gifts and grants	49,013	145,448
Private gifts for permanent endowment purposes	133,246	247,716
Other	(3,180)	8,935
<b>Total Other Revenues, Net</b>	<b>290,465</b>	<b>451,956</b>
Increase in Net Position	2,685,315	1,614,131
Net Position, Beginning of Year	22,254,304	20,713,761
Adoption of GASB 101		(73,588)
Net Position, Beginning of Year, as Restated	22,254,304	20,640,173
<b>Net Position, End of Year</b>	<b>\$ 24,939,619</b>	<b>\$ 22,254,304</b>

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

UNIVERSITY OF MICHIGAN  
**Consolidated Statement of Cash Flows**

	<b>Year Ended June 30,</b>	
	<b>2025</b>	<b>2024</b>
	(in thousands)	
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 1,789,789	\$ 1,705,351
Federal, state and local grants and contracts	1,401,576	1,350,249
Nongovernmental sponsored programs	289,732	261,085
Sales and services of educational departments and other	486,608	456,195
Patient care revenues	8,715,320	7,737,256
Student residence fees	142,655	139,028
Payments for compensation and benefits	(8,733,883)	(8,118,277)
Payments to suppliers	(4,447,582)	(4,026,458)
Payments for scholarships and fellowships	(262,564)	(229,222)
Student loans issued	(5,633)	(6,206)
Student loan collections	11,138	13,268
<b>Net Cash Used in Operating Activities</b>	<b>(612,844)</b>	<b>(717,731)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
State educational appropriations	422,768	410,255
State supplemental appropriations	34,700	6,271
Federal Pell grants	84,412	65,144
Private gifts and other receipts	314,408	514,005
Principal payments on debt	(100,000)	(52,000)
Interest payments on debt	(89,755)	(89,755)
Student direct lending receipts	329,637	310,723
Student direct lending disbursements	(328,909)	(314,844)
Amounts received for annuity and life income funds	10,187	5,066
Amounts paid to annuitants and life beneficiaries and related expenses	(11,587)	(10,848)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>665,861</b>	<b>844,017</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
State capital appropriations	44,662	128,513
Private gifts and other receipts	53,598	49,670
Principal and interest payments on lease and subscription liabilities	(100,916)	(89,235)
Proceeds from issuance of capital debt	57,085	61,725
Principal payments on capital debt	(162,660)	(479,928)
Interest payments on capital debt	(97,915)	(107,480)
Purchases of capital assets	(1,201,185)	(975,561)
Proceeds from sales of capital assets	3,249	3,152
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(1,404,082)</b>	<b>(1,409,144)</b>

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

UNIVERSITY OF MICHIGAN

Consolidated Statement of Cash Flows—Continued

	Year Ended June 30,	
	2025	2024
	(in thousands)	
<b>Cash Flows from Investing Activities</b>		
Interest and dividends on investments, net	278,974	270,691
Proceeds from sales and maturities of investments	10,912,221	10,139,184
Purchases of investments	(9,869,879)	(9,617,470)
Net decrease in cash equivalents from noncurrent investments	184,431	289,948
Net (increase) decrease in fiduciary custodial funds and other	(741)	5,290
<b>Net Cash Provided by Investing Activities</b>	<b>1,505,006</b>	<b>1,087,643</b>
Net Increase (Decrease) in Cash and Cash Equivalents	153,941	(195,215)
Cash and Cash Equivalents, Beginning of Year	554,923	750,138
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 708,864</b>	<b>\$ 554,923</b>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>		
Operating loss	\$ (1,503,086)	\$ (1,322,679)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	719,931	688,146
Changes in assets and liabilities:		
Accounts receivable, net	(52,929)	(288,500)
Notes and pledges receivable, net	4,895	4,744
Other assets	77,766	(55,870)
Accounts payable	19,120	23,760
Accrued compensation and other	70,014	46,226
Unearned revenue	(15,394)	(3,854)
Insurance and benefits reserves	(84,123)	28,992
Obligations for defined benefit pension plans, net	(3,030)	(50,760)
Obligations for postemployment benefits	(193,087)	313,673
Changes in deferred outflows	185,737	59,530
Changes in deferred inflows	161,342	(161,139)
<b>Net Cash Used in Operating Activities</b>	<b>\$ (612,844)</b>	<b>\$ (717,731)</b>

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

UNIVERSITY OF MICHIGAN

**University of Michigan Health Plan Holdings, LLC**  
**Discretely Presented Component Unit**  
**Statement of Net Position**

	December 31,	
	2024	2023
	(in thousands)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 37,656	\$ 65,605
Accounts receivable, net	25,098	18,521
Amounts receivable from the University	22,580	91
Current portion of other assets	3,910	882
Total Current Assets	<u>89,244</u>	<u>85,099</u>
Noncurrent Assets:		
Investments	3,001	2,729
Other assets	415	451
Capital assets, net	3,774	5,935
Total Noncurrent Assets	<u>7,190</u>	<u>9,115</u>
<b>Total Assets</b>	<b><u>96,434</u></b>	<b><u>94,214</u></b>
<b>Liabilities</b>		
Current Liabilities:		
Amounts payable to the University	5,107	6,911
Unearned premiums	3,632	2,764
Prefunding on self-insured accounts	4,887	4,918
Current portion of other liabilities	15,664	13,355
Insurance and benefits reserves	41,527	38,123
Total Current Liabilities	<u>70,817</u>	<u>66,071</u>
Noncurrent Liabilities:		
Other liabilities	161	161
<b>Total Liabilities</b>	<b><u>70,978</u></b>	<b><u>66,232</u></b>
<b>Net Position</b>		
Net investment in capital assets	3,195	5,386
Unrestricted	22,261	22,596
<b>Total Net Position</b>	<b><u>\$ 25,456</u></b>	<b><u>\$ 27,982</u></b>

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

UNIVERSITY OF MICHIGAN

**University of Michigan Health Plan Holdings, LLC**  
**Discretely Presented Component Unit**  
**Statement of Revenues, Expenses**  
**and Changes in Net Position**

	Year Ended December 31,	
	2024	2023
	(in thousands)	
<b>Operating Revenues</b>		
Gross direct written premiums	\$ 253,728	\$ 269,169
Ceded written premiums	(691)	(1,483)
<b>Total Operating Revenues</b>	<b>253,037</b>	<b>267,686</b>
<b>Operating Expenses</b>		
Losses and loss adjustment expenses, net of reinsurance	223,251	255,516
Compensation and benefits	20,009	17,863
Supplies, services and other	39,709	36,858
Depreciation	2,913	2,802
<b>Total Operating Expenses</b>	<b>285,882</b>	<b>313,039</b>
Operating Loss	(32,845)	(45,353)
<b>Nonoperating Revenues (Expenses)</b>		
Net investment income	3,348	3,832
Interest expense	(29)	(34)
Other		10,075
<b>Total Nonoperating Revenues, net</b>	<b>3,319</b>	<b>13,873</b>
Loss Before Other Revenues	(29,526)	(31,480)
<b>Other Revenues</b>		
Capital contributions	27,000	38,925
<b>Total Other Revenues</b>	<b>27,000</b>	<b>38,925</b>
(Decrease) Increase in Net Position	(2,526)	7,445
Net Position, Beginning of Year	27,982	20,811
Adoption of GASB 101		(274)
Net Position, Beginning of Year, as Restated	27,982	20,537
<b>Net Position, End of Year</b>	<b>\$ 25,456</b>	<b>\$ 27,982</b>

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

UNIVERSITY OF MICHIGAN

**Statement of Fiduciary Net Position**

		<b>June 30, 2025</b>	
		Custodial Funds	Pension Trust Funds
		(in thousands)	
<b>Assets</b>			
Receivables			\$ 6,297
Investments	\$ 316,831		791,700
<b>Total Assets</b>	<b>316,831</b>		<b>797,997</b>
<b>Liabilities</b>			
Due to individuals and organizations	45,497		850
<b>Total Liabilities</b>	<b>45,497</b>		<b>850</b>
<b>Fiduciary Net Position</b>			
Restricted for:			
Pensions			797,147
Organizations	271,334		
<b>Total Fiduciary Net Position</b>	<b>\$ 271,334</b>		<b>\$ 797,147</b>

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

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

UNIVERSITY OF MICHIGAN

**Statement of Changes in Fiduciary Net Position**

	<b>Year Ended June 30, 2025</b>	
	Custodial Funds	Pension Trust Funds
	(in thousands)	
<b>Additions</b>		
Contributions:		
Organizations	\$ 8,355	
Employer		\$ 20,636
Total contributions	8,355	20,636
Net investment income	14,137	60,373
<b>Total Additions</b>	<b>22,492</b>	<b>81,009</b>
<b>Deductions</b>		
Benefits paid to participants		50,880
Administrative expenses		8,422
Withdrawals	4,893	
<b>Total Deductions</b>	<b>4,893</b>	<b>59,302</b>
Increase in Fiduciary Net Position	17,599	21,707
Fiduciary Net Position, Beginning of Year	253,735	775,440
<b>Fiduciary Net Position, End of Year</b>	<b>\$ 271,334</b>	<b>\$ 797,147</b>

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

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

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements**

June 30, 2025 and 2024

**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 67,000 students on its three campuses. The consolidated financial statements include the individual schools, colleges and departments, the University’s Academic Medical Center, 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), Michigan Health Corporation (a wholly-owned corporation created for joint venture and managed care initiatives) and Veritas Insurance Corporation (a wholly-owned captive insurance company). The University also presents financial statements for its discretely presented component unit, University of Michigan Health Plan 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.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

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

During 2025, the University adopted GASB Statement No. 101, *Compensated Absences* (“GASB 101”), which establishes a unified recognition and measurement model for compensated absence liabilities. The adoption of GASB 101 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2023, and is summarized as follows:

	June 30, 2023		
	As Previously Reported	GASB 101 Adoption	July 1, 2023 As Restated
	(in thousands)		
Accrued compensation and other	\$ 726,360	\$ 50,228	\$ 776,588
Accrued compensation	\$ 15,324	\$ 23,360	\$ 38,684
Net position	\$ 20,713,761	\$ (73,588)	\$ 20,640,173

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.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

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

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.

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, 2025 and 2024. 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

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

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

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.

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

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

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

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.

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 \$4,804,342,000 and \$4,001,852,000 at June 30, 2025 and 2024, 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.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

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

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

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

Patient care services are provided to patients who meet certain criteria under the University's charity care policies without charge or at amounts less than its established rates. Accordingly, charity care is not reported as revenue in the accompanying statement of revenues, expenses and changes in net position. Charges forgone for charity care services totaled \$214,379,000 and \$160,688,000 in 2025 and 2024, 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 and include funding for such items as the Electric Vehicle Center, semiconductor research and critical incident mapping.

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.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**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.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**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 \$708,864,000 and \$554,923,000 at June 30, 2025 and 2024, 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 \$183,514,000 and \$205,867,000 at June 30, 2025 and 2024, respectively.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

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 \$109,462,000 and \$67,806,000 at June 30, 2025 and 2024, respectively. Level 2 securities, which primarily consist of commercial paper and repurchase agreements, totaled \$78,831,000 and \$5,959,000 at June 30, 2025 and 2024, respectively.

Investments: At June 30, 2025 and 2024, the University’s investments, which are held by the University or its agents in the University’s name, are summarized as follows:

	2025	2024
	(in thousands)	
Cash equivalents, noncurrent	\$ 103,748	\$ 284,549
Equity securities	975,835	666,983
Fixed income securities	4,260,237	4,816,362
Commingled funds	3,476,384	3,277,662
Nonmarketable alternative investments	17,153,118	15,105,629
Other investments	10,263	12,077
	25,979,585	24,163,262
Less fiduciary custodial funds	316,831	297,665
	<u>\$ 25,662,754</u>	<u>\$ 23,865,597</u>

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 2—Cash and Investments—Continued

At June 30, 2025 and 2024, the fair value of the University’s investments based on the inputs used to value them is summarized as follows:

	2025				Total Fair Value
	Level 1	Level 2	Level 3 (in thousands)	NAV	
Cash equivalents, noncurrent	\$ 103,748	-	-	-	\$ 103,748
Equity securities:					
Domestic	246,529	\$ 1,087	\$ 95,615		343,231
Foreign	629,988		2,616		632,604
	876,517	1,087	98,231	-	975,835
Fixed income securities:					
U.S. Treasury	2,196,924				2,196,924
U.S. government agency		265,014			265,014
Corporate and other		1,785,749	12,550		1,798,299
	2,196,924	2,050,763	12,550	-	4,260,237
Commingled funds:					
Absolute return				\$ 1,993,298	1,993,298
Domestic equities	297,515			373,821	671,336
Global equities				478,355	478,355
U.S. fixed income	298,048				298,048
Other	35,347				35,347
	630,910	-	-	2,845,474	3,476,384
Nonmarketable alternative investments:					
Venture capital			1,226,224	5,931,059	7,157,283
Absolute return			18,246	2,424,213	2,442,459
Private equity				2,385,066	2,385,066
Real estate				1,715,962	1,715,962
Infrastructure				2,256,884	2,256,884
Natural resources			142,674	1,052,790	1,195,464
	-	-	1,387,144	15,765,974	17,153,118
Other investments	3,717	(793)	7,339	-	10,263
	\$ 3,811,816	\$ 2,051,057	\$ 1,505,264	\$ 18,611,448	25,979,585
Less fiduciary custodial funds					316,831
					\$ 25,662,754

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 2—Cash and Investments—Continued

	2024				Total Fair Value
	Level 1	Level 2	Level 3 (in thousands)	NAV	
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
					<u>\$ 23,865,597</u>

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 \$2,840,621,000 and \$1,480,640,000 for the years ended June 30, 2025 and 2024, respectively.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**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 both June 30, 2025 and 2024. 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, 2025 and 2024, which are used to adjust the duration of cash equivalents and the fixed income portion of the portfolios.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 2—Cash and Investments—Continued

The composition of fixed income securities at June 30, 2025 and 2024, along with credit quality and effective duration measures, is summarized as follows:

	2025					Duration (in years)
	U.S. Government	Investment Grade	Non- Investment Grade (in thousands)	Not Rated	Total	
U.S. Treasury	\$ 2,185,149				\$ 2,185,149	2.1
U.S. Treasury inflation protected	11,775				11,775	5.0
U.S. government agency	259,508			\$ 5,506	265,014	3.4
Mortgage backed		\$ 93,706		19,416	113,122	2.4
Asset backed		254,347	\$ 1,706	200	256,253	2.3
Corporate and other		1,350,314	13,048	65,562	1,428,924	2.9
	\$ 2,456,432	\$ 1,698,367	\$ 14,754	\$ 90,684	\$ 4,260,237	2.5

	2024					Duration (in years)
	U.S. Government	Investment Grade	Non- Investment Grade (in thousands)	Not Rated	Total	
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

Of the University's fixed income securities, 98 percent and 99 percent were rated investment grade or better at June 30, 2025 and 2024, respectively, and 71 percent and 73 percent of these securities consisted of either U.S. Treasury and government agencies or non-U.S. government securities rated AAA/Aaa at June 30, 2025 and 2024, 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.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

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, 2025 and 2024, 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, 2025 is summarized as follows (amounts in thousands):

	Fair Value	Remaining Life	Outstanding Commitments	Redemption Terms	Redemption Notice
Commingled funds	\$ 3,476,384	N/A	\$ -	Daily, monthly, quarterly and annually, with varying notice periods	Lock-up provisions range from none to five years
Nonmarketable alternative investments	\$ 17,153,118	1-12 years	\$ 4,510,888	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, 2025 and 2024, 74 percent and 86 percent, respectively, are redeemable within one year, with 57 percent and 43 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.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**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 \$1,672,435,000 or 6 percent of total investments at June 30, 2025, and \$1,522,932,000 or 6 percent of total investments at June 30, 2024, and is summarized as follows:

	<b>2025</b>	<b>2024</b>
	(in thousands)	
Euro	\$ 1,177,033	\$ 978,374
British pound sterling	276,605	237,848
Swedish krona	87,545	136,889
Danish krone	52,108	22,159
Japanese yen	18,743	93,622
Canadian dollar	17,005	32,578
Other	43,396	21,462
	\$ 1,672,435	\$ 1,522,932

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**Note 3—Accounts Receivable**

The composition of accounts receivable at June 30, 2025 and 2024 is summarized as follows:

	<b>2025</b>	<b>2024</b>
	(in thousands)	
Patient care	\$ 1,363,958	\$ 1,312,964
Sponsored programs	249,003	216,201
State appropriations, educational and capital	79,710	77,889
Student accounts	50,330	47,261
Other	97,245	101,534
	1,840,246	1,755,849
Less allowance for uncollectible accounts receivable:		
Patient care	236,267	198,077
All other	22,555	24,088
	\$ 1,581,424	\$ 1,533,684

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**Note 4—Notes and Pledges Receivable**

The composition of notes and pledges receivable at June 30, 2025 and 2024 is summarized as follows:

	<b>2025</b>	<b>2024</b>
	(in thousands)	
Notes:		
Federal student loan programs	\$ 30,836	\$ 35,110
University student loan funds	14,915	15,032
Other	4,929	5,239
	50,680	55,381
Less allowance for uncollectible notes	3,100	3,100
Total notes receivable, net	47,580	52,281
Gift pledges:		
Capital	182,183	189,084
Operations	272,591	189,749
	454,774	378,833
Less:		
Allowance for uncollectible pledges	10,774	9,404
Unamortized discount to present value	14,711	10,602
Total pledges receivable, net	429,289	358,827
Total notes and pledges receivable, net	476,869	411,108
Less current portion	131,347	120,910
	\$ 345,522	\$ 290,198

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.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 4—Notes and Pledges Receivable—Continued

Payments on pledges receivable at June 30, 2025 are expected to be received in the following years ended June 30 (in thousands):

2026	\$ 125,590
2027	76,266
2028	58,250
2029	51,139
2030	30,237
2031 and after	113,292
	<hr/>
	\$ 454,774

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling \$217,155,000 and \$164,342,000 at June 30, 2025 and 2024, respectively, are not reflected within 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.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 5—Capital Assets

Capital assets activity for the years ended June 30, 2025 and 2024 is summarized as follows:

	<b>2025</b>			
	Beginning Balance	Additions	Retirements	Ending Balance
	(in thousands)			
Land	\$ 254,120	\$ 85,980	\$ 45	\$ 340,055
Land improvements	203,130	9,620	1,616	211,134
Infrastructure	265,696	325		266,021
Buildings	11,657,681	450,730	97,668	12,010,743
Construction in progress	1,151,194	497,624		1,648,818
Equipment	3,057,187	210,840	118,532	3,149,495
Library materials	807,792	27,405		835,197
Right-to-use assets	565,253	155,726	35,270	685,709
	17,962,053	1,438,250	253,131	19,147,172
Less accumulated depreciation:				
Land improvements	159,077	9,443	1,615	166,905
Infrastructure	217,670	5,804		223,474
Buildings	6,704,551	412,382	97,524	7,019,409
Equipment	2,383,703	174,217	112,706	2,445,214
Library materials	673,628	26,628		700,256
Right-to-use assets	252,737	91,457	35,667	308,527
	10,391,366	719,931	247,512	10,863,785
	<b>\$ 7,570,687</b>	<b>\$ 718,319</b>	<b>\$ 5,619</b>	<b>\$ 8,283,387</b>

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 5—Capital Assets—Continued

	<b>2024</b>			
	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:				
Land improvements	151,290	8,731	944	159,077
Infrastructure	211,759	5,943	32	217,670
Buildings	6,368,609	384,451	48,509	6,704,551
Equipment	2,292,950	177,321	86,568	2,383,703
Library materials	647,208	26,420		673,628
Right-to-use assets	189,186	85,280	21,729	252,737
	9,861,002	688,146	157,782	10,391,366
	<u>\$ 7,089,073</u>	<u>\$ 491,492</u>	<u>\$ 9,878</u>	<u>\$ 7,570,687</u>

The increase in construction in progress of \$497,624,000 in 2025 represents the amount of capital expenditures for new projects of \$1,170,001,000 net of assets placed in service of \$672,377,000. 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.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 6—Long-term Debt

Long-term debt at June 30, 2025 and 2024 is summarized as follows:

	2025	2024
	(in thousands)	
Commercial paper:		
Tax-exempt, variable rate (3.04%)*	\$ 124,230	\$ 128,265
Taxable, variable rate (4.42%)*	118,810	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, 2.977% to 3.599% through 2047	407,385	410,335
Series 2022D, 5.00% through 2033	54,385	54,865
unamortized premium	9,321	10,820
Series 2020A, 4.00% to 5.00% through 2050	122,140	130,485
unamortized premium	25,747	28,095
Series 2020B, taxable, 1.004% to 2.562% through 2050	750,025	850,025
Series 2019A, 5.00% through 2036	93,860	104,220
unamortized premium	10,401	12,661
Series 2019B, taxable, 2.966% to 3.416% through 2029	7,285	8,975
Series 2018A, 4.00% to 5.00% through 2048	118,180	121,360
unamortized premium	12,045	12,975
Series 2017A, 4.86% to 5.00% through 2035	174,430	202,700
unamortized premium	24,065	26,739
Series 2015, 4.00% to 5.00% through 2035	102,640	107,845
unamortized premium	11,397	12,483
Series 2014A, 4.25% to 5.00% through 2030	14,400	16,730
unamortized premium	1,017	1,116
Series 2013A, 2.75% to 4.00% through 2029	28,235	36,015
unamortized premium	290	456
Series 2012A, variable rate (1.72%)* through 2036	50,000	50,000
Series 2012B, variable rate (3.90%)* through 2042	65,000	65,000
Series 2012D-1, variable rate through 2025 with partial swap to fixed through 2025		15,625
Series 2012D-2, variable rate (1.45%)* through 2030 with partial swap to fixed through 2026	28,420	33,840
Series 2010A, taxable Build America Bonds, 5.513% to 5.593% through 2040	155,185	155,860
Series 2010D, taxable Build America Bonds, 4.206% to 5.333% through 2041	141,620	143,330
Series 2009B, variable rate (3.04%)* through 2039	118,710	118,710
Series 2008A, variable rate through 2038		57,085
Series 2008B, variable rate (1.72%)* through 2028 with partial swap to fixed through 2026	24,555	32,075
	4,793,778	5,010,415
Less:		
Commercial paper and current portion of bonds payable	355,557	402,592
Long-term bonds payable subject to remarketing	274,640	343,770
	<u>\$ 4,163,581</u>	<u>\$ 4,264,053</u>

\* Denotes variable rate at June 30, 2025

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 6—Long-term Debt—Continued

The University’s 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.

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.

Long-term debt activity for the years ended June 30, 2025 and 2024 is summarized as follows:

	<b>2025</b>			
	Beginning Balance	Additions	Reductions	Ending Balance
	(in thousands)			
Commercial paper	\$ 189,990	\$ 57,085	\$ 4,035	\$ 243,040
General revenue bonds	4,820,425		269,687	4,550,738
	<u>\$ 5,010,415</u>	<u>\$ 57,085</u>	<u>\$ 273,722</u>	<u>\$ 4,793,778</u>
	<b>2024</b>			
	Beginning Balance	Additions	Reductions	Ending Balance
	(in thousands)			
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	-
	<u>\$ 5,455,087</u>	<u>\$ 122,098</u>	<u>\$ 566,770</u>	<u>\$ 5,010,415</u>

The University maintains a combination of variable and fixed rate debt supported by general revenues, with effective interest rates that averaged 3.5 percent and 3.6 percent in 2025 and 2024, respectively.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**Note 6—Long-term Debt—Continued**

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

During 2025, the University issued \$57,085,000 of taxable commercial paper. Total proceeds of \$57,085,000 were used to refund the remaining portion of General Revenue Bonds Series 2008A, which had an interest rate of 3.5 percent at June 15, 2025 and a final maturity date of April 1, 2038. As a result of this refunding, the University increased its aggregate debt service payments over the next 13 years by \$5,972,000, resulting in a present value economic loss of \$4,684,000.

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 University used existing resources of \$102,460,000 to retire Michigan Finance Authority Hospital Revenue Bonds Series 2017A and 2017B. The University 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 2024.

Deferred outflows and deferred inflows associated with the University's refunding activity totaled \$27,348,000 and \$35,863,000, respectively, at June 30, 2025 and \$29,185,000 and \$39,550,000, respectively, at June 30, 2024. The outstanding balance of these deferred outflows and deferred inflows will be amortized into interest expense over the remaining life of the refunded bonds.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

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*	Total
		(in thousands)	
2026	\$ 345,195	\$ 171,263	\$ 516,458
2027	145,010	166,885	311,895
2028	111,255	161,502	272,757
2029	90,990	156,647	247,637
2030	156,485	152,486	308,971
2031-2035	487,730	693,586	1,181,316
2036-2040	795,955	594,414	1,390,369
2041-2045	195,145	481,455	676,600
2046-2050	371,730	452,697	824,427
2051-2055	800,000	323,304	1,123,304
2056-2120		3,474,120	3,474,120
2121-2122	1,200,000	106,896	1,306,896
Total payments	4,699,495	\$ 6,935,255	\$ 11,634,750
Plus unamortized premiums	94,283		
	\$ 4,793,778		

\* Interest on variable rate debt is estimated based on rates in effect at June 30, 2025; amounts do not reflect federal subsidies to be received for Build America Bonds interest

The University maintains six lines of credit which totaled \$2,040,000,000 and were entirely unused at June 30, 2025 and 2024. In accordance with GASB requirements, these lines of credit 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, 2025, and these existing unsecured lines of credit were not extended upon their current expiration dates, the total principal payments due in 2026 would increase to \$422,705,000, total principal payments due in 2027 would increase to \$278,170,000, total principal payments due in 2028 would increase to \$119,715,000, total principal payments due in 2029 would increase to \$107,705,000 and total principal payments due in 2030 would decrease to \$146,170,000. Accordingly, principal payments due in subsequent years would be reduced to \$386,175,000 in 2031 through 2035, \$693,675,000 in 2036 through 2040 and \$173,450,000 in 2041 through 2045. Principal payments due in 2046 through 2122 would not change. There would not be a material impact on annual interest payments as a result of these changes.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

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, 2025 and 2024 are summarized as follows:

	<b>2025</b>	
	Notional Amount	Fair Value
	(in thousands)	
Investment derivative instruments:		
Investment portfolios:		
Futures	\$ 236,399	\$ 2,496
Foreign currency forwards:		
Euro	963,527	(29,931)
Turkish lira	195,709	(3,350)
Japanese yen	160,963	(4,750)
Mexican peso	51,684	5,317
Philippines peso	14,667	3,275
South African rand	10,739	(4,351)
All other currencies	604,259	12,028
	2,001,548	(21,762)
Total return swaps	595,766	294
	\$ 2,833,713	\$ (18,972)
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	\$ 12,035	\$ (68)

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 7—Derivative Instruments—Continued

	<b>2024</b>	
	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)
	<u>1,827,504</u>	<u>4,257</u>
	<u>\$ 1,924,919</u>	<u>\$ 4,813</u>
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)

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.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 7—Derivative Instruments—Continued

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, 2025 and 2024 is summarized as follows:

	2025	2024
	(in thousands)	
Investment derivative instruments:		
Investment portfolios:		
Futures	\$ 7,162	\$ 4,267
Foreign currency forwards	(68,056)	31,655
Other	(1,733)	3,566
	\$ (62,627)	\$ 39,488
Other derivative instruments:		
Floating-to-fixed interest rate swap on debt	\$ 80	\$ 273
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	\$ (41)	\$ 5

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**Note 7—Derivative Instruments—Continued**

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, 2025 and 2024, 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 \$2,777,000 and \$4,937,000 at June 30, 2025 and 2024, respectively, on deposit with its futures broker as collateral.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**Note 8—Self-Insurance**

The University is self-insured for medical malpractice, directors’ and officers’ liability, workers’ compensation, property damage, general liability, cyber liability and auto 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 liability for insurance and benefits reserves for the years ended June 30, 2025 and 2024 are summarized as follows:

	<b>2025</b>	<b>2024</b>
	(in thousands)	
Balance, beginning of year	\$ 494,768	\$ 465,776
Claims incurred and changes in estimates	1,194,343	1,166,683
Claim payments	(1,278,466)	(1,137,691)
Balance, end of year	410,645	494,768
Less current portion	203,401	283,235
	\$ 207,244	\$ 211,533

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

**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, 2024 and 2023 were determined based on an actuarial valuation at January 1, 2024 and 2023, 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, 2024 and 2023 measurement dates, the number of plan participants consisted of the following:

	<b>2025</b>	
	Plan A1	Plan A2
Active participants	970	740
Vested terminated participants	250	1,339
Retirees, beneficiaries and disabled participants	1,300	1,708
	<u>2,520</u>	<u>3,787</u>
	<b>2024</b>	
	Plan A1	Plan A2
Active participants	1,080	796
Vested terminated participants	226	1,350
Retirees, beneficiaries and disabled participants	1,252	1,679
	<u>2,558</u>	<u>3,825</u>

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 9—Pension Plans—Continued

Changes in the reported net pension liability for the years ended June 30, 2025 and 2024 are summarized as follows:

	<b>2025</b>		
	Total Pension Liability	Plan Fiduciary Net Position (in thousands)	Net Pension Liability
Balance, beginning of year	\$ 664,477	\$ 688,526	\$ (24,049)
Service cost	2,976		2,976
Interest cost	46,735		46,735
Changes in assumptions	28,414		28,414
Differences between expected and actual plan experience	(971)		(971)
Benefit payments	(45,272)	(45,272)	-
Contributions from the employer		33,698	(33,698)
Administrative expenses		(8,665)	8,665
Net investment income:			
Expected investment earnings		49,486	(49,486)
Differences between expected and actual investment earnings		(3,154)	3,154
Balance, end of year	<u>\$ 696,359</u>	<u>\$ 714,619</u>	<u>\$ (18,260)</u>
	<b>2024</b>		
	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	<u>\$ 664,477</u>	<u>\$ 688,526</u>	<u>\$ (24,049)</u>

The plan fiduciary net position as a percentage of the total pension liability was 103 percent and 104 percent at June 30, 2025 and 2024, respectively.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 9—Pension Plans—Continued

Significant actuarial assumptions used at the December 31, 2024 and 2023 measurement dates are as follows:

	2025	
	Plan A1	Plan A2
Discount rate	7.50%	6.20%
Increase in compensation rate (including inflation)	Age graded from 2.50% to 4.70%	N/A
Investment rate of return	7.50%	6.20%
Mortality table	Pri-2012, Scale MSS-2024	Pri-2012, Scale MSS-2024
	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

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.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

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 at the December 31, 2024 and 2023 measurement dates are summarized as follows:

	<b>2025</b>			
	Plan A1		Plan A2	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	22.0%	8.4%	13.0%	8.0%
U.S. small/mid cap	8.0%	9.2%	4.0%	8.0%
International developed	20.0%	9.3%	8.0%	9.3%
U.S. fixed income	20.0%	6.5%	60.0%	6.0%
High yield	8.0%	7.8%	2.0%	7.8%
Emerging markets debt	5.0%	8.8%	2.0%	8.8%
Private real estate	5.0%	7.3%	11.0%	7.3%
Private equity	7.0%	12.6%		
Structured credit	5.0%	10.5%		

	<b>2024</b>			
	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 STRIPs	20.0%	6.7%	52.0%	6.6%
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%		

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 9—Pension Plans—Continued

A one-percentage point change in the discount rate would impact the reported net pension liability at June 30, 2025 and 2024 as follows:

	2025		2024	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	(in thousands)			
Net pension liability	\$ 68,409	\$ (58,521)	\$ 66,033	\$ (56,617)

The components of pension expense for the years ended June 30, 2025 and 2024 are summarized as follows:

	2025	2024
	(in thousands)	
Service cost	\$ 2,976	\$ 3,871
Interest cost	46,735	44,823
Administrative expenses	8,665	7,794
Expected investment earnings	(49,486)	(43,563)
Amortization of deferred outflows and deferred inflows	33,090	25,054
	<u>\$ 41,980</u>	<u>\$ 37,979</u>

Deferred outflows and deferred inflows related to the reported net pension liability at June 30, 2025 and 2024 are summarized as follows:

	2025		2024	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
	(in thousands)			
Changes in assumptions	\$ 16,017	\$ 12,178	\$ 256	\$ 24,109
Differences between expected and actual plan experience	2,365	472	5,066	
Differences between expected and actual investment earnings	57,474		84,485	
	75,856	12,650	89,807	24,109
Contributions made after measurement date	9,466		5,107	
	<u>\$ 85,322</u>	<u>\$ 12,650</u>	<u>\$ 94,914</u>	<u>\$ 24,109</u>

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

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):

2026	\$ 36,009
2027	30,054
2028	(3,488)
2029	631
	<u>\$ 63,206</u>

The inputs used to determine the fair value of the plan’s investments reported at June 30, 2025 and 2024 are summarized as follows:

	<b>2025</b>		
	Level 1	NAV (in thousands)	Total Fair Value
Cash and cash equivalents	\$ 3,965		\$ 3,965
Commingled funds	572,691	\$ 137,963	710,654
	<u>\$ 576,656</u>	<u>\$ 137,963</u>	<u>\$ 714,619</u>
	<b>2024</b>		
	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
	<u>\$ 553,268</u>	<u>\$ 135,258</u>	<u>\$ 688,526</u>

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**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, 2024 and 2023 were determined based on an actuarial valuation at October 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 September 30, 2024 and 2023 measurement dates, the number of plan participants consisted of the following:

	<b>2025</b>	<b>2024</b>
Active participants	307	326
Vested terminated participants	667	722
Retirees, beneficiaries and disabled participants	631	602
	1,605	1,650

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**Note 9—Pension Plans—Continued**

Changes in the reported net pension liability for the years ended June 30, 2025 and 2024 are summarized as follows:

	<b>2025</b>		
	Total Pension Liability	Plan Fiduciary Net Position (in thousands)	Net Pension Liability
Balance, beginning of year	\$ 57,907	\$ 69,429	\$ (11,522)
Interest cost	4,690		4,690
Changes in assumptions	(222)		(222)
Differences between expected and actual plan experience	333		333
Benefit payments	(5,608)	(5,608)	-
Administrative expenses		(139)	139
Net investment income:			
Expected investment earnings		5,663	(5,663)
Differences between expected and actual investment earnings		8,096	(8,096)
Balance, end of year	<u>\$ 57,100</u>	<u>\$ 77,441</u>	<u>\$ (20,341)</u>
	<b>2024</b>		
	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	<u>\$ 57,907</u>	<u>\$ 69,429</u>	<u>\$ (11,522)</u>

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 9—Pension Plans—Continued

The plan fiduciary net position as a percentage of the total pension liability was 136 percent and 120 percent at June 30, 2025 and 2024, respectively.

Significant actuarial assumptions used at the September 30, 2024 and 2023 measurement dates are as follows:

	2025	2024
Discount rate	8.5%	8.5%
Inflation	2.0%	2.0%
Investment rate of return	8.5%	8.5%
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 at the September 30, 2024 and 2023 measurement dates are summarized as follows:

	2025		2024	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	30.0%	9.7%	25.0%	9.4%
U.S. mid cap	10.0%	10.5%	10.5%	10.2%
U.S. small cap	5.0%	10.8%	6.5%	10.5%
International developed			14.0%	7.4%
Emerging market			9.0%	7.5%
STRIPs	10.0%	7.4%	7.0%	7.6%
Corporate 10+ year	40.0%	5.6%	28.0%	5.8%
Hedge funds	5.0%	8.7%		

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 9—Pension Plans—Continued

A one-percentage point change in the discount rate would impact the reported net pension liability at June 30, 2025 and 2024 as follows:

	2025		2024	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	(in thousands)			
Net pension liability	\$ 5,007	\$ (4,347)	\$ 5,109	\$ (4,420)

The components of pension expense for the years ended June 30, 2025 and 2024 are summarized as follows:

	2025	2024
	(in thousands)	
Interest cost	\$ 4,690	\$ 4,477
Administrative expenses	139	151
Expected investment earnings	(5,663)	(4,503)
Amortization of deferred outflows and deferred inflows	(3,189)	(3,982)
	\$ (4,023)	\$ (3,857)

Deferred outflows and deferred inflows related to the reported net pension liability at June 30, 2025 and 2024 are summarized as follows:

	2025		2024	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
	(in thousands)			
Changes in assumptions		\$ 74		\$ 2,668
Differences between expected and actual plan experience	\$ 111		\$ 37	
Differences between expected and actual investment earnings		2,344	5,120	
	\$ 111	\$ 2,418	\$ 5,157	\$ 2,668

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

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):

2026	\$ (823)
2027	2,372
2028	(2,237)
2029	(1,619)
	<u>\$ (2,307)</u>

The inputs used to determine the fair value of the plan’s investments reported at June 30, 2025 and 2024 are summarized as follows:

	2025			Total Fair Value
	Level 1	Level 2	NAV	
	(in thousands)			
Cash and cash equivalents	\$ 2,419			\$ 2,419
Equity securities	32,341			32,341
Fixed income securities	9,237	\$ 28,967		38,204
Nonmarketable alternative investments			\$ 4,477	4,477
	<u>\$ 43,997</u>	<u>\$ 28,967</u>	<u>\$ 4,477</u>	<u>\$ 77,441</u>
	2024			Total Fair Value
	Level 1	Level 2	NAV	
	(in thousands)			
Cash and cash equivalents	\$ 2,702			\$ 2,702
Equity securities	33,100			33,100
Fixed income securities	6,466	\$ 19,076		25,542
Nonmarketable alternative investments			\$ 8,085	8,085
	<u>\$ 42,268</u>	<u>\$ 19,076</u>	<u>\$ 8,085</u>	<u>\$ 69,429</u>

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**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. 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, 2024 and 2023 were determined based on an actuarial valuation at January 1, 2024 and 2023, 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.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 10—Postemployment Benefits—Continued

For purposes of the June 30, 2024 and 2023 measurement dates, the number of plan participants consisted of the following:

	2024		2023	
	Retiree Health and Welfare	Long-term Disability	Retiree Health and Welfare	Long-term Disability
Active employees	47,647	39,491	45,821	38,365
Retirees receiving benefits	13,008		12,693	
Surviving spouses	938		921	
Participants receiving disability benefits		516		541
	61,593	40,007	59,435	38,906

Changes in the reported total liability for postemployment benefits obligations for the years ended June 30, 2025 and 2024 are summarized as follows:

	2025		
	Retiree Health and Welfare	Long-term Disability	Total
	(in thousands)		
Balance, beginning of year	\$ 3,706,097	\$ 323,951	\$ 4,030,048
Service cost	133,823	30,073	163,896
Interest cost	138,621	12,228	150,849
Changes in assumptions	(381,343)	(14,361)	(395,704)
Differences between expected and actual plan experience	15,407	(4,214)	11,193
Benefit payments	(84,945)	(38,376)	(123,321)
Balance, end of year	3,527,660	309,301	3,836,961
Less current portion	70,933	33,147	104,080
	\$ 3,456,727	\$ 276,154	\$ 3,732,881

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 10—Postemployment Benefits—Continued

	<b>2024</b>		
	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
	<u>\$ 3,621,152</u>	<u>\$ 283,821</u>	<u>\$ 3,904,973</u>

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 \$91,457,000 and \$83,243,000 at June 30, 2025 and 2024, 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 \$409,000,000 and \$448,000,000 at June 30, 2025 and 2024, 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, 2025 and 2024, as a percentage of covered payroll of \$5,603,110,000 and \$5,222,386,000 were 68 percent and 77 percent, respectively.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**Note 10—Postemployment Benefits—Continued**

Significant actuarial assumptions used at the June 30, 2024 and 2023 measurement dates are as follows:

	2024	2023
Discount rate*	3.93%	3.65%
Inflation rate	2.00%	2.00%
Immediate/ultimate administrative trend rate	3.0%/3.0%	0.0%/3.0%
Immediate/ultimate medical trend rate	6.75%/4.5%	5.75%/4.5%
Immediate/ultimate Rx trend rate	10.0%/4.5%	11.0%/4.5%
Increase in compensation rate faculty/staff/union	4.5%/4.75%/4.5%	4.5%/4.75%/4.5%
Mortality table**	PUB-2010 Teachers Head Count Weighted Table, Scale MP-2021	PUB-2010 Teachers Head Count Table, Scale MP-2021
Average future work life expectancy (years):		
Retiree health and welfare	9.41	9.45
Long-term disability	11.97	12.01

\* 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 2020-2024 for the June 30, 2024 measurement date and 2015-2019 for the June 30, 2023 measurement date

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, 2025 and 2024 as follows:

	2025		2024	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	(in thousands)			
Discount rate:				
Retiree health and welfare	\$ 694,086	\$ (548,395)	\$ 759,408	\$ (596,005)
Long-term disability	\$ 12,472	\$ (15,308)	\$ 12,638	\$ (19,272)
Health care cost trend rates:				
Retiree health and welfare	\$ (611,000)	\$ 808,971	\$ (710,025)	\$ 954,950
Long-term disability	\$ (8,867)	\$ 11,901	\$ (10,202)	\$ 10,845

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 10—Postemployment Benefits—Continued

The components of postemployment benefits expense for the years ended June 30, 2025 and 2024 are summarized as follows:

	<b>2025</b>		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Service cost	\$ 133,823	\$ 30,073	\$ 163,896
Interest cost	138,621	12,228	150,849
Amortization of deferred outflows and deferred inflows	(59,572)	(783)	(60,355)
	<u>\$ 212,872</u>	<u>\$ 41,518</u>	<u>\$ 254,390</u>

	<b>2024</b>		
	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)
	<u>\$ 216,690</u>	<u>\$ 41,512</u>	<u>\$ 258,202</u>

Deferred outflows and deferred inflows related to the reported total liability for postemployment benefits obligations at June 30, 2025 and 2024 are summarized as follows:

	<b>2025</b>		<b>2024</b>	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
	(in thousands)			
Changes in assumptions	\$ 507,724	\$ 1,207,033	\$ 647,555	\$ 1,034,760
Differences between expected and actual plan experience	98,594	15,435	108,795	13,584
	606,318	1,222,468	756,350	1,048,344
Benefit payments made after measurement date	104,080		125,075	
	<u>\$ 710,398</u>	<u>\$ 1,222,468</u>	<u>\$ 881,425</u>	<u>\$ 1,048,344</u>

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

**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):

2026	\$ (72,376)
2027	(79,140)
2028	(44,259)
2029	(63,153)
2030	(136,342)
2031 and beyond	(220,880)
	<u>\$ (616,150)</u>

**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, 2025 and 2024 are summarized as follows:

	2025	2024
	(in thousands)	
University contributions	\$ 431,542	\$ 398,235
Employee contributions	\$ 225,189	\$ 209,392
Payroll covered under plan	\$ 5,603,110	\$ 5,222,386
Total payroll	\$ 5,815,974	\$ 5,409,206

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**Note 12—Net Position**

The composition of net position at June 30, 2025 and 2024 is summarized as follows:

	<b>2025</b>	<b>2024</b>
	(in thousands)	
Net investment in capital assets	\$ 5,538,698	\$ 4,977,364
Restricted:		
Nonexpendable:		
Permanent endowment corpus	3,367,264	3,221,288
Expendable:		
Net appreciation of permanent endowments	4,804,342	4,001,852
Funds functioning as endowment	3,984,069	3,636,132
Restricted for operations and other	932,975	829,441
Unrestricted	6,312,271	5,588,227
	<b>\$ 24,939,619</b>	<b>\$ 22,254,304</b>

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, 2025 and 2024, 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 \$328,909,000 and \$314,844,000 during the years ended June 30, 2025 and 2024, respectively, for student loans through the U.S. Department of Education 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 \$4,619,000 and \$5,347,000 at June 30, 2025 and 2024, respectively, for funding received subsequent to distribution.

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

**Note 14—Commitments and Contingencies**

Authorized expenditures for construction and other projects unexpended at June 30, 2025 were \$1,020,391,000. Of these expenditures, the University expects that \$1,000,504,000 will be funded by internal sources, gifts, grants and proceeds from borrowings and \$19,887,000 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, 2025, the University had committed, but not paid, a total of \$4,510,888,000 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):

2026	\$ 1,885,363
2027	1,036,960
2028	617,870
2029	388,121
2030	229,413
2031 and beyond	353,161
	<hr/>
	\$ 4,510,888

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

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 14—Commitments and Contingencies—Continued

The University 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
2026	\$ 85,653	\$ 13,731	\$ 99,384
2027	71,802	11,584	83,386
2028	55,904	9,557	65,461
2029	44,374	7,992	52,366
2030	35,859	6,631	42,490
2031-2035	104,880	18,259	123,139
2036-2040	30,202	2,889	33,091
	<u>\$ 428,674</u>	<u>\$ 70,643</u>	<u>\$ 499,317</u>

Substantial amounts are received and expended by the University under federal and state programs and are subject to audit, inquiry or investigation by federal or state governmental agencies. This funding relates to research, student aid, patient care and other programs. The University believes that any liabilities arising from such audits, inquiries or investigations 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.

UNIVERSITY OF MICHIGAN

**Notes to Consolidated Financial Statements—Continued**

**Note 15—Operating Expenses by Function**

Operating expenses by functional classification for the years ended June 30, 2025 and 2024 are summarized as follows:

	<b>2025</b>				
	Compensation and Benefits	Supplies and Services	Depreciation (in thousands)	Scholarships and Fellowships	Total
Instruction	\$ 1,367,173	\$ 189,414			\$ 1,556,587
Research	767,322	374,893			1,142,215
Public service	208,324	132,540			340,864
Academic support	418,921	91,270			510,191
Student services	145,350	55,838			201,188
Institutional support	287,389	94,463			381,852
Operations and maintenance of plant	115,665	354,477			470,142
Auxiliary enterprises	5,646,752	3,173,061			8,819,813
Depreciation			\$ 719,931		719,931
Scholarships and fellowships				\$ 262,564	262,564
	<b>\$ 8,956,896</b>	<b>\$ 4,465,956</b>	<b>\$ 719,931</b>	<b>\$ 262,564</b>	<b>\$ 14,405,347</b>

	<b>2024</b>				
	Compensation and Benefits	Supplies and Services	Depreciation (in thousands)	Scholarships and Fellowships	Total
Instruction	\$ 1,271,738	\$ 173,386			\$ 1,445,124
Research	733,729	344,702			1,078,431
Public service	187,796	118,439			306,235
Academic support	385,881	84,599			470,480
Student services	131,882	49,343			181,225
Institutional support	261,533	136,298			397,831
Operations and maintenance of plant	108,321	322,672			430,993
Auxiliary enterprises	5,250,090	2,792,636			8,042,726
Depreciation			\$ 688,146		688,146
Scholarships and fellowships				\$ 229,222	229,222
	<b>\$ 8,330,970</b>	<b>\$ 4,022,075</b>	<b>\$ 688,146</b>	<b>\$ 229,222</b>	<b>\$ 13,270,413</b>

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

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, 2025 and 2024 is as follows:

	2025	2024
	(in thousands)	
<b>Condensed Statement of Net Position</b>		
Assets:		
Current assets	\$ 504,463	\$ 553,719
Noncurrent assets	1,677,840	1,610,202
Total assets	<u>2,182,303</u>	<u>2,163,921</u>
Deferred outflows	<u>85,692</u>	<u>100,406</u>
Liabilities:		
Current liabilities	421,738	418,242
Noncurrent liabilities	415,358	531,640
Total liabilities	<u>837,096</u>	<u>949,882</u>
Deferred inflows	<u>40,080</u>	<u>53,917</u>
Net position:		
Net investment in capital assets	489,083	452,040
Restricted:		
Nonexpendable	11,530	10,881
Expendable	62,316	55,193
Unrestricted	827,890	742,414
Total net position	<u>\$ 1,390,819</u>	<u>\$ 1,260,528</u>
<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>		
Operating revenues	\$ 2,225,459	\$ 2,017,185
Operating expenses other than depreciation expense	(2,146,208)	(1,974,819)
Depreciation expense	(104,719)	(104,592)
Operating loss	(25,468)	(62,226)
Nonoperating revenues, net	51,711	44,353
Other revenues (expenses), net	1,748	(1,041)
Income (Loss) before transfers	27,991	(18,914)
Transfers from other University units	102,300	61,228
Increase in net position	130,291	42,314
Net position, beginning of year	1,260,528	1,249,333
Adoption of GASB 101		(31,119)
Net position, beginning of year, as restated	<u>1,260,528</u>	<u>1,218,214</u>
Net position, end of year	<u>\$ 1,390,819</u>	<u>\$ 1,260,528</u>

UNIVERSITY OF MICHIGAN

Notes to Consolidated Financial Statements—Continued

Note 16—UM Health—Continued

	2025	2024
	(in thousands)	
<b>Condensed Statement of Cash Flows</b>		
Net cash provided by operating activities	\$ 35,325	\$ 77,777
Net cash provided by noncapital financing activities	84,887	55,993
Net cash used in capital and related financing activities	(152,944)	(198,093)
Net cash provided by investing activities	8,930	89,943
Net (decrease) increase in cash and cash equivalents	(23,802)	25,620
Cash and cash equivalents, beginning of year	111,977	86,357
Cash and cash equivalents, end of year	<u>\$ 88,175</u>	<u>\$ 111,977</u>

UNIVERSITY OF MICHIGAN

**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):

	<b>2025</b>	<b>2024</b>	<b>2023</b>
<b>Total Pension Liability</b>			
Service cost	\$ 2,976	\$ 3,871	\$ 4,429
Interest cost	46,735	44,823	44,648
Changes in assumptions	28,414	(38,356)	14,896
Differences between expected and actual plan experience	(971)	6,335	2,143
Benefit payments	(45,272)	(43,413)	(40,456)
Net change in total pension liability	31,882	(26,740)	25,660
Total pension liability, end of year	\$ 696,359	\$ 664,477	\$ 691,217
<b>Plan Fiduciary Net Position</b>			
Benefit payments	\$ (45,272)	\$ (43,413)	\$ (40,456)
Contributions from the employer	33,698		10,674
Administrative expenses	(8,665)	(7,794)	(8,743)
Net investment income:			
Expected investment earnings	49,486	43,563	55,935
Differences between expected and actual investment earnings	(3,154)	20,593	(168,265)
Net change in plan fiduciary net position	26,093	12,949	(150,855)
Plan fiduciary net position, end of year	\$ 714,619	\$ 688,526	\$ 675,577
Net pension liability, end of year	\$ (18,260)	\$ (24,049)	\$ 15,640
Plan fiduciary net position as a percentage of the total pension liability	103%	104%	98%

UNIVERSITY OF MICHIGAN

**Required Supplementary Information (Unaudited)—Continued**

**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
2025	\$ 38,058	\$ 38,047	\$ 11
2024	\$ 5,107	\$ 5,107	\$ -
2023	\$ 4,611	\$ -	\$ 4,611

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 IJJA). 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	
	2025	4.75%	4.87%	5.59%	5.12%
	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				

UNIVERSITY OF MICHIGAN

**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):

	<b>2025</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>
<b>Total Pension Liability</b>				
Interest cost	\$ 4,690	\$ 4,477	\$ 4,569	\$ 4,543
Changes in assumptions	(222)	(8,224)	165	89
Differences between expected and actual plan experience	333	115	1,394	989
Benefit payments	(5,608)	(4,973)	(7,374)	(5,598)
Net change in total pension liability	(807)	(8,605)	(1,246)	23
Total pension liability, end of year	\$ 57,100	\$ 57,907	\$ 66,512	\$ 67,758
<b>Plan Fiduciary Net Position</b>				
Benefit payments	\$ (5,608)	\$ (4,973)	\$ (7,374)	\$ (5,598)
Contributions from the employer			1,781	891
Administrative expenses	(139)	(151)	(147)	(76)
Net investment income:				
Expected investment earnings	5,663	4,503	5,314	4,997
Differences between expected and actual investment earnings	8,096	3,087	(23,044)	16,162
Net change in plan fiduciary net position	8,012	2,466	(23,470)	16,376
Plan fiduciary net position, end of year	\$ 77,441	\$ 69,429	\$ 66,963	\$ 90,433
Net pension liability, end of year	\$ (20,341)	\$ (11,522)	\$ (451)	\$ (22,675)
Plan fiduciary net position as a percentage of the total pension liability	136%	120%	101%	133%

UNIVERSITY OF MICHIGAN

**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):

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

UNIVERSITY OF MICHIGAN

**Required Supplementary Information (Unaudited)—Continued**

**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 (Deficient) Contributions
2025	\$ -	\$ -	\$ -
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

UNIVERSITY OF MICHIGAN

**Required Supplementary Information (Unaudited)—Continued**

**Pension Plans—Continued**

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 IJJA). 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
	2025	4.90%	5.25%	5.59%	5.36%
	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				

UNIVERSITY OF MICHIGAN

**Required Supplementary Information (Unaudited)—Continued**

**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):

	<b>2025</b>	<b>2024</b>	<b>2023</b>
Service cost	\$ 163,896	\$ 143,330	\$ 197,945
Interest cost	150,849	134,787	96,059
Changes in assumptions	(395,704)	126,445	(790,355)
Differences between expected and actual plan experience	11,193	14,372	12,421
Benefit payments	(123,321)	(105,261)	(97,354)
Net change	<u>\$ (193,087)</u>	<u>\$ 313,673</u>	<u>\$ (581,284)</u>
Total liability, end of year	\$ 3,836,961	\$ 4,030,048	\$ 3,716,375
Covered employee payroll	\$ 5,603,110	\$ 5,222,386	\$ 4,889,673
Total liability as a percentage of covered employee payroll	68%	77%	76%
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Service cost	\$ 213,029	\$ 151,925	\$ 134,115
Interest cost	101,166	125,421	124,023
Changes in assumptions	(368,216)	731,220	154,777
Differences between expected and actual plan experience	35,115	18,776	38,230
Benefit payments	(95,581)	(92,684)	(87,712)
Net change	<u>\$ (114,487)</u>	<u>\$ 934,658</u>	<u>\$ 363,433</u>
Total liability, end of year	\$ 4,297,659	\$ 4,412,146	\$ 3,477,488
Covered employee payroll	\$ 4,502,421	\$ 4,255,709	\$ 4,214,627
Total liability as a percentage of covered employee payroll	95%	104%	83%

UNIVERSITY OF MICHIGAN

Required Supplementary Information (Unaudited)—Continued

Postemployment Benefits—Continued

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

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

2025	3.93%
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 YEAR ENDED JUNE 30, 2025**  
**with**  
**REPORT OF INDEPENDENT AUDITORS**

UNIVERSITY OF MICHIGAN HEALTH

June 30, 2025

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## **Report of Independent Auditors**

To the Regents of the University of Michigan

### ***Opinions***

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the University of Michigan Health ("UMH"), which, as discussed in Note 1, consists of certain departments and entities of the University of Michigan, as of and for the year ended June 30, 2025, including the related notes, which collectively comprise UMH's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of UMH as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of UMH and 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 opinions.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of UMH are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of that portion of the business-type activities and fiduciary activities 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, 2025, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.



### *Responsibilities of Management for the Financial Statements*

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

### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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

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



***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis for the year ended June 30, 2025 on pages 4 through 17 and the required supplementary information for the pension plans and postemployment benefits on pages 59 through 66 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.

Management has omitted the management's discussion and analysis for the year ended June 30, 2024 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

*PricewaterhouseCoopers LLP*

October 16, 2025

## UNIVERSITY OF MICHIGAN HEALTH

### **Management's Discussion and Analysis (Unaudited)**

#### **Introduction**

The University of Michigan Health (“UMH”) is a part of the University of Michigan (the “University”) and is primarily comprised of the clinical departments and entities within Michigan Medicine, including the Academic Medical Center (“AMC”) and the Regional Health Network (consisting of UM Health-Sparrow and UM Health-West). Along with UMH, Michigan Medicine includes the University of Michigan Medical School (“Medical School”) and Michigan Health Corporation (a wholly owned corporation created for joint venture and managed care initiatives). AMC serves as the principal teaching facility for the Medical School and substantially all physician services to UMH patients are provided by the University of Michigan Medical Group (“UMMG”) and U-M Health Partners. The UMMG and U-M Health Partners are included within UMH in order to comprehensively present activity related to the clinical mission of Michigan Medicine.

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 11 acute care hospitals with 2,083 licensed beds, several ambulatory care centers and various other health care programs across Michigan. 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. AMC 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. The leadership and management of Michigan Medicine are provided by the University’s Executive Vice President for Medical Affairs.

The following discussion and analysis provides an overview of the financial position of UMH at June 30, 2025 and its activities for the fiscal year ended June 30, 2025. 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.

UNIVERSITY OF MICHIGAN HEALTH

**Management’s Discussion and Analysis (Unaudited)—Continued**

**Financial Highlights**

UMH’s operating results for the year ended June 30, 2025 are summarized as follows (in millions):

Operating revenues	\$ 8,677.5
Operating income	\$ 109.2
Increase in net position	\$ 56.6

Operating revenues in 2025 totaled \$8.7 billion and primarily consist of revenue earned from patient care services. Operating income in 2025 totaled \$109.2 million. Net position, which represents the residual interest in UMH’s assets and deferred outflows after liabilities and deferred inflows are deducted, increased \$56.6 million in 2025.

**Using the Basic Financial Statements**

UMH’s financial report includes: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; the Statement of Cash Flows; the Statement of Fiduciary Net Position; and the Statement of Changes in Fiduciary Net Position. These financial statements are prepared in accordance with Governmental Accounting Standards Board (“GASB”) principles. UMH’s business-type activities are reported in the financial statements while its fiduciary activities are reported in the fiduciary financial statements.

UNIVERSITY OF MICHIGAN HEALTH

**Management’s Discussion and Analysis (Unaudited)—Continued**

**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, 2025 are summarized as follows (in millions):

Current assets	\$ 1,923.1
Noncurrent assets:	
Unexpended debt proceeds	1.1
Investments	2,440.3
Capital assets, net	2,886.2
Other	89.0
Total assets	7,339.7
Deferred outflows	291.2
Current liabilities	963.7
Noncurrent liabilities:	
Long-term debt	1,606.9
Obligations for defined benefit pension plans, net	(38.6)
Obligations for postemployment benefits	767.7
Other	281.4
Total liabilities	3,581.1
Deferred inflows	414.8
Net position	\$ 3,635.0

Current assets consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents totaled \$566.9 million at June 30, 2025.

UNIVERSITY OF MICHIGAN HEALTH

**Management’s Discussion and Analysis (Unaudited)—Continued**

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 \$1.1 billion at June 30, 2025.

Inventory consists primarily of medical and surgical, pharmaceutical, and other supplies inventory. Inventory totaled \$168.0 million at June 30, 2025.

Investments, consisting principally of long-term assets held in the University Endowment Fund (“UEF”), totaled \$2.4 billion at June 30, 2025.

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 and the defined benefit pension plans for UM Health-Sparrow and UM Health-West. Deferred outflows totaled \$291.2 million at June 30, 2025.

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 \$100.4 million at June 30, 2025. Unearned revenue totaled \$24.6 million at June 30, 2025.

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, the defined benefit pension plans for UM Health-Sparrow and UM Health-West, and debt activities. Deferred inflows totaled \$414.8 million at June 30, 2025.

## UNIVERSITY OF MICHIGAN HEALTH

### Management's Discussion and Analysis (Unaudited)—Continued

#### Capital and Debt Activities

Capital assets, net, defined as gross capital assets less accumulated depreciation, totaled \$2.9 billion at June 30, 2025. Capital asset additions totaled \$484.2 million in 2025, 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.

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 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 Leadership In Energy and Environmental Design ("LEED") Platinum certification, exceeding current energy efficiency standards.

In keeping with efforts to enhance a growing statewide network of care, the Board of Regents approved the purchase 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 Frances and Kenneth Eisenberg Troy Center for Specialty Care is expected to open in spring 2027 and 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 to minimize negative environmental.

In support of the Regional Health Network and the strategy of providing the right care at the right time in the right place, the Board of Regents approved plans to construct a new 45,000 square foot health care center near Grand Ledge, Michigan, with an estimated cost of \$32 million. The facility is expected to open in winter 2027 and will include urgent care, laboratory and retail pharmacy, primary care, specialty care and advanced imaging services. The facility design will emphasize environmental sustainability principles with an expectation of reaching LEED certification.

## UNIVERSITY OF MICHIGAN HEALTH

### **Management's Discussion and Analysis (Unaudited)—Continued**

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 relocation and expansion was completed and the center opened for patient care in June 2025 and adds specialty services in a welcoming and reimagined space in an accessible, downtown location. The comprehensive \$35 million project provides 50,000 square feet of space and a wide range of adult and pediatric services. It also offers 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. .

Outstanding debt totaled \$1.7 billion at June 30, 2025, with effective interest rates that averaged 3.7 percent. During 2025, UMH received proceeds of \$25.8 million from the University, payable over 20 years at an average interest rate of 4.5 percent, to provide funding to a University unit for the construction of a parking structure.

#### **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 \$(38.6) million at June 30, 2025.

#### **Obligations for Postemployment Benefits**

Obligations for postemployment benefits totaled \$796.2 million at June 30, 2025, of which \$28.5 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 AMC retirees and their dependents.

UNIVERSITY OF MICHIGAN HEALTH

**Management’s Discussion and Analysis (Unaudited)—Continued**

**Net Position**

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, 2025 is summarized as follows (in millions):

Net investment in capital assets	\$ 903.4
Restricted:	
Nonexpendable	39.1
Expendable	209.2
Unrestricted	2,483.3
	<hr/>
	\$ 3,635.0

Net investment in capital assets represents UMH’s capital assets, net of accumulated depreciation, outstanding principal balances of debt, lease and subscription liabilities, unexpended debt proceeds and deferred inflows 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.

UNIVERSITY OF MICHIGAN HEALTH

**Management’s Discussion and Analysis (Unaudited)—Continued**

**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 year ended June 30, 2025 are summarized as follows (in millions):

Operating revenues	\$ 8,677.5
Operating expenses	8,568.3
Operating income	<u>109.2</u>
Total nonoperating and other revenues, net	<u>235.6</u>
Income before transfers	344.8
Transfers to other University units, net	<u>(288.2)</u>
Increase in net position	<u><u>\$ 56.6</u></u>

**Operating Revenues**

Patient care revenues are principally generated within UMH’s hospitals and ambulatory care facilities. Patient care revenues totaled \$8.5 billion in 2025 and represented 97.8 percent of operating revenues for the year ended June 30, 2025. The majority of net patient care revenue is received under contractual arrangements with governmental payers (Medicare and Medicaid) and private insurers.

For the year ended June 30 2025, patient care revenues by source are summarized as follows (in millions):

Academic Medical Center	\$ 6,335.3
UM Health-Sparrow	1,548.3
UM Health-West	<u>602.4</u>
	<u><u>\$ 8,486.0</u></u>

A summary of patient activity statistics for the year ended June 30, 2025 is as follows:

Inpatient discharges	91,122
Patient days	519,346
Observation cases	32,110
Surgeries	101,296
Ambulatory care outpatient visits	4,590,635

UNIVERSITY OF MICHIGAN HEALTH

**Management's Discussion and Analysis (Unaudited)—Continued**

**Operating Expenses**

UMH's operating expenses for the year ended June 30, 2025 are summarized as follows (in millions):

Compensation	\$ 2,927.6
Benefits	884.4
Supplies	2,252.3
Depreciation	292.5
Michigan Medicine Administrative Services	407.3
Medical School faculty and other services	921.2
Other operating expenses	883.0
	<u>\$ 8,568.3</u>

Compensation and benefits totaled \$3.8 billion for the year ended June 30, 2025, and represent 44.5 percent of total operating expenses.

Supplies expense, consisting primarily of medical and surgical, pharmaceutical and other supplies expenses, totaled \$2.3 billion for the year ended June 30, 2025.

Michigan Medicine Administrative Services expense totaled \$407.3 million and Medical School faculty and other services expense totaled \$921.2 million for the year ended June 30, 2025, and represent services provided to AMC.

Other operating expenses, consisting primarily of contract services and maintenance and facility costs, totaled \$883.0 million for the year ended June 30, 2025.

UNIVERSITY OF MICHIGAN HEALTH

**Management’s Discussion and Analysis (Unaudited)—Continued**

**Nonoperating and Other Revenues (Expenses)**

UMH’s nonoperating and other revenues (expenses) for the year ended June 30, 2025 are summarized as follows (in millions):

Private gifts for other than capital and permanent endowment purposes	\$ 30.6
Net investment income	245.2
Interest expense	(71.6)
State capital appropriations	6.2
Capital and permanent endowment gifts and other	<u>25.2</u>
	<u>\$ 235.6</u>

UMH investments are held in University investment pools or directly by UMH, 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, as well as interest and dividend payments from funds held directly by UMH. Investments are recorded at fair value and any unrealized change in the value of these investments is included as a component of net investment income. Net investment income totaled \$245.2 million for the year ended June 30, 2025.

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, 2025 primarily included funding of \$3.8 million for the expansion of pediatric emergency and psychiatric services, and \$2.0 million for the construction of a new oncology and infusion center.

UNIVERSITY OF MICHIGAN HEALTH

**Management's Discussion and Analysis (Unaudited)—Continued**

**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 operating, nonoperating and other revenues and expenses. Transfers with other University units for the year ended June 30, 2025 are summarized as follows (in millions):

Transfers to:	
Medical School academic and non-patient care purposes	\$ (217.8)
Other University units	<u>(75.7)</u>
	(293.5)
Transfers from:	
Medical School academic and non-patient care purposes	0.2
Other University units	<u>5.1</u>
	5.3
Transfers to other University units, net	<u><u>\$ (288.2)</u></u>

UNIVERSITY OF MICHIGAN HEALTH

**Management's Discussion and Analysis (Unaudited)—Continued**

**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 year ended June 30, 2025 are summarized as follows (in millions):

Cash received from operations	\$ 8,632.8
Cash expended for operations	<u>(8,096.4)</u>
Net cash provided by operating activities	536.4
Net cash used in noncapital financing activities	(244.3)
Net cash used in capital and related financing activities	(579.2)
Net cash provided by investing activities	<u>559.5</u>
Net increase in cash and cash equivalents	272.4
Cash and cash equivalents, beginning of year	<u>294.5</u>
Cash and cash equivalents, end of year	<u>\$ 566.9</u>

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. Net cash used in capital and related financing activities primarily consists of purchases of capital assets offset by proceeds from the issuance of capital debt. Net cash provided by investing activities primarily consists of withdrawals from the UEF, the change in unexpended capital debt proceeds and realized investment income.

## UNIVERSITY OF MICHIGAN HEALTH

### **Management's Discussion and Analysis (Unaudited)—Continued**

#### **Economic Factors That May Affect the Future**

UMH is 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 expected to enhance clinical research, physician recruitment and support services.

Due to the recent passing of the One Big Beautiful Bill Act of 2025, UMH faces potential cuts in future Medicaid payments related to hospital tax funded programs and direct payment add-ons for Medicaid claims. There is additional risk that imposed work requirement placed on Medicaid beneficiaries could reduce the number of lives in the state of Michigan that are covered by Medicaid. This legislation also provides the possibility of future revenue increases for rural hospitals, which could benefit UMH. 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. 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.

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. 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.

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.

UNIVERSITY OF MICHIGAN HEALTH

**Management's Discussion and Analysis (Unaudited)—Continued**

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.

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

UNIVERSITY OF MICHIGAN HEALTH

**Statement of Net Position**

	<b>June 30, 2025</b> <u>(in thousands)</u>
<b>Assets</b>	
Current Assets:	
Cash and cash equivalents	\$ 566,933
Accounts receivable, net	1,116,606
Receivable from other University units	1,947
Current portion of pledges receivable, net	19,270
Inventory	168,011
Other current assets	50,305
Total Current Assets	<u>1,923,072</u>
Noncurrent Assets:	
Unexpended debt proceeds	1,103
Investments	2,440,285
Pledges receivable, net	47,017
Other assets	42,057
Capital assets, net	2,886,189
Total Noncurrent Assets	<u>5,416,651</u>
<b>Total Assets</b>	<u><b>7,339,723</b></u>
<b>Deferred Outflows</b>	<u><b>291,255</b></u>
<b>Liabilities</b>	
Current Liabilities:	
Accrued compensation	329,224
Accounts payable and accrued expenses	404,719
Unearned revenue	24,634
Current portion of payable to other University units	2,004
Current portion of obligations for postemployment benefits	28,494
Current portion of long-term debt	74,266
Third-party settlements and reserves	100,394
Total Current Liabilities	<u>963,735</u>
Noncurrent Liabilities:	
Long-term debt	1,606,944
Payable to other University units	16,252
Obligations for defined benefit pension plans, net	(38,601)
Obligations for postemployment benefits	767,663
Other liabilities	265,113
Total Noncurrent Liabilities	<u>2,617,371</u>
<b>Total Liabilities</b>	<u><b>3,581,106</b></u>
<b>Deferred Inflows</b>	<u><b>414,847</b></u>
<b>Net Position</b>	
Net investment in capital assets	903,434
Restricted:	
Nonexpendable	39,062
Expendable	209,228
Unrestricted	2,483,301
<b>Total Net Position</b>	<u><b>\$ 3,635,025</b></u>

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

UNIVERSITY OF MICHIGAN HEALTH

**Statement of Revenues, Expenses and Changes in Net Position**

	<b>Year Ended June 30, 2025</b> (in thousands)
<b>Operating Revenues</b>	
Patient care revenues (net of provision for bad debts of \$292,838 in 2025)	\$ 8,485,980
Other revenues	191,518
<b>Total Operating Revenues</b>	<b>8,677,498</b>
<b>Operating Expenses</b>	
Compensation and benefits	3,812,012
Supplies, services and other	3,135,199
Depreciation	292,485
Michigan Medicine Administrative Services	407,335
Medical School faculty and other services	921,219
<b>Total Operating Expenses</b>	<b>8,568,250</b>
Operating Income	109,248
<b>Nonoperating Revenues (Expenses)</b>	
Private gifts for other than capital and permanent endowment purposes	30,562
Net investment income	245,175
Interest expense	(71,555)
<b>Total Nonoperating Revenues, Net</b>	<b>204,182</b>
Income Before Other Revenues (Expenses) and Transfers	313,430
<b>Other Revenues (Expenses)</b>	
State capital appropriations	6,245
Capital and permanent endowment gifts	26,518
Other	(1,357)
<b>Total Other Revenues, Net</b>	<b>31,406</b>
Income Before Transfers	344,836
Transfers to other University units, net	(288,211)
Increase in Net Position	56,625
Net Position, Beginning of Year	3,578,400
<b>Net Position, End of Year</b>	<b>\$ 3,635,025</b>

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

UNIVERSITY OF MICHIGAN HEALTH

**Statement of Cash Flows**

	<b>Year Ended June 30, 2025</b> (in thousands)
<b>Cash Flows from Operating Activities</b>	
Patient care revenues	\$ 8,389,546
Non-patient care revenues	193,902
Expenses reimbursed by other University units	49,400
Payments to employees	(3,711,779)
Payments to suppliers	(2,835,709)
Payments to other University units	(1,548,904)
<b>Net Cash Provided by Operating Activities</b>	<b>536,456</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Private gifts and other receipts	16,646
Transfers to other University units, net	(260,937)
<b>Net Cash Used in Noncapital Financing Activities</b>	<b>(244,291)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
State capital appropriations	8,824
Private gifts and other receipts	20,604
Principal and interest payments on lease and subscription liabilities	(49,277)
Proceeds from issuance of capital debt	25,550
Principal payments on capital debt	(64,946)
Interest payments on capital debt	(72,673)
Purchases of capital assets, net	(420,065)
Transfers to other University units for capital projects	(27,274)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(579,257)</b>
<b>Cash Flows from Investing Activities</b>	
Interest and dividends on investments, net	104,858
Proceeds from sales and maturities of investments	552,537
Purchases of investments	(133,873)
Decrease in unexpended capital debt proceeds	36,016
<b>Net Cash Provided by Investing Activities</b>	<b>559,538</b>
Net Increase in Cash and Cash Equivalents	272,446
Cash and Cash Equivalents, Beginning of Year	294,487
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 566,933</b>

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

UNIVERSITY OF MICHIGAN HEALTH

**Statement of Cash Flows—Continued**

	<u>Year Ended June 30, 2025 (in thousands)</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating income	\$ 109,248
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	292,485
Changes in assets and liabilities:	
Accounts receivable, net	(16,915)
Receivable from other University units	(980)
Inventory and other current assets	88,516
Accrued compensation	39,214
Accounts payable and accrued expenses	62,266
Unearned revenue	(8,093)
Payable to other University units	(51,373)
Third-party settlements and reserves	(33,097)
Obligations for defined benefit pension plans, net	1,766
Obligations for postemployment benefits	(61,013)
Changes in deferred outflows	62,438
Changes in deferred inflows	51,994
<b>Net Cash Provided by Operating Activities</b>	<u><b>\$ 536,456</b></u>

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

UNIVERSITY OF MICHIGAN HEALTH

**Statement of Fiduciary Net Position**

	<u>June 30, 2025</u>
	<u>Pension Trust Funds</u>
	<u>(in thousands)</u>
<b>Assets</b>	
Receivables	\$ 6,297
Investments	791,700
<b>Total Assets</b>	<u>797,997</u>
<b>Liabilities</b>	
Due to individuals	850
<b>Total Liabilities</b>	<u>850</u>
<b>Fiduciary Net Position</b>	
Restricted for Pensions	797,147
<b>Total Fiduciary Net Position</b>	<u>\$ 797,147</u>

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

UNIVERSITY OF MICHIGAN HEALTH

**Statement of Changes in Fiduciary Net Position**

	<b>Year Ended June 30, 2025</b>
	<u>Pension Trust Funds (in thousands)</u>
<b>Additions</b>	
Employer contributions	\$ 20,636
Total contributions	<u>20,636</u>
Net investment income	<u>60,373</u>
<b>Total Additions</b>	<b><u>81,009</u></b>
<b>Deductions</b>	
Benefits paid to participants	50,880
Administrative expenses	<u>8,422</u>
<b>Total Deductions</b>	<b><u>59,302</u></b>
Increase in Fiduciary Net Position	21,707
Fiduciary Net Position, Beginning of Year	<u>775,440</u>
<b>Fiduciary Net Position, End of Year</b>	<b><u><u>\$ 797,147</u></u></b>

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

# UNIVERSITY OF MICHIGAN HEALTH

## Notes to Financial Statements

June 30, 2025

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

Organization and Basis of Presentation: The University of Michigan Health (“UMH”) is an operating unit of Michigan Medicine and primarily comprises the clinical departments and entities, including the Academic Medical Center (“AMC”) and the Regional Health Network (consisting of UM Health-Sparrow and UM Health-West). Along with UMH, Michigan Medicine includes the University of Michigan Medical School (“Medical School”) and Michigan Health Corporation (a wholly owned corporation created for joint venture and managed care initiatives). AMC serves as the principal teaching facility for the Medical School and substantially all physician services to UMH patients are provided by the University of Michigan Medical Group (“UMMG”) and U-M Health Partners. The UMMG and U-M Health Partners are included within UMH in order to comprehensively present activity related to the clinical mission of Michigan Medicine.

The Regents of the University of Michigan (the “University”) have the ultimate responsibility for 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. As part of the University, UMH is exempt from income taxes under Internal Revenue Code Sections 501(c)(3) and 115.

AMC 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 AMC. Patient care expenses other than physician compensation are recorded by AMC, while physician compensation is recorded by the Medical School. AMC makes payments to the Medical School for faculty services provided to AMC related to faculty participation in the direction and supervision of clinical and graduate medical education programs.

The UMH 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 and fiduciary 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. UMH’s fiduciary activities represent those resources for which UMH acts as a trustee or custodian, including the UM Health-Sparrow and UM Health-West pension plan trusts which are considered fiduciary component units.

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**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 debt proceeds, 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 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 include shares in the University Investment Pool (“UIP”), a short-term commingled pool managed by the University that can be readily liquidated to pay contractual liabilities.

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 UMH’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:

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

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

- 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, 2025. UMH 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.

Investments include shares 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.

Accounts receivable consists primarily of patient activity and is recorded net of allowances for uncollectible accounts receivable, which totaled \$251,141,000 at June 30, 2025. The allowance is based on management’s judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable.

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

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

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

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

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

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.

Deferred outflows represent the consumption of net assets attributable to a future period and are primarily associated with the portion of the University's obligations for postemployment benefits allocated to UMH and the defined benefit pension plans for UM Health-Sparrow and UM Health-West.

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 in place of a day worked. Based on employee classification, PTO may also be paid as part of the PTO sellback program, or paid upon termination of employment, reduction in force or start of a leave of absence.

Unearned revenue consists primarily of cash received from grant and contract sponsors which has not yet been earned under the terms of the agreement.

## UNIVERSITY OF MICHIGAN HEALTH

### Notes to Financial Statements—Continued

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

Deferred inflows represent the acquisition of net assets attributable to a future period and are primarily associated with the portion of the University's obligations for postemployment benefits allocated to UMH, the defined benefit pension plans for UM Health-Sparrow and UM Health-West, and debt activities.

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.

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 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.

State capital appropriations are funds allocated from the state of Michigan for capital projects, such as construction, renovations and major equipment.

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, contractual arrangements with third-party payers and reimbursements, and benefits obligations.

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

**Note 2—Cash and Investments**

Cash and Cash Equivalents: Cash and cash equivalents, which totaled \$566,933,000 at June 30, 2025, represent cash and short-term money market investments in mutual funds, overnight collective funds managed by UMH’s custodian or short-term highly liquid investments registered as securities and held by UMH or its agents in UMH’s name. Cash equivalents also include investments in the UIP, which is principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. Monthly distributions on UIP shares are made to UMH based on the 90-day U.S. Treasury Bill rate, with such rate not to exceed 2.5 percent. Withdrawals may be made from the UIP on a daily basis.

Of its cash and cash equivalents, UMH had actual cash balances in its bank accounts in excess of federal deposit insurance limits in the amount of \$86,721,000 at June 30, 2025.

Cash and cash equivalents include certain securities that are subject to the leveling requirements defined by GASB. Level 2 securities, which primarily consist of investments within the UIP, totaled \$478,758,000 at June 30, 2025.

Investments: At June 30, 2025, UMH’s investments, which are held by UMH or its agents in UMH’s name, are summarized as follows (in thousands):

Cash equivalents, noncurrent	\$ 31,336
Equity securities	1,611
Commingled funds	607,439
Nonmarketable alternative investments	46,953
University Endowment Fund	1,752,946
	<u>\$ 2,440,285</u>

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 2—Cash Equivalents and Investments—Continued**

The UEF is invested in the University's Long Term Portfolio, which 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 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, 2025, the Long Term Portfolio consisted of cash equivalents (1 percent), fixed income securities (5 percent), U.S. and non-U.S. equities (4 percent), commingled funds (13 percent) and nonmarketable alternative investments (77 percent).

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 the UEF are funds functioning as endowment.

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. The University's costs to administer and grow the UEF and UIP are funded by investment returns.

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

Note 2—Cash Equivalents and Investments—Continued

At June 30, 2025, the fair value of UMH’s investments based on the inputs used to value them is summarized as follows (in thousands):

	Level 1	Level 2	NAV	Total Fair Value
Cash equivalents, noncurrent	\$ 31,336	-	-	\$ 31,336
Equity securities:				
Domestic	783			783
Foreign	828			828
	1,611	-	-	1,611
Commingled funds:				
Domestic equities	297,516			297,516
U.S. fixed income	297,015			297,015
Other	12,908			12,908
	607,439	-	-	607,439
Nonmarketable alternative investments:				
Venture capital			\$ 3,338	3,338
Private equity			43,615	43,615
	-	-	46,953	46,953
University Endowment Fund	-	\$ 1,752,946	-	1,752,946
	\$ 640,386	\$ 1,752,946	\$ 46,953	\$ 2,440,285

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 2—Cash Equivalents and Investments—Continued**

Investments categorized as Level 1 are valued using prices quoted in active markets for those securities. 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 value determined by the University. The net unrealized gain on investments during the period was \$143,198,000 for the year ended June 30, 2025.

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 of the portfolio at June 30, 2025.

UMH'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. UMH'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.

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

Note 2—Cash Equivalents and Investments—Continued

Commingled (pooled) funds held in the Long Term Portfolio and directly by UMH 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 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 risk exposure to the amount of invested capital.

Nonmarketable alternative investments held in the Long Term Portfolio and directly by UMH 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.

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.

UMH’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, 2025 is summarized as follows (amounts in thousands):

	Fair Value	Remaining Life	Outstanding Commitments	Redemption Terms	Redemption Notice
Commingled funds	\$ 607,439	N/A	\$ -	Daily, monthly, quarterly and annually, with varying notice periods	Lock-up provisions range from none to five years
Nonmarketable alternative investments	\$ 46,953	1-12 years	\$ 13,788	Ineligible for redemption	N/A

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 2—Cash Equivalents and Investments—Continued**

Commingled funds have liquidity (redemption) provisions, which enable UMH to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. At June 30, 2025, UMH's commingled funds are redeemable within 90 days under normal market conditions. UMH's committed but unpaid obligation to nonmarketable alternative investments is further discussed in Note 12.

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:

<b>Withdrawal Amount</b>	<b>Minimum Advance Notice</b>
Up to \$10 million	90 days
\$10 to \$50 million	180 days
\$50 to \$100 million	1 year
Greater than \$100 million	2 years

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 3—Pledges Receivable**

The composition of pledges receivable at June 30, 2025 is summarized as follows (in thousands):

Gift pledges outstanding:	
Capital	\$ 46,904
Operations	23,970
	70,874
Less:	
Allowance for uncollectible pledges	1,794
Unamortized discount to present value	2,793
Total pledges receivable, net	66,287
Less current portion	19,270
	\$ 47,017

Payments on pledges receivable at June 30, 2025 are expected to be received in the following years ended June 30 (in thousands):

2026	\$ 20,772
2027	16,224
2028	5,951
2029	5,815
2030	3,266
2031 and after	18,846
	\$ 70,874

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

Note 4—Capital Assets

Capital assets activity for the year ended June 30, 2025 is summarized as follows (in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 74,908	\$ 11,534	\$ 45	\$ 86,397
Land improvements	47,233	574	1,617	46,190
Buildings	3,453,501	177,565	87,654	3,543,412
Equipment	1,479,846	98,213	55,696	1,522,363
IT Infrastructure	443,767	19,979	29,009	434,737
Construction in progress	663,327	117,097		780,424
Right-to-use assets	417,559	59,206	18,129	458,636
	6,580,141	484,168	192,150	6,872,159
Less accumulated depreciation:				
Land improvements	34,492	2,890	1,616	35,766
Buildings	2,088,300	136,587	87,636	2,137,251
Equipment	1,202,872	77,322	54,493	1,225,701
IT Infrastructure	373,253	24,780	28,965	369,068
Right-to-use assets	182,019	50,906	14,741	218,184
	3,880,936	292,485	187,451	3,985,970
	\$ 2,699,205	\$ 191,683	\$ 4,699	\$ 2,886,189

The increase in construction in progress of \$117,097,000 in 2025 represents the amount of capital expenditures for new projects of \$484,168,000, net of capital assets placed in service of \$367,071,000.

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 5—Long-term Debt**

Long-term debt at June 30, 2025 is summarized as follows (in thousands):

Payable to the University:	
2024, 4.50% through 2044	\$ 24,560
unamortized premium	341
2023, 4.50% through 2045	252,922
unamortized discount	(21,504)
2022, 4.50% through 2043	58,000
unamortized discount	(2,311)
2020, 3.00% through 2052	394,420
unamortized premium	23,699
2020, 4.05% to 5.05% through 2050	68,260
unamortized premium	12,829
2018, 4.05% to 5.05% through 2048	42,185
unamortized premium	4,227
2017, 4.05% to 5.05% through 2047	199,670
unamortized premium	20,917
2012, 3.23% to 3.25% through 2030	28,420
2012, 2.60% to 3.25% through 2033	56,490
2012, 3.65% through 2038	64,940
2012, 2.00% to 5.00% through 2042	47,590
2012, 2.00% to 5.00% through 2032	23,745
unamortized premium	752
2010, 0.68% to 5.00% through 2041	107,095
unamortized discount	(224)
2010, 3.20% to 3.64% through 2040	141,470
unamortized discount	(260)
2010, 2.00% to 5.00% through 2027	27,750
unamortized premium	260
2009, 2.00% to 5.00% through 2039	104,645
unamortized premium	322
	1,681,210
Less current portion	74,266
	\$ 1,606,944

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 5—Long-term Debt—Continued**

Long-term debt activity for the year ended June 30, 2025 is summarized as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Payable to the University	\$ 1,724,065	\$ 25,811	\$ 68,666	\$ 1,681,210

During 2025, UMH received proceeds of \$25,811,000 from the University payable over 20 years at an average interest rate of 4.5 percent, to provide funding to a University unit for the construction of a parking structure.

Deferred inflows associated with UMH’s refunding activity totaled \$22,912,000 at June 30, 2025. The outstanding balance of these deferred inflows will be amortized into interest expense over the remaining life of the refunded bonds.

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 (in thousands):

	Principal	Interest	Total
2026	\$ 70,877	\$ 66,652	\$ 137,529
2027	77,105	63,552	140,657
2028	80,609	60,555	141,164
2029	71,637	57,457	129,094
2030	75,301	54,758	130,059
2031-2035	414,682	226,393	641,075
2036-2040	432,585	136,443	569,028
2041-2045	244,291	57,962	302,253
2046-2050	133,895	19,665	153,560
2051-2052	41,180	1,862	43,042
	1,642,162	\$ 745,299	\$ 2,387,461
Plus unamortized premiums, net	39,048		
	<u>\$ 1,681,210</u>		

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 3.7 percent during 2025.

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

**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. Settlement balances are reported net, along with any reserve balances, as third-party settlements and reserves in the statement of net position. Significant settlements from prior periods that resolved in 2025 related to multiple fiscal years for government payers and non-government payers and resulted in net amounts received of \$1,974,000. This amount included Medicare payables of \$1,687,000, offset by Medicaid receivables of \$3,495,000.

UMH also provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since UMH does not pursue collection of amounts once determined to qualify as charity care, they are not reported as revenues in the accompanying statement of revenues, expenses and changes in net position. Patient charges classified and written off under UMH’s charity care policy for the year ended June 30, 2025 were \$214,379,000.

The distribution of net patient care revenue by primary payer source for the year ended June 30, 2025 is as follows:

Medicare	29.3%
Medicaid	13.6%
Blue Cross	34.7%
Other	22.4%

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

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

UMH has amounts receivable from and payable to other University units at June 30, 2025 as follows (in thousands):

Amounts receivable from other University units:	\$ 4,548
Amounts payable to other University units:	
Medical School	\$ 333
Michigan Medicine Administrative Services	\$ 16,252
Other	\$ 1,671

UMH had various other transactions with University units for the year ended June 30, 2025 which are summarized as follows (in thousands):

Operating (expenses) revenues:	
Clinical services provided by the Medical School	\$ (921,219)
Amounts received from the Medical School to reimburse UMH for expenses related to Medical School revenue and operating support, net	\$ 1,656
Services provided to other University units	\$ 47,141
Services provided by other University units	\$ (94,154)
Insurance premiums	\$ (104,105)
Services provided by Michigan Medicine Administrative Services	\$ (407,335)
Equity transfers to:	
Medical School academic and other non-patient care purposes, net	\$ (217,633)
Other University units, net	\$ (70,578)

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

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

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 at AMC. Accordingly, UMH recognizes expense for these services in operating expenses. UMH incurred \$921,219,000 for services provided by the Medical School in 2025. AMC is also reimbursed for the salary cost of AMC 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 \$1,656,000 in 2025.

In the course of normal operations, UMH both provides and receives services from other University units. Services provided by UMH include those to University of Michigan Health Plan, University Occupational Health Services and risk management administration. Various University units reimbursed UMH \$47,141,000 in 2025, in connection with these services, which is included as a reduction to total operating expenses. Services received include benefits administration, grounds maintenance, parking services, information technology, security services, payroll and human resources. UMH incurred \$94,154,000 in operating expenses for these services during 2025.

Operating expenses include UMH's share of the initial premiums charged by the University's captive insurance provider, The Veritas Insurance Corporation ("Veritas"), for medical professional liability, property damage, cyber liability and 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 administrative functions at AMC 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 2025, \$407,335,000 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.

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

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

In 2016, a ten-year internal arrangement between AMC 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 AMC, which were invested in the University’s Long Term Portfolio. In exchange for this investment, AMC 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, AMC transferred \$16,370,000 to the Medical School during 2025.

**Note 8—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, 2024 were determined based on an actuarial valuation at January 1, 2024. 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, 2024 measurement date, the number of plan participants consisted of the following:

	Plan A1	Plan A2
Active participants	970	740
Vested terminated participants	250	1,339
Retirees, beneficiaries and disabled participants	1,300	1,708
	<u>2,520</u>	<u>3,787</u>

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

Note 8—Pension Plans—Continued

Changes in the reported net pension liability for the year ended June 30, 2025 are summarized as follows (in thousands):

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance, beginning of year	\$ 664,477	\$ 688,526	\$ (24,049)
Service cost	2,976		2,976
Interest cost	46,735		46,735
Changes in assumptions	28,414		28,414
Differences between expected and actual plan experience	(971)		(971)
Benefit payments	(45,272)	(45,272)	-
Contributions from the employer		33,698	(33,698)
Administrative expenses		(8,665)	8,665
Net investment income:			
Expected investment earnings		49,486	(49,486)
Differences between expected and actual investment earnings		(3,154)	3,154
Balance, end of year	\$ 696,359	\$ 714,619	\$ (18,260)

The plan fiduciary net position as a percentage of the total pension liability was 103 percent at June 30, 2025.

Significant actuarial assumptions used at the December 31, 2024 measurement date are as follows:

	Plan A1	Plan A2
Discount rate	7.50%	6.20%
Increase in compensation rate (including inflation)	Age graded from 2.50% to 4.70%	N/A
Investment rate of return	7.50%	6.20%
Mortality table	Pri-2012, Scale MSS-2024	Pri-2012, Scale MSS-2024

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

Note 8—Pension Plans—Continued

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 at the December 31, 2024 measurement date are summarized as follows:

	Plan A1		Plan A2	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	22.0%	8.4%	13.0%	8.0%
U.S. small/mid cap	8.0%	9.2%	4.0%	8.0%
International developed	20.0%	9.3%	8.0%	9.3%
U.S. fixed income	20.0%	6.5%	60.0%	6.0%
High yield	8.0%	7.8%	2.0%	7.8%
Emerging markets debt	5.0%	8.8%	2.0%	8.8%
Private real estate	5.0%	7.3%	11.0%	7.3%
Private equity	7.0%	12.6%		
Structured credit	5.0%	10.5%		

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 8—Pension Plans—Continued**

A one-percentage point change in the discount rate would impact the reported net pension liability at June 30, 2025 as follows (in thousands):

	1% Decrease	1% Increase
Net pension liability	\$ 68,409	\$ (58,521)

The components of pension expense for the year ended June 30, 2025 are summarized as follows (in thousands):

Service cost	\$ 2,976
Interest cost	46,735
Administrative expenses	8,665
Expected investment earnings	(49,486)
Amortization of deferred outflows and deferred inflows	33,090
	\$ 41,980

Deferred outflows and deferred inflows related to the reported net pension liability at June 30, 2025 are summarized as follows (in thousands):

	Deferred Outflows	Deferred Inflows
Changes in assumptions	\$ 16,017	\$ 12,178
Differences between expected and actual plan experience	2,365	472
Differences between expected and actual investment earnings	57,474	
	75,856	12,650
Contributions made after measurement date	9,466	
	\$ 85,322	\$ 12,650

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 8—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):

2026	\$ 36,009
2027	30,054
2028	(3,488)
2029	631
	\$ 63,206

The inputs used to determine the fair value of the plan’s investments reported at June 30, 2025 are summarized as follows (in thousands):

	Level 1	NAV	Total Fair Value
Cash and cash equivalents	\$ 3,965		\$ 3,965
Commingled funds	572,691	\$ 137,963	710,654
	\$ 576,656	\$ 137,963	\$ 714,619

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

Note 8—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, 2024 were determined based on an actuarial valuation at October 1, 2023. 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, 2024 measurement date, the number of plan participants consisted of the following:

Active participants	307
Vested terminated participants	667
Retirees, beneficiaries and disabled participants	631
	<hr/>
	1,605
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UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 8—Pension Plans—Continued**

Changes in the reported net pension liability for the year ended June 30, 2025 are summarized as follows (in thousands):

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance, beginning of year	\$ 57,907	\$ 69,429	\$ (11,522)
Interest cost	4,690		4,690
Changes in assumptions	(222)		(222)
Differences between expected and actual plan experience	333		333
Benefit payments	(5,608)	(5,608)	-
Administrative expenses		(139)	139
Net investment income:			
Expected investment earnings		5,663	(5,663)
Differences between expected and actual investment earnings		8,096	(8,096)
Balance, end of year	\$ 57,100	\$ 77,441	\$ (20,341)

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 8—Pension Plans—Continued**

The plan fiduciary net position as a percentage of the total pension liability was 136 percent at June 30, 2025.

Significant actuarial assumptions used at the September 30, 2024 measurement date are as follows:

Discount rate	8.5%
Inflation	2.0%
Investment rate of return	8.5%
Mortality table	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 at the September 30, 2024 measurement date are summarized as follows:

	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	30.0%	9.7%
U.S. mid cap	10.0%	10.5%
U.S. small cap	5.0%	10.8%
STRIPs	10.0%	7.4%
Corporate 10+ year	40.0%	5.6%
Hedge funds	5.0%	8.7%

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 8—Pension Plans—Continued**

A one-percentage point change in the discount rate would impact the reported net pension liability at June 30, 2025 as follows (in thousands):

	1% Decrease	1% Increase
Net pension liability	\$ 5,007	\$ (4,347)

The components of pension expense for the year ended June 30, 2025 are summarized as follows (in thousands):

Interest cost	\$ 4,690
Administrative expenses	139
Expected investment earnings	(5,663)
Amortization of deferred outflows and deferred inflows	(3,189)
	\$ (4,023)

Deferred outflows and deferred inflows related to the reported net pension liability at June 30, 2025 are summarized as follows (in thousands):

	Deferred Outflows	Deferred Inflows
Changes in assumptions		\$ 74
Differences between expected and actual plan experience	\$ 111	
Differences between expected and actual investment earnings		2,344
	\$ 111	\$ 2,418

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 8—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):

2026	\$ (823)
2027	2,372
2028	(2,237)
2029	(1,619)
	<u>\$ (2,307)</u>

The inputs used to determine the fair value of the plan’s investments reported at June 30, 2025 are summarized as follows (in thousands):

	Level 1	Level 2	NAV	Total Fair Value
Cash and cash equivalents	\$ 2,419			\$ 2,419
Equity securities	32,341			32,341
Fixed income securities	9,237	\$ 28,967		38,204
Nonmarketable alternative investments			\$ 4,477	4,477
	\$ 43,997	\$ 28,967	\$ 4,477	\$ 77,441

**Note 9—Postemployment Benefits**

AMC 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 AMC’s regular employees may become eligible for these benefits if they reach retirement age while working for UMH. 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 AMC 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

UNIVERSITY OF MICHIGAN HEALTH

Notes to Financial Statements—Continued

**Note 9—Postemployment Benefits—Continued**

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.

Changes in the reported total liability for UMH’s postemployment benefits obligations for the year ended June 30, 2025 are summarized as follows (in thousands):

	Retiree Health and Welfare	Long-term Disability	Total
Balance, beginning of year	\$ 816,504	\$ 40,666	\$ 857,170
Net benefits expense	46,262	715	46,977
Decrease in deferred outflows	(42,425)	(1,148)	(43,573)
Increase in deferred inflows	(62,756)	(1,661)	(64,417)
Balance, end of year	757,585	38,572	796,157
Less current portion	23,422	5,072	28,494
	\$ 734,163	\$ 33,500	\$ 767,663

At June 30, 2025, deferred outflows reported in the statement of net position include benefit payments made after the measurement date of \$23,422,000. 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, 2025 as a percentage of covered payroll of \$1,872,300,000 was 43 percent.

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 9—Postemployment Benefits—Continued**

Significant actuarial assumptions used at the June 30, 2024 measurement date are as follows:

Discount rate*	3.93%
Inflation rate	2.00%
Immediate/ultimate administrative trend rate	3.0%/3.0%
Immediate/ultimate medical trend rate	6.75%/4.5%
Immediate/ultimate Rx trend rate	10.0%/4.5%
Increase in compensation rate faculty/staff/union	4.5%/4.75%/4.5%
Mortality table**	PUB-2010 Teachers Head Count Weighted Table, Scale MP-2021
Average future work life expectancy (years):	
Retiree health and welfare	9.41
Long-term disability	11.97

\* 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 2020-2024

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 10—Retirement Plan**

UMH provides defined contribution retirement plans for staff based upon age and service requirements. For payroll covered under the plans, eligible employees generally contribute between 3-6 percent of their pay and UMH generally contributes between 2-14 percent of employees' pay to the plans. UMH's contribution commences after an employee has met the respective minimum service requirements associated with each plan. Participants may elect to contribute additional amounts to the plans within specified limits that are not matched by UMH contributions. Contributions and covered payroll under the plans (excluding participants' additional contributions) for the year ended June 30, 2025 are summarized as follows (in thousands):

UMH contributions	\$ 181,893
Employee contributions	\$ 151,316
Payroll covered under plan	\$ 2,817,430
Total payroll	\$ 2,932,847

**Note 11—Net Position**

The composition of net position at June 30, 2025 is summarized as follows (in thousands):

Net investment in capital assets	\$ 903,434
Restricted:	
Nonexpendable:	
Permanent endowment corpus	39,062
Expendable:	
Net appreciation of permanent endowments	12,705
Funds functioning as endowment	27,851
Restricted for operations and other	168,672
Unrestricted	2,483,301
	\$ 3,635,025

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, 2025, substantially all of the unrestricted net position has been designated for various clinical operations, research initiatives and capital projects.

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 12—Commitments and Contingencies**

Under the terms of various limited partnership agreements approved by UMH officers, UMH is obligated to make periodic payments for advance commitments to venture capital and private equity strategies. At June 30, 2025, UMH had committed, but not paid, a total of \$13,788,000 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):

2026	\$ 4,370
2027	4,370
2028	1,682
2029	1,682
2030	842
2031 and beyond	842
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	\$ 13,788

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

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 12—Commitments and Contingencies – Continued**

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 (in thousands):

	Principal	Interest	Total
2026	\$ 43,517	\$ 8,838	\$ 52,355
2027	37,088	8,171	45,259
2028	32,361	7,240	39,601
2029	27,581	6,414	33,995
2030	25,209	5,630	30,839
2031-2035	85,423	16,374	101,797
2036-2040	29,001	2,834	31,835
	\$ 280,180	\$ 55,501	\$ 335,681

Substantial amounts are received and expended by UMH under federal and state programs and are subject to audit, inquiry or investigation by federal or state governmental agencies. UMH believes that any liabilities arising from such audits, inquiries or investigations will not have a material effect on its financial position.

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.

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 13—Component Units**

Condensed financial information for the entities that are organized to support UMH as blended component units, before the elimination of certain intra-UMH transactions, at and for the year ended June 30, 2025 is as follows (in thousands):

	<b>UM Health- Sparrow</b>	<b>UM Health- West</b>
<b>Condensed Statement of Net Position</b>		
Assets:		
Current assets	\$ 408,994	\$ 117,416
Noncurrent assets	1,330,730	352,560
Total assets	<u>1,739,724</u>	<u>469,976</u>
Deferred outflows	85,581	111
Liabilities:		
Current liabilities	302,087	141,599
Noncurrent liabilities	229,219	186,139
Total liabilities	<u>531,306</u>	<u>327,738</u>
Deferred inflows	36,014	4,066
Net position:		
Net investment in capital assets	398,498	90,584
Restricted:		
Nonexpendable	10,849	682
Expendable	38,784	23,531
Unrestricted	809,854	23,486
Total net position	<u>\$ 1,257,985</u>	<u>\$ 138,283</u>
<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>		
Operating revenues	\$ 1,606,772	\$ 643,166
Operating expenses other than depreciation expense	(1,548,846)	(597,363)
Depreciation expense	(69,809)	(34,910)
Operating (loss) income	(11,883)	10,893
Nonoperating revenues (expenses), net	57,363	(5,652)
Other income (expenses), net	6,790	(5,042)
Income before transfers	52,270	199
Transfers from other University units		78,000
Increase in net position	52,270	78,199
Net position, beginning of year	1,205,715	60,084
Net position, end of year	<u>\$ 1,257,985</u>	<u>\$ 138,283</u>

UNIVERSITY OF MICHIGAN HEALTH

**Notes to Financial Statements—Continued**

**Note 13—Component Units—Continued**

	<b>UM Health- Sparrow</b>	<b>UM Health- West</b>
<b>Condensed Statement of Cash Flows</b>		
Net cash provided by (used in) operating activities	\$ 55,436	\$ (20,111)
Net cash provided by noncapital financing activities	5,319	79,568
Net cash used in capital and related financing activities	(93,040)	(59,904)
Net cash provided by (used in) investing activities	9,920	(990)
Net decrease in cash and cash equivalents	(22,365)	(1,437)
Cash and cash equivalents, beginning of year	103,431	8,546
Cash and cash equivalents, end of year	<u>\$ 81,066</u>	<u>\$ 7,109</u>

UNIVERSITY OF MICHIGAN HEALTH

**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):

	<b>2025</b>	<b>2024</b>	<b>2023</b>
<b>Total Pension Liability</b>			
Service cost	\$ 2,976	\$ 3,871	\$ 4,429
Interest cost	46,735	44,823	44,648
Changes in assumptions	28,414	(38,356)	14,896
Differences between expected and actual plan experience	(971)	6,335	2,143
Benefit payments	(45,272)	(43,413)	(40,456)
Net change in total pension liability	31,882	(26,740)	25,660
Total pension liability, end of year	\$ 696,359	\$ 664,477	\$ 691,217
<b>Plan Fiduciary Net Position</b>			
Benefit payments	\$ (45,272)	\$ (43,413)	\$ (40,456)
Contributions from the employer	33,698		10,674
Administrative expenses	(8,665)	(7,794)	(8,743)
Net investment income:			
Expected investment earnings	49,486	43,563	55,935
Differences between expected and actual investment earnings	(3,154)	20,593	(168,265)
Net change in plan fiduciary net position	26,093	12,949	(150,855)
Plan fiduciary net position, end of year	\$ 714,619	\$ 688,526	\$ 675,577
Net pension liability, end of year	\$ (18,260)	\$ (24,049)	\$ 15,640
Plan fiduciary net position as a percentage of the total pension liability	103%	104%	98%

UNIVERSITY OF MICHIGAN HEALTH

**Required Supplementary Information (Unaudited)—Continued**

**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
2025	\$ 38,058	\$ 38,047	\$ 11
2024	\$ 5,107	\$ 5,107	\$ -
2023	\$ 4,611	\$ -	\$ 4,611

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 IJA). 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
2025	4.75%	4.87%	5.59%	5.12%
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			

UNIVERSITY OF MICHIGAN HEALTH

**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):

	<b>2025</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>
<b>Total Pension Liability</b>				
Interest cost	\$ 4,690	\$ 4,477	\$ 4,569	\$ 4,543
Changes in assumptions	(222)	(8,224)	165	89
Differences between expected and actual plan experience	333	115	1,394	989
Benefit payments	(5,608)	(4,973)	(7,374)	(5,598)
Net change in total pension liability	(807)	(8,605)	(1,246)	23
Total pension liability, end of year	\$ 57,100	\$ 57,907	\$ 66,512	\$ 67,758
<b>Plan Fiduciary Net Position</b>				
Benefit payments	\$ (5,608)	\$ (4,973)	\$ (7,374)	\$ (5,598)
Contributions from the employer			1,781	891
Administrative expenses	(139)	(151)	(147)	(76)
Net investment income:				
Expected investment earnings	5,663	4,503	5,314	4,997
Differences between expected and actual investment earnings	8,096	3,087	(23,044)	16,162
Net change in plan fiduciary net position	\$ 8,012	2,466	(23,470)	16,376
Plan fiduciary net position, end of year	\$ 77,441	\$ 69,429	\$ 66,963	\$ 90,433
Net pension liability, end of year	\$ (20,341)	\$ (11,522)	\$ (451)	\$ (22,675)
Plan fiduciary net position as a percentage of the total pension liability	136%	120%	101%	133%

UNIVERSITY OF MICHIGAN HEALTH

**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):

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

UNIVERSITY OF MICHIGAN HEALTH

**Required Supplementary Information (Unaudited)—Continued**

**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 (Deficient) Contributions
2025	\$ -	\$ -	\$ -
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

UNIVERSITY OF MICHIGAN HEALTH

**Required Supplementary Information (Unaudited)—Continued**

**Pension Plans—Continued**

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 IJA). 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
	2025	4.90%	5.25%	5.59%	5.36%
	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				

UNIVERSITY OF MICHIGAN HEALTH

**Required Supplementary Information (Unaudited)—Continued**

**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):

	<b>2025</b>	<b>2024</b>	<b>2023</b>
Net benefits expense	\$ 46,977	\$ 55,920	\$ 55,002
Changes in deferred outflows	(43,573)	(1,948)	(41,150)
Changes in deferred inflows	(64,417)	49,703	(199,100)
Net change	<u>\$ (61,013)</u>	<u>\$ 103,675</u>	<u>\$ (185,248)</u>
Total liability, end of year	\$ 796,157	\$ 857,170	\$ 753,495
Covered employee payroll	\$ 1,872,300	\$ 1,725,384	\$ 1,645,215
Total liability as a percentage of covered employee payroll	43%	50%	46%
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Net benefits expense	\$ 79,086	\$ 84,822	\$ 55,908
Changes in deferred outflows	(30,924)	189,787	46,002
Changes in deferred inflows	(88,592)	10,099	9,900
Net change	<u>\$ (40,430)</u>	<u>\$ 284,708</u>	<u>\$ 111,810</u>
Total liability, end of year	\$ 938,743	\$ 979,173	\$ 694,465
Covered employee payroll	\$ 1,487,138	\$ 1,385,292	\$ 1,356,687
Total liability as a percentage of covered employee payroll	63%	71%	51%
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net benefits expense	\$ 55,687	\$ 38,301	\$ 33,176
Changes in deferred outflows	(2,001)	20,570	63,584
Changes in deferred inflows	(110,871)		
Net change	<u>\$ (57,185)</u>	<u>\$ 58,871</u>	<u>\$ 96,760</u>
Total liability, end of year	\$ 582,655	\$ 632,529	\$ 573,658
Covered employee payroll	\$ 1,247,191	\$ 1,170,980	\$ 1,128,206
Total liability as a percentage of covered employee payroll	47%	54%	51%

UNIVERSITY OF MICHIGAN HEALTH

**Required Supplementary Information (Unaudited)—Continued**

**Postemployment Benefits)—Continued**

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

2025	3.93%
2024	3.65%
2023	3.54%
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.87%
2018	3.58%
2017	2.85%

**THE VERITAS INSURANCE CORPORATION**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2025 and 2024**  
**with**  
**REPORT OF INDEPENDENT AUDITORS**

THE VERITAS INSURANCE CORPORATION

June 30, 2025 and 2024

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## **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, 2025 and 2024, 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, 2025 and 2024, 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.



### *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 12 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*

October 16, 2025

## THE VERITAS INSURANCE CORPORATION

### Management's Discussion and Analysis (Unaudited)

#### Introduction

The following discussion and analysis provides an overview of the financial position of The Veritas Insurance Corporation (the "Corporation") at June 30, 2025 and 2024 and its activities for the two fiscal years ended June 30, 2025. 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 inceptioned in 2025 and 2024, the per occurrence limits were \$50.0 million for medical professional liability, \$5.0 million for property damage, \$4.0 million for auto liability, educators' liability and general liability, and \$2.0 million for workers' compensation liability. The per occurrence limit for cyber liability was \$2.5 million and \$5.0 million in 2025 and 2024, respectively. The annual aggregate loss limits for medical professional liability were \$110.0 million and \$70.0 million for the policies inceptioned in 2025 and 2024, respectively. The other annual aggregate loss limits were \$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 both 2025 and 2024. 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.

#### Financial Highlights

For the year ended June 30, 2025, the Corporation's net position increased by \$88.1 million to \$276.6 million. Operating activities increased net position by \$40.4 million, while net investment income increased net position by \$47.7 million. The Corporation's Board of Directors (the "Board") did not declare any premium credits in 2025.

## THE VERITAS INSURANCE CORPORATION

### Management's Discussion and Analysis (Unaudited)—Continued

#### 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, 2025 and 2024, 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:

	2025	2024	2023
	(in millions)		
Cash equivalents and investments	\$ 552.2	\$ 442.9	\$ 387.8
Other assets	0.8	11.0	1.3
Total assets	553.0	453.9	389.1
Reserves for losses and loss adjustment expenses	265.1	255.3	239.6
Other liabilities	11.3	10.1	8.5
Total liabilities	276.4	265.4	248.1
Unrestricted net position	\$ 276.6	\$ 188.5	\$ 141.0

The assets of the Corporation totaled \$553.0 million at June 30, 2025, an increase of \$99.1 million as compared to the prior year, driven primarily by an increase in investments.

THE VERITAS INSURANCE CORPORATION

**Management’s Discussion and Analysis (Unaudited)—Continued**

The major components of assets at June 30, 2025 were \$250,000 in cash equivalents, \$273.0 million in the University’s Daily and Monthly Portfolios and \$279.0 million in the University’s Long Term Portfolio. 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 asset allocations for both 2025 and 2024 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, 2025, reserves for losses and LAE totaled \$265.1 million, an increase of \$9.8 million, or 3.8 percent from the prior year. Of this amount, \$86.9 million related to reserves on known claims and \$178.2 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 2025 and 2024. The increase in reserves for losses and LAE is primarily due to higher losses incurred compared to payout of claims in 2025.

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

	2025	2024	2023
	(in millions)		
Gross reserves for losses and LAE, beginning 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, beginning of year	255.3	239.6	228.8
Incurred losses and LAE related to:			
Current year	97.8	89.7	70.3
Prior years	(26.9)	(1.5)	4.3
Total incurred losses and LAE	70.9	88.2	74.6
Total paid losses and LAE	(61.1)	(72.5)	(63.8)
Gross reserves for losses and LAE, end of year	265.6	264.2	259.3
Less receivables from the University for unpaid losses		8.1	18.5
Less reinsurance recoverable on unpaid losses	0.5	0.8	1.2
Reserves for losses and LAE, end of year	<u>\$ 265.1</u>	<u>\$ 255.3</u>	<u>\$ 239.6</u>

THE VERITAS INSURANCE CORPORATION

**Management’s Discussion and Analysis (Unaudited)—Continued**

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

	<b>2025</b>	<b>2024</b>	<b>2023</b>
Medical professional liability	76.2%	78.1%	83.7%
Medical professional tail liability	3.3	6.0	
Workers’ compensation	4.9	5.2	6.2
Educators’ legal liability	10.3	6.0	5.7
Property damage	1.7	1.4	1.7
Basket aggregate liability and excess insurance	1.6	1.0	0.7
Auto liability	0.3	0.3	0.4
General liability	1.0	1.0	1.1
Hospital premises liability	0.1	0.1	0.1
Cyber liability	0.6	0.9	0.4
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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, 2025 and 2024.

Net position is unrestricted and totaled \$276.6 million and \$188.5 million at June 30, 2025 and 2024, 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 2025 is due to operating income of \$40.4 million due to stable claims experience and net investment income of \$47.7 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.

THE VERITAS INSURANCE CORPORATION

Management's Discussion and Analysis (Unaudited)—Continued

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:

	2025	2024 (in millions)	2023
Gross written premiums	\$ 112.4	\$ 107.5	\$ 79.4
Change in unearned premiums	(0.8)	(2.8)	(0.3)
Total operating revenues	111.6	104.7	79.1
Losses and loss adjustment expenses	70.9	88.2	74.6
Other operating expenses	0.3	0.5	0.4
Total operating expenses	71.2	88.7	75.0
Operating income	40.4	16.0	4.1
Nonoperating revenues	47.7	31.5	13.3
Increase in net position	\$ 88.1	\$ 47.5	\$ 17.4

The Corporation's operating revenues totaled \$111.6 million in 2025, compared to \$104.7 million in 2024, an increase of \$6.9 million, or 6.6 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 2025 were \$4.9 million higher than 2024.

THE VERITAS INSURANCE CORPORATION

**Management’s Discussion and Analysis (Unaudited)—Continued**

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

	<b>2025</b>	<b>2024</b>	<b>2023</b>
Medical professional liability	71.2%	56.0%	70.2%
Medical professional tail liability		17.1	
Workers’ compensation	5.1	5.1	5.6
Educators’ legal liability	7.0	6.6	8.0
Property damage	9.3	8.3	8.1
Basket aggregate liability and excess insurance	2.8	3.0	3.3
Auto liability	0.7	0.7	0.6
General liability	2.0	1.4	1.9
Hospital premises liability	0.3	0.2	0.2
Cyber liability	1.6	1.6	2.1
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

	<b>2025</b>	<b>2024</b>	<b>2023</b>
	(in millions)		
Incurred losses and LAE related to:			
Current year	\$ 97.8	\$ 89.7	\$ 70.3
Prior years	(26.9)	(1.5)	4.3
Total incurred losses and LAE	<u>\$ 70.9</u>	<u>\$ 88.2</u>	<u>\$ 74.6</u>

In 2025, total incurred losses and LAE decreased \$17.3 million, or 19.6 percent, to \$70.9 million. The decrease is primarily due to a combination of changes in exposures and severity resulting in current policy year incurred losses of \$97.8 million and prior policy year favorable claims development of \$26.9 million.

THE VERITAS INSURANCE CORPORATION

**Management's Discussion and Analysis (Unaudited)—Continued**

In 2025, favorable prior year loss development totaling \$26.9 million is mainly attributable to medical professional liability. For medical professional liability, prior years incurred losses decreased by \$30.4 million mainly due to overall claims emergence lower than actuarially expected for most of the policy years. Property damage liability decreased by \$1.0 million due to overall claims emergence lower than actuarially expected for most of the policy years. Cyber liability decreased by \$0.7 million due to overall claims emergence lower than actuarially expected for policy year 2023/24. For educators' legal liability, losses increased by \$3.8 million due to unfavorable development greater than actuarially expected for policy year 2023/24. Other lines of business had unfavorable claims emergence of \$1.4 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.

Nonoperating revenues, representing net investment income, increased \$16.2 million to \$47.7 million in 2025, as compared to \$31.5 million in 2024. 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.

THE VERITAS INSURANCE CORPORATION

**Management’s Discussion and Analysis (Unaudited)—Continued**

**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:

	<b>2025</b>	<b>2024</b>	<b>2023</b>
	(in millions)		
Cash received from operations	\$ 121.6	\$ 99.2	\$ 214.9
Cash expended for operations	(61.1)	(75.1)	(200.0)
Net cash provided by operating activities	60.5	24.1	14.9
Net cash used in investing activities	(60.5)	(24.1)	(14.9)
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 \$121.6 million in 2025, as compared to \$98.3 million in 2024.

Cash expended for operations primarily represents payments for losses and LAE and payments for losses recoverable and totaled \$61.1 million in 2025, as compared to \$75.1 million in 2024. The decrease in 2025 is due to a reduction in payments for losses.

Cash used in investing activities, which primarily represents the purchase, sale or maturity of investments, totaled \$60.5 million in 2025, as compared to \$24.1 million in 2024. The increase in 2025 is primarily due to \$165.0 million of investment purchases offset by \$103.4 million of sales and maturities.

## THE VERITAS INSURANCE CORPORATION

### Management's Discussion and Analysis (Unaudited)—Continued

#### 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 2025, 2024 and 2023, 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,	
	2025	2024
<b>Assets</b>		
Current Assets:		
Cash equivalents	\$ 250,000	\$ 250,000
Investments on deposit with the University	272,986,879	215,219,190
Losses receivable from the University	735,203	1,782,475
Premiums receivable from the University		9,166,020
Other premiums receivable		73,043
Interest receivable	859	
Prepaid premium tax	4,964	12,464
Total Current Assets	<u>273,977,905</u>	<u>226,503,192</u>
Noncurrent Assets:		
Investments on deposit with the University	<u>278,987,807</u>	<u>227,400,592</u>
<b>Total Assets</b>	<b><u>552,965,712</u></b>	<b><u>453,903,784</u></b>
<b>Liabilities</b>		
Current Liabilities:		
Reserves for losses and loss adjustment expenses	75,217,032	70,718,308
Unearned premium reserves	8,705,725	7,954,479
Losses payable and accrued liabilities	2,547,607	2,195,225
Total Current Liabilities	<u>86,470,364</u>	<u>80,868,012</u>
Noncurrent Liabilities:		
Reserves for losses and loss adjustment expenses	<u>189,894,173</u>	<u>184,523,110</u>
<b>Total Liabilities</b>	<b><u>276,364,537</u></b>	<b><u>265,391,122</u></b>
<b>Net Position</b>		
Unrestricted	<u>276,601,175</u>	<u>188,512,662</u>
<b>Total Net Position</b>	<b><u>\$ 276,601,175</u></b>	<b><u>\$ 188,512,662</u></b>

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,	
	2025	2024
<b>Operating Revenues</b>		
Gross written premiums	\$ 112,378,512	\$ 107,506,619
Change in unearned premiums	(751,246)	(2,775,113)
Total written premiums earned	111,627,266	104,731,506
<b>Total Operating Revenues</b>	<b>111,627,266</b>	<b>104,731,506</b>
<b>Operating Expenses</b>		
Losses and loss adjustment expenses	70,875,934	88,183,486
Management fees	84,782	77,836
Premium tax	121,255	275,776
Other expenses	189,056	162,727
<b>Total Operating Expenses</b>	<b>71,271,027</b>	<b>88,699,825</b>
Operating Income	40,356,239	16,031,681
<b>Nonoperating Revenues</b>		
Net investment income	47,732,274	31,529,364
<b>Total Nonoperating Revenues</b>	<b>47,732,274</b>	<b>31,529,364</b>
Increase in Net Position	88,088,513	47,561,045
Net Position, Beginning of Year	188,512,662	140,951,617
<b>Net Position, End of Year</b>	<b>\$ 276,601,175</b>	<b>\$ 188,512,662</b>

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

THE VERITAS INSURANCE CORPORATION

Statement of Cash Flows

	Year Ended June 30,	
	2025	2024
<b>Cash Flows from Operating Activities</b>		
Insurance premiums collected, net	\$ 121,617,575	\$ 98,267,556
Recovery for losses paid	11,945	878,320
Payments for losses and loss adjustment expenses	(60,572,618)	(74,648,918)
Payments for losses recoverable	(96,899)	
Payments for other expenses	(268,739)	(229,363)
Payments for premium tax	(200,000)	(196,163)
<b>Net Cash Provided by Operating Activities</b>	<b>60,491,264</b>	<b>24,071,432</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	103,363,184	104,732,644
Purchases of investments	(164,996,653)	(128,326,966)
Interest, dividends and fees, net	9,979	12,496
Recovery for University losses paid	4,350,319	2,406,572
Payments for University losses recoverable	(3,218,093)	(2,896,178)
<b>Net Cash Used in Investing Activities</b>	<b>(60,491,264)</b>	<b>(24,071,432)</b>
Net Change in Cash Equivalents	-	-
Cash Equivalents, Beginning of Year	250,000	250,000
<b>Cash Equivalents, End of Year</b>	<b>\$ 250,000</b>	<b>\$ 250,000</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income	\$ 40,356,239	\$ 16,031,681
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Losses receivable from the University	(84,954)	20,730
Prepaid premium tax	7,500	(6,633)
Premium receivable from the University	9,166,020	(9,166,020)
Other premiums receivable	73,043	(73,043)
Reserves for losses and loss adjustment expenses	9,869,787	15,692,884
Unearned premium reserves	751,246	2,775,113
Premium tax payable	(86,245)	86,245
Losses payable and accrued liabilities	438,628	(1,289,525)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 60,491,264</b>	<b>\$ 24,071,432</b>

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

# THE VERITAS INSURANCE CORPORATION

## Notes to Financial Statements

June 30, 2025 and 2024

### 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 inceptioned in 2025 and 2024, the per occurrence limits were \$50,000,000 for medical professional liability, \$5,000,000 for property damage, \$4,000,000 for auto liability, educators’ liability and general liability, and \$2,000,000 for workers’ compensation liability. The per occurrence limit for cyber liability was \$2,500,000 and \$5,000,000 in 2025 and 2024, respectively. The annual aggregate loss limits for medical professional liability were \$110,000,000 and \$70,000,000 for the policies inceptioned in 2025 and 2024, respectively. The other annual aggregate loss limits were \$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 both 2025 and 2024. 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. 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. Veritas did not purchase any reinsurance policies in 2025 or 2024.

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.

THE VERITAS INSURANCE CORPORATION

**Notes to Financial Statements—Continued**

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

Both the financial statements and the Annual Statement filed with the Vermont Department of Financial Regulation have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (“GASB”). The Corporation reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

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

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

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

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, 2025 and 2024. 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 VERITAS INSURANCE CORPORATION

**Notes to Financial Statements—Continued**

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

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, 2025 and 2024 was 5 percent, which reflects management's best estimate of the total portfolio rate of return. The discount rate was approved by the Vermont Department of Financial Regulation. Future adjustments to these amounts resulting from the continuous review process, as well as differences between estimates and ultimate losses, will be reflected in the statement of revenues, expenses and changes in net position when such adjustments become known.

In the normal course of business, the Corporation seeks to reduce the losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Ceded written premiums are recognized pro-rata over the term of the underlying reinsurance policy.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Amounts recoverable from reinsurers for losses paid by the Corporation as of the statement of net position date are recorded as a current asset. 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 VERITAS INSURANCE CORPORATION

Notes to Financial Statements—Continued

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

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 2025 or 2024.

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, 2025 and 2024 are summarized as follows:

	<b>2025</b>	<b>2024</b>
Cash equivalents	\$ 250,000	\$ 250,000
Daily and Monthly Portfolios	272,986,879	215,219,190
Long Term Portfolio	278,987,807	227,400,592
	<u>\$ 552,224,686</u>	<u>\$ 442,869,782</u>

## THE VERITAS INSURANCE CORPORATION

### Notes to Financial Statements—Continued

#### Note 2—Cash Equivalents and Investments—Continued

At June 30, 2025 and 2024, the Daily and Monthly Portfolios were comprised of 10 percent and 3 percent money market securities, 82 percent and 80 percent fixed income securities and the remaining 8 percent and 17 percent in fixed income oriented externally managed commingled funds, limited partnerships and other investments providing additional diversification benefits to the pools. Money market securities include mutual funds, overnight pooled vehicles managed by the University's custodian and short term highly liquid securities generally maturing in 90 days or less. Of the fixed income securities, 97 percent were rated investment grade, and 49 percent consisted of U.S. Treasury and government agencies and non-U.S. government securities rated AAA/Aaa at June 30, 2025, compared to 98 percent and 64 percent, respectively, at June 30, 2024. 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 1.4 years and 1.6 years at June 30, 2025 and 2024, 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, 2025 and 2024, the Long Term Portfolio consisted of cash equivalents (1 percent and 1 percent), fixed income securities (5 percent and 8 percent), U.S. and non-U.S. equities (4 percent and 3 percent), commingled funds (13 percent and 14 percent) and nonmarketable alternative investments (77 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.

THE VERITAS INSURANCE CORPORATION

**Notes to Financial Statements—Continued**

**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 percent of the portfolio at both June 30, 2025 and 2024.

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.

THE VERITAS INSURANCE CORPORATION

**Notes to Financial Statements—Continued**

**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 value determined by the University. The net unrealized gain on investments during the period was \$47,721,000 and \$31,517,000 for the years ended June 30, 2025 and 2024, respectively.

THE VERITAS INSURANCE CORPORATION

Notes to Financial Statements—Continued

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

Activity in the reserves for losses and LAE for the years ended June 30, 2025 and 2024 is summarized as follows:

	2025	2024
Gross reserves for losses and LAE, beginning 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, beginning of year	<u>255,241,418</u>	<u>239,548,534</u>
Add incurred losses and LAE related to:		
Current year	97,831,928	89,739,408
Prior years	(26,955,994)	(1,555,922)
Total incurred losses and LAE	<u>70,875,934</u>	<u>88,183,486</u>
Less paid losses and LAE related to:		
Current year	9,496,222	12,086,596
Prior years	51,509,925	60,404,006
Total paid losses and LAE	<u>61,006,147</u>	<u>72,490,602</u>
Gross reserves for losses and LAE, end of year	265,572,320	264,149,351
Less receivables from the University for unpaid losses		8,121,000
Less reinsurance recoverable on unpaid losses	461,115	786,933
Reserves for losses and LAE, end of year	<u>265,111,205</u>	<u>255,241,418</u>
Less current portion	75,217,032	70,718,308
	<u>\$ 189,894,173</u>	<u>\$ 184,523,110</u>

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.

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 \$37,212,808 and \$36,613,471 at June 30, 2025 and 2024, respectively.

## THE VERITAS INSURANCE CORPORATION

### Notes to Financial Statements—Continued

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

In 2025, incurred losses and LAE related to policies incepted during the year increased \$8,092,520. Incurred losses and LAE related to prior years totaled (\$26,955,994) due to net favorable loss development. Educators' legal liability increased \$3,769,791 and other lines increased \$1,319,872, which was offset by a favorable development in medical professional liability of \$30,381,928, in property liability of \$962,699 and in cyber liability of \$701,030. The net favorable development is primarily due to lower reported claims experience compared to previously projected for most of the prior policy years.

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.

#### 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, 2025 and 2024, the University provided claims administration and risk management services, with an estimated value of \$5,534,000 and \$3,959,000, 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 for the years ended June 30, 2025 and 2024 totaled \$409,000 and \$417,000, respectively, and are included in the risk management services provided by the University, at no cost to the Corporation.

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.

THE VERITAS INSURANCE CORPORATION

Notes to Financial Statements—Continued

**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, 2025 and 2024.

Unrestricted net position at June 30, 2025 and 2024 is summarized as follows:

	<b>2025</b>	<b>2024</b>
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	271,146,842	183,058,329
	<u>\$ 276,601,175</u>	<u>\$ 188,512,662</u>



**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2025 and 2024  
with  
REPORT OF INDEPENDENT AUDITORS**

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

June 30, 2025 and 2024

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## **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, 2025 and 2024, 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, 2025 and 2024, 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, 2025 and 2024, 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 LLP*

October 16, 2025

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, 2025 and 2024, and its activities for the two fiscal years ended June 30, 2025. 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 \$887.5 million and total liabilities and deferred inflows of \$376.0 million at June 30, 2025 as compared to total assets and deferred outflows of \$889.5 million and total liabilities and deferred inflows of \$405.9 million at June 30, 2024. Net position, which represents the residual interest in ICA’s total assets and deferred outflows after total liabilities and deferred inflows are deducted, totaled \$511.5 million and \$483.6 million at June 30, 2025 and 2024, respectively. ICA’s change in net position for the years ended June 30 is summarized as follows:

	<b>2025</b>	<b>2024</b>	<b>2023</b>
	(in millions)		
Operating revenues	\$ 247.6	\$ 210.8	\$ 205.6
Operating expenses	\$ 258.3	\$ 251.7	\$ 234.5
Net nonoperating and other activities	\$ 38.6	\$ 54.3	\$ 14.6
Increase (decrease) in net position	\$ 27.9	\$ 13.4	\$ (14.3)

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Management’s Discussion and Analysis (Unaudited)—Continued**

During 2025, the University adopted Governmental Accounting Standards Board (“GASB”) Statement No. 101, *Compensated Absences* (“GASB 101”), which establishes a unified recognition and measurement model for compensated absence liabilities. The adoption of GASB 101 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2023, and is summarized as follows:

	June 30, 2023		
	As Previously Reported	GASB 101 Adoption	July 1, 2023 As Restated
	(in thousands)		
Accrued compensation	\$ 8,959	\$ (624)	\$ 8,335
Other liabilities	\$ 1,877	\$ 1,054	\$ 2,931
Net position	\$ 470,662	\$ (430)	\$ 470,232

For purposes of management’s discussion and analysis, the statement of net position, statement of revenues, expenses and changes in net position and the statement of cash flows presented for the year ended June 30, 2023 do not reflect the impact of the adoption of GASB 101.

ICA’s operating revenues increased \$36.8 million in 2025 due primarily to an eight home game football schedule, compared to a seven home game football schedule in 2024, and increased concessions and conference distributions.

Significant recurring sources of revenue for ICA, including gifts and investment income, are included in nonoperating revenues, as required by GASB. Net nonoperating and other activities decreased \$15.7 million in 2025 due primarily to a decrease in capital and endowment gifts, as well as an increase in television revenue sharing transfers to the University, offset by an increase in gifts for other than capital and endowment purposes.

ICA’s operating expenses increased \$6.6 million in 2025 due primarily to increases in team and game expenses, and other operating and administrative expenses, offset by a reduction in salaries, wages and benefits.

**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.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Management's Discussion and Analysis (Unaudited)—Continued**

**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:

	<b>2025</b>	<b>2024</b>	<b>2023</b>
	(in thousands)		
Net current assets (liabilities):			
Cash equivalents	\$ 95,191	\$ 87,680	\$ 113,354
Receivables and other assets, net	24,892	28,718	24,285
Advance sale of game tickets	(47,285)	(57,989)	(50,396)
Current portion of notes payable	(12,908)	(15,193)	(8,786)
Other current liabilities	(22,460)	(24,183)	(28,421)
Total net current assets	<u>37,430</u>	<u>19,033</u>	<u>50,036</u>
Net noncurrent assets, deferred outflows, (liabilities) and deferred (inflows):			
Investments	278,895	255,515	219,786
Unexpended debt proceeds	3,781	14,527	
Pledges receivable, net	30,620	28,546	29,941
Other noncurrent assets	15,396	15,889	15,656
Capital assets, net	430,070	447,784	454,971
Deferred outflows	8,667	10,803	10,918
Other liabilities	(2,894)	(2,658)	(1,877)
Unearned revenues	(1,099)	(2,292)	(3,484)
Obligations for postemployment benefits	(41,641)	(43,886)	(40,062)
Notes payable	(223,246)	(237,603)	(241,795)
Deferred inflows	(24,492)	(22,049)	(23,428)
Total net noncurrent assets and net deferred (inflows)	<u>474,057</u>	<u>464,576</u>	<u>420,626</u>
Net position	<u>\$ 511,487</u>	<u>\$ 483,609</u>	<u>\$ 470,662</u>

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Management’s Discussion and Analysis (Unaudited)—Continued**

Outstanding debt at June 30, 2025 and 2024 totaled \$236.2 million and \$252.8 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 \$27.9 million in 2025. The composition of ICA’s net position at June 30 is summarized as follows:

	<b>2025</b>	<b>2024</b>	<b>2023</b>
	(in thousands)		
Net investment in capital assets	\$ 193,507	\$ 208,090	\$ 202,094
Restricted:			
Nonexpendable	145,746	137,115	118,315
Expendable	193,003	181,254	186,224
Unrestricted	(20,769)	(42,850)	(35,971)
	\$ 511,487	\$ 483,609	\$ 470,662

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**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:

	2025	2024	2023
	(in thousands)		
Revenues:			
Spectator admissions	\$ 75,862	\$ 58,487	\$ 65,107
Conference distributions	77,043	62,724	58,971
Preferred seat contributions	37,040	35,602	32,763
Private gifts for other than capital and endowment purposes, current funds	12,635	8,421	9,928
Corporate sponsorships and other media rights	23,192	21,653	20,389
Licensing royalties	12,364	12,762	12,638
Facilities revenues	7,429	6,615	6,017
Concessions, publications and parking	10,665	4,777	5,697
Other revenues	4,005	8,190	3,980
Investment income, current funds	11,147	9,904	9,007
Total Revenues	271,382	229,135	224,497
Expenses and other uses:			
Salaries, wages and benefits, current funds	90,789	97,834	87,216
Financial aid	35,569	33,742	32,375
Team and game	52,892	49,253	50,175
Other operating and administrative	25,043	18,820	16,773
Equity transfers to the University, current funds	8,282	3,810	3,300
Operations and maintenance of plant, current funds	13,332	11,474	10,896
Deferred maintenance transfers	22,000		5,500
Debt service transfers	17,467	17,496	17,547
Total expenses and other uses	265,374	232,429	223,782
Excess (deficit) of revenues over expenses and other uses	\$ 6,008	\$ (3,294)	\$ 715

ICA's revenues (as defined herein) increased \$42.2 million in 2025 primarily due to an eight home game football schedule, compared to a seven home game football schedule in 2024, and increased concessions and conference distributions. ICA's expenses and other uses (as defined herein) increased \$32.9 million in 2025 due primarily to increases in team and game expenses, television revenue sharing transfers to the University, financial aid, deferred maintenance transfers, and other operating and administrative expenses.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Management's Discussion and Analysis (Unaudited)—Continued**

**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:

	<b>2025</b>	<b>2024</b>	<b>2023</b>
	(in thousands)		
Net cash provided by (used in) operating activities	\$ 17,016	\$ (4,570)	\$ 2,300
Net cash provided by noncapital financing activities	2,084	5,948	6,775
Net cash used in capital and related financing activities	(34,098)	(22,590)	(29,797)
Net cash provided by (used in) investing activities	22,509	(4,462)	10,014
Net increase (decrease) in cash equivalents	\$ 7,511	\$ (25,674)	\$ (10,708)

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 payments of principal and interest, and ICA's continued investment in its physical plant. Cash provided by investing activities consists primarily of investment income and changes in unexpended capital debt proceeds.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Management's Discussion and Analysis (Unaudited)—Continued**

**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 inquiries, investigations and 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  
OF THE UNIVERSITY OF MICHIGAN

**Statement of Net Position**

	June 30,	
	2025	2024
	(in thousands)	
<b>Assets</b>		
Current Assets:		
Cash equivalents on deposit with the University	\$ 95,191	\$ 87,680
Accounts receivable, net	8,152	9,503
Current portion of pledges receivable, net	12,864	13,947
Current portion of prepaid expenses and other assets	3,876	5,268
Total Current Assets	120,083	116,398
Noncurrent Assets:		
Endowment investments on deposit with the University	278,895	255,515
Unexpended debt proceeds on deposit with the University	3,781	14,527
Pledges receivable, net	30,620	28,546
Prepaid expenses and other assets	15,396	15,889
Capital assets, net	430,070	447,784
Total Noncurrent Assets	758,762	762,261
<b>Total Assets</b>	<b>878,845</b>	<b>878,659</b>
<b>Deferred Outflows</b>	<b>8,667</b>	<b>10,803</b>
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable and accrued expenses	9,257	10,935
Accrued compensation	8,564	8,633
Advance sale of game tickets	47,285	57,989
Current portion of unearned revenues	4,639	4,615
Current portion of notes payable to the University	12,908	15,193
Total Current Liabilities	82,653	97,365
Noncurrent Liabilities:		
Unearned revenues	1,099	2,292
Obligations for postemployment benefits	41,641	43,886
Notes payable to the University	223,246	237,603
Other liabilities	2,894	2,658
Total Noncurrent Liabilities	268,880	286,439
<b>Total Liabilities</b>	<b>351,533</b>	<b>383,804</b>
<b>Deferred Inflows</b>	<b>24,492</b>	<b>22,049</b>
<b>Net Position</b>		
Net investment in capital assets	193,507	208,090
Restricted:		
Nonexpendable	145,746	137,115
Expendable	193,003	181,254
Unrestricted	(20,769)	(42,850)
<b>Total Net Position</b>	<b>\$ 511,487</b>	<b>\$ 483,609</b>

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**

	<b>Year Ended June 30,</b>	
	<b>2025</b>	<b>2024</b>
	(in thousands)	
<b>Operating Revenues</b>		
Spectator admissions	\$ 75,862	\$ 58,487
Conference distributions	77,043	62,724
Preferred seat contributions	37,040	35,602
Corporate sponsorships and other media rights	23,192	21,653
Licensing royalties	12,364	12,762
Facilities revenues	7,429	6,615
Concessions, publications and parking	10,665	4,777
Other revenues	4,005	8,190
<b>Total Operating Revenues</b>	<b>247,600</b>	<b>210,810</b>
<b>Operating Expenses</b>		
Salaries, wages and benefits	92,655	99,587
Financial aid	35,569	33,742
Team and game	52,892	47,753
Other operating and administrative	24,268	18,367
Operations and maintenance of plant	19,468	20,424
Depreciation	33,426	31,862
<b>Total Operating Expenses</b>	<b>258,278</b>	<b>251,735</b>
Operating Loss	(10,678)	(40,925)
<b>Nonoperating Revenues (Expenses)</b>		
Private gifts for other than capital and endowment purposes	12,635	8,421
Net investment income	26,810	27,225
Interest expense and other, net	(10,367)	(11,500)
<b>Total Nonoperating Revenues, Net</b>	<b>29,078</b>	<b>24,146</b>
Income (Loss) Before Other Revenues and Transfers	18,400	(16,779)
<b>Other Revenues</b>		
Capital gifts	9,329	13,240
Private gifts for permanent endowment purposes	8,332	18,571
<b>Total Other Revenues</b>	<b>17,661</b>	<b>31,811</b>
Income Before Transfers	36,061	15,032
Transfers to other University units, net	(8,183)	(1,655)
Increase in Net Position	27,878	13,377
Net Position, Beginning of Year	483,609	470,662
Adoption of GASB 101		(430)
Net Position, Beginning of Year, as Restated	483,609	470,232
<b>Net Position, End of Year</b>	<b>\$ 511,487</b>	<b>\$ 483,609</b>

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

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Statement of Cash Flows**

	<b>Year Ended June 30,</b>	
	<b>2025</b>	<b>2024</b>
	(in thousands)	
<b>Cash Flows from Operating Activities</b>		
Spectator admissions	\$ 65,116	\$ 66,832
Conference distributions	76,715	62,724
Preferred seat contributions	37,040	35,602
Corporate sponsorships and other media rights	20,750	14,770
Licensing royalties	13,051	14,735
Facilities revenues	7,298	6,531
Concessions, publications and parking	10,494	4,673
Other revenues	3,955	8,222
Payments for salaries, wages and benefits	(90,544)	(98,520)
Payments for financial aid	(35,569)	(33,742)
Payments for team and game expenses	(46,844)	(47,342)
Payments for other operating and administrative expenses	(25,038)	(18,446)
Payments for operations and maintenance of plant	(19,408)	(20,609)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>17,016</b>	<b>(4,570)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Private gifts for other than capital and endowment purposes	10,316	9,158
Transfers to other University units, net	(8,232)	(3,210)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>2,084</b>	<b>5,948</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital gifts	10,657	12,767
Proceeds from issuance of capital debt		17,510
Principal payments on capital debt	(16,743)	(15,295)
Interest payments on capital debt	(10,355)	(11,586)
Purchases of capital assets	(17,706)	(27,540)
Transfers from other University units, net	49	1,554
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(34,098)</b>	<b>(22,590)</b>
<b>Cash Flows from Investing Activities</b>		
Investment income	11,323	10,434
Increase (decrease) in investments on deposit with the University, net	440	(369)
Net decrease (increase) in unexpended capital debt proceeds	10,746	(14,527)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>22,509</b>	<b>(4,462)</b>
Net Increase (Decrease) in Cash Equivalents	7,511	(25,674)
Cash Equivalents on Deposit with the University, Beginning of Year	87,680	113,354
<b>Cash Equivalents on Deposit with the University, End of Year</b>	<b>\$ 95,191</b>	<b>\$ 87,680</b>

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

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Statement of Cash Flows—Continued**

	<b>Year Ended June 30,</b>	
	<b>2025</b>	<b>2024</b>
	(in thousands)	
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in)</b>		
<b>Operating Activities:</b>		
Operating loss	\$ (10,678)	\$ (40,925)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	33,426	31,862
Changes in assets and liabilities:		
Accounts receivable, net	1,350	(444)
Prepaid expenses and other assets	2,166	(2,037)
Accounts payable and accrued expenses	974	(2,083)
Accrued compensation	(2,645)	3,369
Advance sale of game tickets	(10,705)	7,593
Unearned revenues	(1,169)	414
Changes in deferred outflows	2,136	115
Changes in deferred inflows	2,161	(2,434)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 17,016</b>	<b>\$ (4,570)</b>

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

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements**

June 30, 2025 and 2024

**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 2025, the University adopted GASB Statement No. 101, *Compensated Absences* (“GASB 101”), which establishes a unified recognition and measurement model for compensated absence liabilities. The adoption of GASB 101 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2023, and is summarized as follows:

	June 30, 2023		July 1, 2023
	As Previously Reported	GASB 101 Adoption (in thousands)	As Restated
Accrued compensation	\$ 8,959	\$ (624)	\$ 8,335
Other liabilities	\$ 1,877	\$ 1,054	\$ 2,931
Net position	\$ 470,662	\$ (430)	\$ 470,232

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

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

Net position is categorized as:

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

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**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 \$110,927,000 and \$97,571,000 at June 30, 2025 and 2024, 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.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**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 \$3,332,000 and \$3,256,000 at June 30, 2025 and 2024, 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.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**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, 2025 and 2024, the Long Term Portfolio consisted of cash equivalents (1 percent and 1 percent), fixed income securities (5 percent and 8 percent), U.S. and non-U.S. equities (4 percent and 3 percent), commingled funds (13 percent and 14 percent) and nonmarketable alternative investments (77 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.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**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 of the portfolio at both June 30, 2025 and 2024.

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.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**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 value determined by the University. The net unrealized gain on investments during the period was \$14,692,000 and \$16,278,000 for the years ended June 30, 2025 and 2024, respectively.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**Note 3—Pledges Receivable**

The composition of pledges receivable at June 30, 2025 and 2024 is summarized as follows:

	<b>2025</b>	<b>2024</b>
	(in thousands)	
Gift pledges outstanding:		
Capital	\$ 34,488	\$ 35,819
Operations	11,274	8,739
	45,762	44,558
Less:		
Allowance for uncollectible pledges	1,173	1,136
Unamortized discount to present value	1,105	929
Total pledges receivable, net	43,484	42,493
Less current portion	12,864	13,947
	\$ 30,620	\$ 28,546

Payments on pledges receivable at June 30, 2025, are expected to be received in the following years ended June 30 (in thousands):

2026	\$ 13,457
2027	11,165
2028	8,609
2029	6,678
2030	2,102
2031 and after	3,751
	\$ 45,762

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling \$36,056,000 and \$29,727,000 at June 30, 2025 and 2024, respectively, are not reflected within 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.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**Note 4—Capital Assets**

Capital assets activity for the years ended June 30, 2025 and 2024 is summarized as follows:

	<b>2025</b>			Ending Balance
	Beginning Balance	Additions	Retirements	
	(in thousands)			
Land	\$ 1,818			\$ 1,818
Land improvements	24,529	\$ 253		24,782
Infrastructure	2,840			2,840
Buildings	818,637	22,769		841,406
Construction in progress	13,384	(8,547)		4,837
Equipment	14,937	900	\$ 150	15,687
Right-to-use assets	2,254	343		2,597
	878,399	15,718	150	893,967
Less accumulated depreciation:				
Land improvements	21,732	654		22,386
Infrastructure	2,700	71		2,771
Buildings	393,975	31,104		425,079
Equipment	11,267	858	144	11,981
Right-to-use assets	941	739		1,680
	430,615	33,426	144	463,897
	\$ 447,784	\$ (17,708)	\$ 6	\$ 430,070

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**Note 4—Capital Assets—Continued**

	<b>2024</b>			Ending Balance
	Beginning Balance	Additions	Retirements	
	(in thousands)			
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:				
Land improvements	20,906	826		21,732
Infrastructure	2,629	71		2,700
Buildings	365,289	29,575	889	393,975
Equipment	10,768	873	374	11,267
Right-to-use assets	424	517		941
	400,016	31,862	1,263	430,615
	\$ 454,971	\$ (6,976)	\$ 211	\$ 447,784

In 2025, the decrease in construction in progress of \$8,547,000 represents the amount of capital expenditures for new projects of \$14,475,000, net of assets placed in service of \$23,022,000. 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.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

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

Long-term debt activity for the years ended June 30, 2025 and 2024 is summarized as follows:

		<b>2025</b>			
		Beginning Balance	Additions	Reductions	Ending Balance
		(in thousands)			
		\$ 252,796	\$ -	\$ 16,642	\$ 236,154
	Less current portion	15,193			12,908
		\$ 237,603			\$ 223,246
		<b>2024</b>			
		Beginning Balance	Additions	Reductions	Ending Balance
		(in thousands)			
	Payable to the University	\$ 250,581	\$ 17,510	\$ 15,295	\$ 252,796
	Less current portion	8,786			15,193
		\$ 241,795			\$ 237,603

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, 2025 and 2024, range from 2.25 to 5.40 percent.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

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

In 2025 and 2024, ICA incurred interest expense totaling \$10,294,000 and \$10,708,000, 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
2026	\$ 12,767	\$ 8,877	\$ 21,644
2027	9,455	8,500	17,955
2028	9,910	8,103	18,013
2029	10,325	7,686	18,011
2030	10,615	7,251	17,866
2031-2035	101,080	28,451	129,531
2036-2040	54,815	12,063	66,878
2041-2045	17,765	3,670	21,435
2046-2047	5,700	435	6,135
	232,432	\$ 85,036	\$ 317,468
Plus unamortized premiums, net	3,722		
	\$ 236,154		

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**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, 2025 and 2024 as follows:

	2025	2024
	(in thousands)	
Financial Aid (Tuition and Housing)	\$ 26,248	\$ 24,796
Goods and Services:		
Utilities	4,826	4,207
Plant services	2,110	1,089
Technology/telecommunications	1,408	1,446
Insurance coverage	4,968	1,748
Security	1,340	974
Medical services	1,688	1,313
Business and finance allocation	798	881
Budget administration allocation	708	675
Marching Band support	511	489
Other	1,341	1,279
Total Goods and Services	19,698	14,101
Equity Transfers:		
Recreational Sports and Unions infrastructure renewal	1,800	1,800
Television revenue sharing	6,000	2,000
Concessions revenue sharing	276	
Total Equity Transfers	8,076	3,800
	\$ 54,022	\$ 42,697

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

During 2025 and 2024, ICA provided the University with \$6,000,000 and \$2,000,000 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.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

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

During 2024 ICA received \$38,000 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.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**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, 2025 and 2024 are summarized as follows:

	<b>2025</b>		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	\$ 43,991	\$ 1,129	\$ 45,120
Net benefits expense	1,703	10	1,713
Decrease in deferred outflows	(1,962)	(21)	(1,983)
Increase in deferred inflows	(2,133)	(28)	(2,161)
Balance, end of year	41,599	1,090	42,689
Less current portion	951	97	1,048
	\$ 40,648	\$ 993	\$ 41,641
	<b>2024</b>		
	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

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**Note 7—Postemployment Benefits—Continued**

At June 30, 2025 and 2024, deferred outflows reported in the statement of net position include benefit payments made after the measurement date of \$951,000 and \$1,104,000, 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, 2025 and 2024, as a percentage of covered payroll of \$68,206,000 and \$74,614,000 were 63 percent and 60 percent, respectively.

Significant actuarial assumptions used at the June 30, 2024 and 2023 measurement dates are as follows:

	2024	2023
Discount rate*	3.93%	3.65%
Inflation rate	2.00%	2.00%
Immediate/ultimate administrative trend rate	3.0%/3.0%	0.0%/3.0%
Immediate/ultimate medical trend rate	6.75%/4.5%	5.75%/4.5%
Immediate/ultimate Rx trend rate	10.0%/4.5%	11.0%/4.5%
Increase in compensation rate faculty/staff/union	4.5%/4.75%/4.5%	4.5%/ 4.75%/ 4.5%
Mortality table**	PUB-2010 Teachers Head Count Weighted Table, Scale MP-2021	PUB-2010 Teachers Head Count Table, Scale MP-2021
Average future work life expectancy (years):		
Retiree health and welfare	9.41	9.45
Long-term disability	11.97	12.01

\* 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 2020-2024 for the June 30, 2024 measurement date and 2015-2019 for the June 30, 2023 measurement date

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**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, 2025 and 2024 are summarized as follows:

	2025	2024
	(in thousands)	
ICA contributions	\$ 3,521	\$ 3,295
Employee contributions	\$ 1,837	\$ 1,733
Payroll covered under plan	\$ 68,206	\$ 74,614
Total payroll	\$ 73,735	\$ 79,569

**Note 9—Commitments and Contingencies**

ICA’s authorized expenditures for construction and other projects unexpended at June 30, 2025 were \$31,859,000.

ICA has entered into leases for equipment as well as subscription-based information technology arrangements which expire at various dates through 2030. Future payments, including both principal and interest, on these commitments for the next five years are as follows:

	Principal	Interest	Total
	(in thousands)		
2026	\$ 409	\$ 38	\$ 447
2027	450	19	469
2028	77	7	84
2029	76	4	80
2030	33		33
	\$ 1,045	\$ 68	\$ 1,113

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Required Supplementary Information (Unaudited)**

**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):

	<b>2025</b>	<b>2024</b>	<b>2023</b>
Net benefits expense	\$ 1,713	\$ 1,985	\$ 1,976
Changes in deferred outflows	(1,983)	(346)	(1,918)
Changes in deferred inflows	(2,161)	2,434	(7,438)
Net change	<u>\$ (2,431)</u>	<u>\$ 4,073</u>	<u>\$ (7,380)</u>
Total liability, end of year	\$ 42,689	\$ 45,120	\$ 41,047
Covered employee payroll	\$ 68,206	\$ 74,614	\$ 65,558
Total liability as a percentage of covered employee payroll	63%	60%	63%
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Net benefits expense	\$ 3,088	\$ 3,332	\$ 2,125
Changes in deferred outflows	(1,477)	7,987	1,910
Changes in deferred inflows	(3,097)	861	857
Net change	<u>\$ (1,486)</u>	<u>\$ 12,180</u>	<u>\$ 4,892</u>
Total liability, end of year	\$ 48,427	\$ 49,913	\$ 37,733
Covered employee payroll	\$ 58,708	\$ 54,112	\$ 54,267
Total liability as a percentage of covered employee payroll	82%	92%	70%
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net benefits expense	\$ 1,962	\$ 2,599	\$ 3,128
Changes in deferred outflows	(264)	474	3,333
Changes in deferred inflows	(4,088)	(2,774)	
Net change	<u>\$ (2,390)</u>	<u>\$ 299</u>	<u>\$ 6,461</u>
Total liability, end of year	\$ 32,841	\$ 35,231	\$ 34,932
Covered employee payroll	\$ 53,681	\$ 51,913	\$ 46,457
Total liability as a percentage of covered employee payroll	61%	68%	75%

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Required Supplementary Information (Unaudited)—Continued**

**Postemployment Benefits—Continued**

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

2025	3.93%
2024	3.65%
2023	3.54%
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.87%
2018	3.58%
2017	2.85%