# MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

OFFICE OF
BUSINESS & FINANCE
UNIVERSITY OF MICHIGAN

October 17, 2024

The management of the University of Michigan (the "University") is responsible for the preparation, integrity and fair presentation of the basic financial statements. The basic financial statements, presented on pages 46 to 54, have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on judgments and estimates made by management.

The basic financial statements have been audited by the independent accounting firm PricewaterhouseCoopers LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Regents. The University believes that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers' audit opinion is presented on pages 25-27.

The University maintains a system of internal controls over financial reporting designed to provide reasonable assurance to the University's management and Board of Regents regarding the preparation of reliable financial statements. These controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel and by an internal audit program designed to identify internal control weaknesses, in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and the circumvention of controls.

The Board of Regents, through its Finance, Audit and Investment Committee, is responsible for engaging the independent auditors and meeting regularly with management, internal auditors and the independent auditors to ensure that each is carrying out their responsibilities, and to discuss auditing, internal control and financial reporting matters. Both the internal auditors and independent auditors have full and free access to the Finance, Audit and Investment Committee.

Based on the above, the information contained in the accompanying basic financial statements fairly presents, in all material respects, the financial position, changes in financial position and cash flows of the University.

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# REPORT OF INDEPENDENT AUDITORS

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To the Regents of the University of Michigan

## OPINIONS

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

In our opinion, based on our audit and the reports of other auditors with respect to the University's 2023 basic financial statements, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the fiduciary activities of the University as of June 30, 2024 and 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

## BASIS FOR OPINIONS

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

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## 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.

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## REQUIRED SUPPLEMENTAL INFORMATION

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 28 through 45 and the required supplementary information for the pension plan and postemployment benefits on pages 94 through 99 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

October 17, 2024

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# MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

## INTRODUCTION

The following discussion and analysis provides an overview of the financial position of the University of Michigan (the "University") at June 30, 2024 and 2023 and its activities for the two fiscal years ended June 30, 2024. This discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning with over 66,000 students and approximately 8,900 faculty members on three campuses in southeast Michigan. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels through 19 schools and colleges, and contributes to the state and nation through related research and public service programs. The University also has a nationally renowned health system which includes the University of Michigan Health ("UMH"), the University's Medical School, Michigan Health Corporation (a wholly-owned corporation created for joint venture and managed care initiatives) and UM Health (a wholly-owned corporation created to hold and develop the University's statewide network of hospitals, hospital joint ventures and other hospital affiliations, primarily consisting of UM Health-Sparrow and UM Health-West).

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

## FINANCIAL HIGHLIGHTS

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

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

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

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

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

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

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

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

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

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

## USING THE BASIC FINANCIAL STATEMENTS

The University's financial report includes: the Consolidated Statement of Net Position; the Consolidated Statement of Revenues, Expenses and Changes in Net Position; the Consolidated Statement of Cash Flows; the Discretely Presented Component Unit Statement of Net Position; the Discretely Presented Component Unit Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Fiduciary Net Position; and the Statement of Changes in Fiduciary Net Position. These basic financial statements are prepared in accordance with GASB principles, which establish standards for external financial reporting for public colleges and universities. The University's business-type activities are reported in the consolidated financial statements and the discretely presented component unit financial statements, while its fiduciary activities are reported in the fiduciary financial statements.

## CONSOLIDATED STATEMENT OF NET POSITION

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

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

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

Current assets consist primarily of cash and cash equivalents, operating and capital investments, and accounts receivable and decreased $0.3 billion to $5.9 billion at June 30, 2024, as compared to $6.2 billion at June 30, 2023. Cash, cash equivalents and investments for operating activities totaled $3.3 billion at June 30, 2024, which represents approximately three months of total expenses excluding depreciation.

Deferred outflows represent the consumption of net assets attributable to a future period and are primarily associated with the University's obligations for postemployment benefits, debt and derivative activity, and the defined benefit pension plans for UM Health-Sparrow and UM Health-West. Deferred outflows totaled $1.0 billion and $1.1 billion at June 30, 2024 and 2023, respectively.

Current liabilities consist primarily of accounts payable, accrued compensation, unearned revenue, commercial paper, the current portion of bonds payable and net long-term bonds payable subject to remarketing, and totaled $3.1 billion and $2.8 billion at June 30, 2024 and 2023, respectively.

Deferred inflows represent the acquisition of net assets attributable to a future period and are primarily associated with the University's obligations for postemployment benefits, the defined benefit pension plans for UM Health-Sparrow and UM Health-West, and irrevocable split-interest agreements. Deferred inflows totaled $1.2 billion and $1.4 billion at June 30, 2024 and 2023, respectively.

## ENDOWMENT, LIFE INCOME AND OTHER INVESTMENTS

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

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

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

The University uses its endowment funds to support operations in a way that strikes a balance between generating a predictable stream of annual support for current needs and preserving the purchasing power of the endowment funds for future periods. A majority of the endowment is maintained in the University Endowment Fund ("UEF"), a unitized pool which represents a collection of over 13,000 separate funds, the majority of which are restricted for specific purposes. The UEF is invested in the University's Long Term Portfolio, a single diversified investment pool.

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

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

Endowment spending rate distributions totaled $506 million and $470 million and withdrawals from funds functioning as endowment totaled $80 million and $20 million in 2024 and 2023, respectively. Total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.3 percent and 3.9 percent of the current year average fair value of the UEF for 2024 and 2023, respectively. Over the past ten years, total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.2 percent.

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

## CAPITAL AND DEBT ACTIVITIES

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

Capital asset additions totaled $1.2 billion in 2024 as compared to $817 million in 2023. Capital asset additions primarily represent renovation and new construction of academic, research and clinical facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were primarily funded with net position and gifts designated for capital purposes of $833 million, as well as debt proceeds of $322 million and state capital appropriations of $25 million.

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

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

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

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

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

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

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

The University is aware of its financial stewardship responsibility and works diligently to manage its financial resources effectively, including the prudent use of debt to finance capital projects. A strong debt rating is an important indicator of the University's success in this area. In 2024, S&P Global affirmed its highest credit rating (AAA) for bonds backed by a broad revenue pledge based on the University's robust enrollment and demand, exceptional student quality, retention and graduation rates, strong reputation of the University's health system, excellent balance sheet, exceptional research presence and manageable debt burden. Moody's also affirmed its highest credit rating (Aaa) based on the University's exceptional brand and strategic positioning, strong student demand, substantial research funding, peer leading philanthropy, market leading reputation of the University's health system, and strong budgetary and planning framework.

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

**2024**

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

**2023**

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

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

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

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

2022A and $11 million of Michigan Finance Authority Hospital Revenue Bonds Series 2022B, resulting in a gain on defeasance of $23 million which was recognized into other nonoperating revenues.

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

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

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

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

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

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

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

## OBLIGATIONS FOR DEFINED BENEFIT PENSION PLANS

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

## OBLIGATIONS FOR POSTEMPLOYMENT BENEFITS

Using current actuarial assumptions, and presuming a continuation of the current level of benefits, the University's obligations for postemployment benefits totaled $4.0 billion at June 30, 2024 as compared to $3.7 billion at June 30, 2023. The increase in the reported liability at June 30, 2024 was driven primarily by an increase in both health care claims cost experience and health care claims trend assumption rates, offset by a change in cost estimates. Since a portion of retiree medical services will be provided by the University's health system, this liability is net of the related margin and fixed costs associated with providing those services which totaled $214 million and $620 million at June 30, 2024 and 2023, respectively.

By implementing a series of health benefit initiatives over the past several years, the University has favorably impacted its total liability for postemployment benefits by $1.8 billion at June 30, 2024. These initiatives have included cost sharing changes, elimination of Medicare Part B reimbursements for certain retirees and the adjustment of retirement eligibility criteria.

## NET POSITION

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

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

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

Restricted nonexpendable net position represents the corpus portion (historical value) of gifts to the University's permanent endowment funds. Restricted expendable net position is subject to externally imposed stipulations governing their use and includes net appreciation of permanent endowments, funds functioning as endowment and net position restricted for operations, facilities and student loan programs. Restricted expendable net position increased 8 percent, or $621 million, to $8.5 billion at June 30, 2024, as compared to $7.9 billion at June 30, 2023.

Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for various academic programs, research initiatives and capital projects. Unrestricted net position at June 30, 2024 totaled $5.7 billion and included funds functioning as endowment of $8.3 billion offset by unfunded obligations for postemployment benefits of $4.2 billion. Unrestricted net position at June 30, 2023 totaled $5.9 billion and included funds functioning as endowment of $7.9 billion offset by unfunded obligations for postemployment benefits of $4.1 billion. Unrestricted net position also includes other net resources which totaled $1.6 billion and $2.1 billion at June 30, 2024 and 2023, respectively.

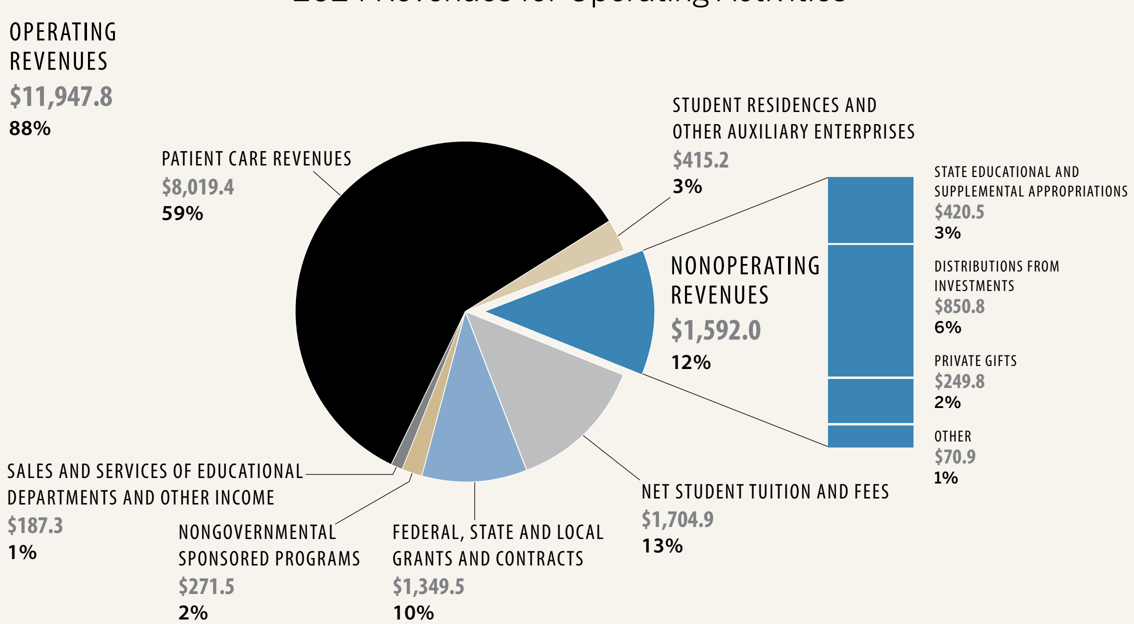
## CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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

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

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

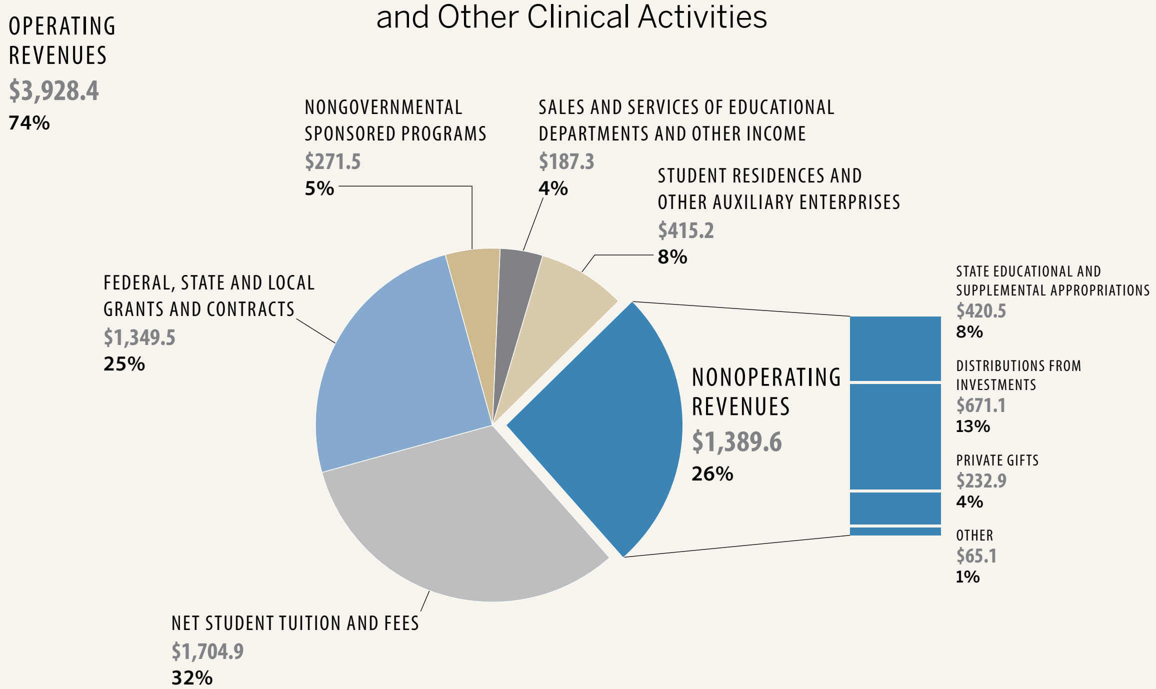


# MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

The University measures its performance both for the University as a whole and for the University without its health system and other clinical activities. The exclusion of these activities allows a clearer view of the operations of the schools and colleges, as well as central administration. The following is a graphic illustration of University revenues by source, both operating and nonoperating, which are used to fund operating activities other than the health system and other clinical activities, for the year ended June 30, 2024 (amounts are presented in millions of dollars).

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




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

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

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

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

Tuition rate increases in 2023 were 3.4 percent for resident undergraduate students and 3.9 percent for both nonresident undergraduate students and most graduate students on the Ann Arbor campus, with a 3.6 percent and 4.9 percent tuition rate increase for most resident undergraduate students on the Dearborn and Flint campuses, respectively. During 2023, the University experienced growth in the number of students, as well as a shift in mix from resident to nonresident students.

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

While tuition and state educational appropriations fund a large percentage of University costs, private support is also essential to the University's academic distinction. Private gifts for other than capital and endowment purposes totaled $250 million in 2024, as compared to $193 million in 2023.

The University receives revenues for sponsored programs from various government agencies and private sources, which normally provide for both direct and indirect costs to perform these sponsored activities, with a significant portion related to federal research. Revenues for sponsored programs increased 9 percent, or $140 million, to $1.6 billion in 2024 driven primarily by increases in federally sponsored activity during this period.

Patient care revenues are principally generated within the University's hospitals and ambulatory care facilities. Patient care revenues increased 11 percent, or $768 million, to $8.0 billion in 2024, due primarily to growth in patient volume as well as an increase in revenue per patient case.

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

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

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

UM Health patient care revenues primarily represent UM Health-Sparrow, a community health care provider in Mid-Michigan, and UM Health-West, a community health care provider in West Michigan. UM Health-Sparrow operates multiple hospitals with a combined 832 licensed beds, as well as outpatient clinics throughout the Mid-Michigan region. UM Health-West operates a hospital with 208 licensed beds, as well as outpatient clinics and a growing network of specialty services. Through its affiliations with UM Health-Sparrow and UM Health-West, the University is positioned to expand research capabilities, primary care, specialty services and the use of complex medical technologies.

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

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

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

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

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

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

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

State capital appropriations help the University improve its academic buildings. Recent capital outlays have supported renovations of the W.K. Kellogg Institute and Dental Building on the Ann Arbor campus, the Engineering Lab Building on the Dearborn campus, the William R. Murchie Science Building on the Flint campus and the construction of UMCI located in downtown Detroit.

Gifts and grants for endowment and capital purposes continue to be a significant part of sustaining the University's excellence. Private gifts for permanent endowment purposes totaled $248 million in 2024 as compared to $118 million in 2023. Capital gifts and grants totaled $145 million in 2024 as compared to $59 million in 2023. In recent years, major gifts have been received in support of the University's wide-ranging capital initiatives which include the health system, UMCI, Ross School of Business, College of Engineering and Intercollegiate Athletics.

In addition to revenue diversification, the University continues to make cost containment an ongoing priority. This is necessary as the University faces significant financial pressures, particularly in the areas of compensation and benefits, which represent 62 percent of total expenses, as well as in the areas of energy, technology and ongoing maintenance of facilities and infrastructure.

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

| | 2024 | | 2023 | | 2022 | |
|---|---|---|---|---|---|---|
| Operating: | | | | | | |
| Compensation and benefits | $ 8,324.3 | 62% | $ 7,808.4 | 61% | $ 6,573.9 | 62% |
| Supplies and services | 4,022.1 | 30 | 3,809.0 | 30 | 3,137.1 | 29 |
| Depreciation | 688.1 | 5 | 685.4 | 5 | 606.5 | 6 |
| Scholarships and fellowships | 229.2 | 2 | 200.4 | 2 | 230.9 | 2 |
| | 13,263.7 | 99 | 12,503.2 | 98 | 10,548.4 | 99 |
| Nonoperating: | | | | | | |
| Interest | 183.4 | 1 | 195.7 | 2 | 119.7 | 1 |
| | $ 13,447.1 | 100% | $ 12,698.9 | 100% | $ 10,668.1 | 100% |

The University is committed to recruiting and retaining outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. Compensation and benefits increased 7 percent, or $516 million, to $8.3 billion in 2024. Of the 2024 increase, compensation increased 7 percent, or $418 million, to $6.3 billion, driven primarily by increases in staffing levels resulting from patient activity volumes within the University's health system, and employee benefits increased 5 percent, or $98 million, to $2.0 billion, resulting primarily from an increase in health care and prescription drug costs.

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

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

Supplies and services expenses increased 6 percent, or $213 million, to $4.0 billion in 2024 and reflect growth in the University's mission related activities.

# MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

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

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

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

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

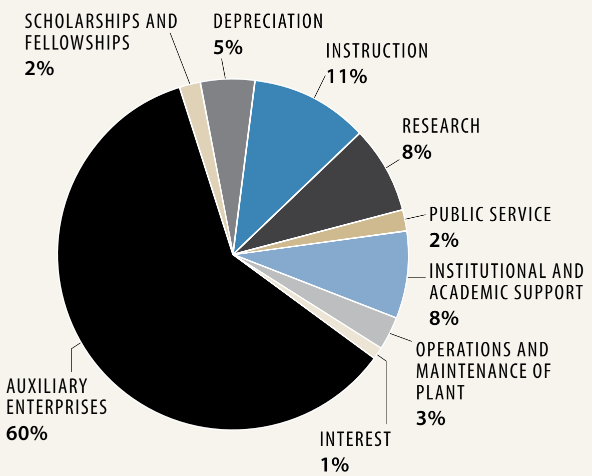
Patient care expenses increased 6 percent, or $411 million, in 2024 and reflect the impact of additional patient volume during the period. Increased medical supplies expense resulted from higher patient activity levels, new therapies and the rising cost of pharmaceuticals.

Scholarships and fellowships provided to students totaled $861 million in 2024 as compared to $773 million in 2023, an increase of 11 percent. Tuition, housing and fees revenues are reported net of aid applied to students' accounts, while amounts paid directly to students are reported as scholarships and fellowships expense. Scholarships and fellowships for the years ended June 30 are summarized as follows:

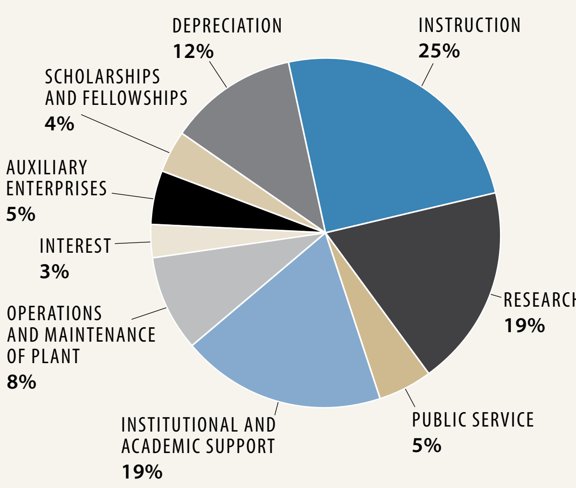
| (in millions) | 2024 | 2023 | 2022 |
|---|---|---|---|
| Paid directly to students | $ 229.2 | $ 200.4 | $ 230.9 |
| Applied to tuition and fees | 603.4 | 545.9 | 498.9 |
| Applied to University Housing | 28.2 | 26.4 | 24.8 |
| | $ 860.8 | $ 772.7 | $ 754.6 |

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

2024 Expenses by Function




2024 Expenses by Function Excluding Expenses from the University's Patient Care Activities



## CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

## ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

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

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

The University's budget for 2025 anticipates a 2.5 percent increase in state educational appropriations, a 2.9 percent tuition rate increase for Ann Arbor campus resident undergraduates and a 6.3 percent increase in centrally awarded financial aid. Nonresident undergraduate tuition rates, as well as most graduate and professional rates, will increase 4.9 percent. Resident undergraduate tuition rates for the Dearborn and Flint campuses will increase 4.7 percent and 4.9 percent, respectively.

The University continues to execute its long-range plan to maintain, modernize and expand its complement of older facilities while adding key new facilities for instruction, research, patient care, athletics and residential life. This strategy addresses the University's growth and the continuing effects of technology on teaching, research and clinical activities. Authorized costs to complete construction and other projects totaled $1,617 million at June 30, 2024. Funding for these projects is anticipated to include $1,587 million from internal sources, gifts, grants and proceeds from borrowings and $30 million from the State Building Authority.

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

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

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

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

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

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

# FINANCIAL STATEMENTS
## CONSOLIDATED STATEMENT OF NET POSITION

| (in thousands) | June 30, 2024 | 2023 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 554,923 | $ 750,138 |
| Investments for operating activities | 2,761,594 | 3,126,841 |
| Investments for capital activities | 462,223 | 510,541 |
| Investments for student loan activities | 68,858 | 68,387 |
| Accounts receivable, net | 1,533,684 | 1,239,770 |
| Current portion of notes and pledges receivable, net | 120,910 | 117,669 |
| Current portion of other assets | 411,289 | 333,506 |
| Cash collateral held by agent | | 4,844 |
| Total Current Assets | 5,913,481 | 6,151,696 |
| Noncurrent Assets: | | |
| Endowment, life income and other investments | 20,572,922 | 19,318,390 |
| Notes and pledges receivable, net | 290,198 | 259,798 |
| Other assets | 120,636 | 116,766 |
| Capital assets, net | 7,570,687 | 7,089,073 |
| Total Noncurrent Assets | 28,554,443 | 26,784,027 |
| **Total Assets** | **34,467,924** | **32,935,723** |
| | | |
| **Deferred Outflows** | **1,011,982** | **1,073,647** |

| (in thousands) | June 30, 2024 | 2023 |
|---|---|---|
| **Liabilities** | | |
| Current Liabilities: | | |
| Accounts payable | 689,962 | 626,498 |
| Accrued compensation and other | 761,866 | 726,360 |
| Unearned revenue | 520,848 | 441,655 |
| Current portion of insurance and benefits reserves | 283,235 | 253,398 |
| Current portion of obligations for postemployment benefits | 125,075 | 105,261 |
| Commercial paper and current portion of bonds payable | 402,592 | 298,184 |
| Long-term bonds payable subject to remarketing, net | 343,770 | 372,335 |
| Collateral held for securities lending | | 4,844 |
| Total Current Liabilities | 3,127,348 | 2,828,535 |
| Noncurrent Liabilities: | | |
| Accrued compensation | 13,791 | 15,324 |
| Insurance and benefits reserves | 211,533 | 212,378 |
| Obligations for defined benefit pension plans, net | (35,571) | 15,189 |
| Obligations for postemployment benefits | 3,904,973 | 3,611,114 |
| Obligations under life income agreements | 68,017 | 65,520 |
| Government loan advances | 30,919 | 36,448 |
| Bonds payable | 4,264,053 | 4,784,568 |
| Other liabilities | 322,150 | 324,381 |
| Total Noncurrent Liabilities | 8,779,865 | 9,064,922 |
| **Total Liabilities** | **11,907,213** | **11,893,457** |
| | | |
| **Deferred Inflows** | **1,238,069** | **1,402,152** |
| | | |
| **Net Position** | | |
| Net investment in capital assets | 4,977,364 | 3,964,182 |
| Restricted: | | |
| Nonexpendable | 3,221,288 | 2,959,142 |
| Expendable | 8,474,273 | 7,853,068 |
| Unrestricted | 5,661,699 | 5,937,369 |
| **Total Net Position** | **$ 22,334,624** | **$ 20,713,761** |

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

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| (in thousands) | Year Ended June 30, 2024 | 2023 |
|---|---|---|
| **Operating Revenues** | | |
| Student tuition and fees | $ 2,308,263 | $ 2,186,769 |
| Less scholarship allowances | 603,351 | 545,906 |
| Net student tuition and fees | 1,704,912 | 1,640,863 |
| Federal grants and contracts | 1,331,497 | 1,186,061 |
| State and local grants and contracts | 17,977 | 10,154 |
| Nongovernmental sponsored programs | 271,490 | 284,488 |
| Sales and services of educational departments | 185,445 | 158,707 |
| Auxiliary enterprises: | | |
| Patient care revenues (net of provision for bad debts of $220,622 in 2024 and $211,403 in 2023) | 8,019,381 | 7,251,435 |
| Student residence fees (net of scholarship allowances of $28,214 in 2024 and $26,378 in 2023) | 139,628 | 130,896 |
| Other revenues | 275,615 | 264,685 |
| Student loan interest income and fees | 1,789 | 1,367 |
| **Total Operating Revenues** | **11,947,734** | **10,928,656** |
| **Operating Expenses** | | |
| Compensation and benefits | 8,324,238 | 7,808,426 |
| Supplies and services | 4,022,075 | 3,809,009 |
| Depreciation | 688,146 | 685,362 |
| Scholarships and fellowships | 229,222 | 200,439 |
| **Total Operating Expenses** | **13,263,681** | **12,503,236** |
| Operating Loss | (1,315,947) | (1,574,580) |
| **Nonoperating Revenues (Expenses)** | | |
| State educational appropriations | 414,207 | 392,473 |
| State supplemental appropriations | 6,271 | |
| Federal Pell grants | 65,144 | 55,299 |
| Federal economic relief funds | 5,750 | 33,837 |
| Private gifts for other than capital and endowment purposes | 249,839 | 193,284 |
| Net investment income | 1,932,833 | 1,078,343 |
| Interest expense | (183,440) | (195,711) |
| **Total Nonoperating Revenues, Net** | **2,490,604** | **1,557,525** |
| Income (Loss) Before Other Revenues (Expenses) | 1,174,657 | (17,055) |
| **Other Revenues (Expenses)** | | |
| State capital appropriations | 49,857 | 12,911 |
| Capital gifts and grants | 145,448 | 59,418 |
| Private gifts for permanent endowment purposes | 247,716 | 117,716 |
| Other | 3,185 | (16,765) |
| **Total Other Revenues, Net** | **446,206** | **173,280** |
| Increase in Net Position | 1,620,863 | 156,225 |
| Net Position, Beginning of Year | 20,713,761 | 19,298,461 |
| Affiliation with the Sparrow Health System | | 1,259,075 |
| Net Position, Beginning of Year, as Restated | 20,713,761 | 20,557,536 |
| **Net Position, End of Year** | **$ 22,334,624** | **$ 20,713,761** |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

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

## CONSOLIDATED STATEMENT OF CASH FLOWS, CONTINUED

| (in thousands) | Year Ended June 30, 2024 | 2023 |
|---|---|---|
| **Cash Flows from Investing Activities** | | |
| Interest and dividends on investments, net | 270,691 | 239,061 |
| Proceeds from sales and maturities of investments | 10,139,184 | 8,972,888 |
| Purchases of investments | (9,617,470) | (10,113,114) |
| Decrease in unexpended capital debt proceeds | | 305,452 |
| Net decrease (increase) in cash equivalents from noncurrent investments | 289,948 | (176,071) |
| Net decrease (increase) in fiduciary custodial funds and other | 5,290 | (25,669) |
| **Net Cash Provided by (Used in) Investing Activities** | **1,087,643** | **(797,453)** |
| Net Decrease in Cash and Cash Equivalents | (195,215) | (2,289,769) |
| Cash and Cash Equivalents, Beginning of Year | 750,138 | 2,951,905 |
| Affiliation with the Sparrow Health System | | 88,002 |
| Cash and Cash Equivalents, Beginning of Year, as Restated | 750,138 | 3,039,907 |
| **Cash and Cash Equivalents, End of Year** | **$ 554,923** | **$ 750,138** |

| | 2024 | 2023 |
|---|---|---|
| **Reconciliation of Operating Loss to Net Cash Used in Operating Activities:** | | |
| Operating loss | $ (1,315,947) | $ (1,574,580) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation expense | 688,146 | 685,362 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (288,500) | (51,004) |
| Notes and pledges receivable, net | 4,744 | 507 |
| Other assets | (55,870) | (36,057) |
| Accounts payable | 23,760 | 27,289 |
| Accrued compensation and other | 39,494 | (73,172) |
| Unearned revenue | (3,854) | (63,476) |
| Insurance and benefits reserves | 28,992 | (398,826) |
| Obligations for defined benefit pension plans, net | (50,760) | 198,740 |
| Obligations for postemployment benefits | 313,673 | (581,284) |
| Changes in deferred outflows | 59,530 | (26,313) |
| Changes in deferred inflows | (161,139) | 601,704 |
| **Net Cash Used in Operating Activities** | **$ (717,731)** | **$ (1,291,110)** |

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

## DISCRETELY PRESENTED COMPONENT UNIT STATEMENT OF NET POSITION

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

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

# FINANCIAL STATEMENTS

## DISCRETELY PRESENTED COMPONENT UNIT STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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

## STATEMENT OF FIDUCIARY NET POSITION

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

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

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

# FINANCIAL STATEMENTS
## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

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

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

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



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
### JUNE 30, 2024 AND 2023

## NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Basis of Presentation:** The University of Michigan (the "University") is a state-supported institution with an enrollment of over 66,000 students on its three campuses. The consolidated financial statements include the individual schools, colleges and departments, the University of Michigan Health, Michigan Health Corporation (a wholly-owned corporation created for joint venture and managed care initiatives), UM Health (a wholly-owned corporation created to hold and develop the University's statewide network of hospitals, hospital joint ventures and other hospital affiliations, primarily consisting of UM Health-Sparrow and UM Health-West) and Veritas Insurance Corporation (a wholly-owned captive insurance company). The University also presents financial statements for its discretely presented component unit, PHP Holdings, LLC, a health plan providing high quality health care coverage to members across Michigan. While the University is a political subdivision of the state of Michigan, it is not a component unit of the State in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*. The University is classified as a state instrumentality under Internal Revenue Code Section 115 and a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

Within its consolidated financial statements and its discretely presented component unit financial statements, the University reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The University's fiduciary activities represent those resources for which the University acts as a trustee or custodian, including the UM Health-Sparrow and UM Health-West pension plan trusts which are considered fiduciary component units.

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

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

## NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

Net position is categorized as:

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

- Restricted:

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

  *Expendable* – Net position subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.

- Unrestricted: Net position not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents. Substantially all unrestricted net position is designated for various academic programs, research initiatives and capital projects.

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

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

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

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

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

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

Investments in nonmarketable limited partnerships are carried at fair value, which is generally established using the NAV provided by the management of the investment partnerships at June 30, 2024 and 2023. The University may also adjust the fair value of these investments based on market conditions, specific redemption terms and restrictions, risk considerations and other factors. As these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

Capital assets are recorded at cost or, if donated, at acquisition value at the date of donation. Depreciation of capital assets is provided on a straight-line method over the estimated useful lives of the respective assets, which generally range from three to fifty years. Right-to-use assets are recorded at the present value of payments expected to be made during the related term using discount rates which are based upon the University's incremental borrowing rates, and are depreciated over the shorter of the related term or the expected useful life of the underlying asset. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research or public service, as these collections are neither disposed of for financial gain nor encumbered in any way.

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

Unearned revenue consists primarily of cash received from grant and contract sponsors which has not yet been earned under the terms of the agreement. Unearned revenue also includes amounts received in advance of an event, such as student tuition and advance ticket sales related to future fiscal years.

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

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

For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Regents to appropriate amounts for endowment spending rule distributions as is considered prudent. The University's policy is to retain net realized and unrealized appreciation with the endowment after spending rule distributions. Net appreciation of permanent endowment funds, which totaled $4,001,852,000 and $3,668,054,000 at June 30, 2024 and 2023, respectively, is recorded in restricted expendable net position. The University's endowment spending rule is further discussed in Note 2.

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

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

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

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

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

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

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

Federal economic relief funds represent amounts received from the federal government to provide economic assistance to entities that have been negatively impacted by the COVID-19 pandemic. During 2024 and 2023, the University recognized revenue primarily from the Coronavirus State and Local Fiscal Recovery Fund.

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

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

## NOTE 2—CASH AND INVESTMENTS

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

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

The University collectively invests substantially all of the assets of its endowment funds along with the noncurrent portion of its insurance and benefits reserves, charitable remainder trusts and gift annuity program in the Long Term Portfolio. The longer investment horizon of the Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets. The Long Term Portfolio includes investments in domestic and non-U.S. stocks and bonds, commingled funds and limited partnerships consisting of venture capital, absolute return strategies, private equity, real estate, infrastructure and natural resources.

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

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

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

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

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

**Cash and Cash Equivalents:** Cash and cash equivalents, which totaled $554,923,000 and $750,138,000 at June 30, 2024 and 2023, respectively, represent cash and short-term money market investments in mutual funds, overnight collective funds managed by the University's custodian or short-term highly liquid investments registered as securities and held by the University or its agents in the University's name. Of its cash and cash equivalents, the University had actual cash balances in its bank accounts in excess of federal deposit insurance limits in the amount of $205,867,000 and $187,671,000 at June 30, 2024 and 2023, respectively.

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

Cash and cash equivalents include certain securities that are subject to the leveling requirements defined by GASB. Level 1 securities, which primarily consist of money market funds and U.S. government securities, totaled $67,806,000 and $279,704,000 at June 30, 2024 and 2023, respectively. Level 2 securities, which primarily consist of commercial paper and repurchase agreements, totaled $5,959,000 and $44,610,000 at June 30, 2024 and 2023, respectively.

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2—CASH AND INVESTMENTS, CONTINUED

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

**2024**

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

**2023**

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

Investments categorized as Level 1 are valued using prices quoted in active markets for those securities. Equity securities categorized as Level 3 represent investments in start-up or venture companies. Fixed income securities categorized as Level 2 represent investments valued using a matrix pricing technique, which values debt securities based on their relationship to a benchmark and the relative spread to that benchmark. Fixed income securities categorized as Level 3 represent debt investments with select venture funded University faculty start-ups. Nonmarketable alternative investments categorized as Level 3 primarily represent direct investments which are valued using models that rely on inputs which are unobservable in the market. The net unrealized gain on the University's investments during the period was $1,480,640,000 and $605,096,000 for the years ended June 30, 2024 and 2023, respectively.

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

## NOTE 2—CASH AND INVESTMENTS, CONTINUED

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

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. Effective duration, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other embedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. The effective duration of a security or portfolio indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The longer the duration, the more sensitive the security or portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income securities was 2.5 years at June 30, 2024 compared to 2.8 years at June 30, 2023. The University manages the effective duration of its fixed income securities at the account level, where fixed income managers generally may not deviate from the duration of their respective benchmarks by more than 25 percent. The Monthly Portfolio held positions in bond futures at June 30, 2024 and 2023, which are used to adjust the duration of cash equivalents and the fixed income portion of the portfolios.

The composition of fixed income securities at June 30, 2024 and 2023, along with credit quality and effective duration measures, is summarized as follows:

**2024**

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

**2023**

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

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

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

Nonmarketable alternative investments consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner. The University's limited partnerships are diversified in terms of manager selection, industry and geographic focus. At June 30, 2024 and 2023, no individual partnership investment represented 5 percent or more of total investments.

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

The University's investments in commingled funds and nonmarketable alternative investments are contractual agreements that may limit the ability to initiate redemptions due to notice periods, lock-ups and gates. Additional information about current redemption terms and outstanding commitments at June 30, 2024 is summarized as follows (amounts in thousands):

| | Fair Value | Remaining Life | Outstanding Commitments | Redemption Terms | Redemption Notice |
|---|---|---|---|---|---|
| Commingled funds | $ 3,277,662 | N/A | $ - | Daily, monthly, quarterly and annually, with varying notice periods | Lock-up provisions range from none to five years |
| Nonmarketable alternative investments | $ 15,105,629 | 1-12 years | $ 4,483,776 | Ineligible for redemption | N/A |

Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Of the University's commingled funds at June 30, 2024 and 2023, 86 percent and 75 percent, respectively, are redeemable within one year, with 43 percent and 62 percent, respectively, redeemable within 90 days under normal market conditions. The remaining amounts are redeemable beyond one year, with redemption of certain funds dependent on disposition of the underlying assets. The University's committed but unpaid obligation to nonmarketable alternative investments is further discussed in Note 14.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2—CASH AND INVESTMENTS, CONTINUED

The value of the University's non-U.S. dollar holdings, net of the value of the outstanding forward foreign exchange contracts, totaled $1,522,932,000 or 6 percent of total investments at June 30, 2024, and $1,618,887,000 or 7 percent of total investments at June 30, 2023, and is summarized as follows:

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

The Long Term Portfolio and the Monthly Portfolio participate in a short-term, fully collateralized, securities lending program administered by the University's master custodian. Together, the Portfolios had $0 and $13,505,000 in securities loans outstanding at June 30, 2024 and 2023, respectively. At loan inception, an approved borrower must deliver collateral of cash, securities or letters of credit to the University's lending agent equal to 102 percent of fair value for domestic securities and 105 percent for foreign securities. Collateral positions are monitored daily to ensure that borrowed securities are never less than 100 percent collateralized. At June 30, 2023, collateral of $13,822,000 (102 percent of securities on loan) includes invested cash of $4,844,000 and U.S. government securities of $8,978,000.

Cash collateral held by the University's lending agent, along with the offsetting liability to return the collateral at loan termination, are recorded in the statement of net position. Neither the University nor its securities lending agent has the ability to pledge or sell securities received as collateral unless a borrower defaults. Securities loans may be terminated upon notice by either the University or the borrower. During 2024, the securities lending program was terminated for both the Long Term and Monthly Portfolios.

## NOTE 3—ACCOUNTS RECEIVABLE

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

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

## NOTE 4—NOTES AND PLEDGES RECEIVABLE

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

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

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

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

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

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $164,342,000 and $181,210,000 at June 30, 2024 and 2023, respectively, are not recognized as assets in the accompanying consolidated financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met due to uncertainties with regard to their realizability and valuation.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5—CAPITAL ASSETS

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

**2024**

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

**2023**

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

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

## NOTE 6—LONG-TERM DEBT

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

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

## NOTE 6—LONG-TERM DEBT, CONTINUED

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

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

Certain variable rate bonds have remarketing features which allow bondholders to put debt back to the University. Accordingly, these variable rate bonds are classified as current unless supported by liquidity agreements, such as lines of credit or standby bond purchase agreements, which can refinance the debt on a long-term basis. The classification of the University's variable rate bonds payable subject to remarketing at June 30, 2024 and 2023 is summarized as follows:

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

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

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

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

**2024**

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

**2023**

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

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

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

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

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

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

## NOTE 6—LONG-TERM DEBT, CONTINUED

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

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

Deferred outflows and deferred inflows associated with the University's refunding activity totaled $29,185,000 and $39,550,000, respectively, at June 30, 2024. Deferred outflows and deferred inflows associated with the University's refunding activity totaled $31,556,000 and $47,948,000, respectively, at June 30, 2023. The outstanding balance of these deferred outflows and deferred inflows will be amortized into interest expense over the remaining life of the refunded bonds.

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:

| (in thousands) | Principal | Interest* | Total |
|---|---|---|---|
| 2025 | $ 391,530 | $ 182,174 | $ 573,704 |
| 2026 | 102,155 | 176,993 | 279,148 |
| 2027 | 145,010 | 172,346 | 317,356 |
| 2028 | 111,255 | 166,653 | 277,908 |
| 2029 | 90,990 | 161,473 | 252,463 |
| 2030-2034 | 558,355 | 736,767 | 1,295,122 |
| 2035-2039 | 513,500 | 621,132 | 1,134,632 |
| 2040-2044 | 592,560 | 499,965 | 1,092,525 |
| 2045-2049 | 95,055 | 456,745 | 551,800 |
| 2050-2054 | 1,104,660 | 359,255 | 1,463,915 |
| 2055-2119 | | 3,474,120 | 3,474,120 |
| 2120-2122 | 1,200,000 | 160,344 | 1,360,344 |
| Total payments | 4,905,070 | $ 7,167,967 | $ 12,073,037 |
| Plus unamortized premiums | 105,345 | | |
| | $ 5,010,415 | | |

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

The University maintains certain unsecured lines of credit and standby bond purchase agreements that, in accordance with GASB requirements, do not qualify to support the noncurrent classification of variable rate bonds payable subject to remarketing. If all of the variable rate bonds subject to remarketing were put back to the University on July 1, 2024, and these existing unsecured lines of credit and standby bond purchase agreements were not extended upon their current expiration dates, the total principal payments due in 2025 would decrease to $378,590,000, total principal payments due in 2026 would increase to $238,950,000, total principal payments due in 2027 would decrease to $131,040,000, total principal payments due in 2028 would increase to $198,650,000 and total principal payments due in 2029 would increase to $186,640,000. Accordingly, principal payments due in subsequent years would be reduced to $456,905,000 in 2030 through 2034, $353,895,000 in 2035 through 2039 and $560,685,000 in 2040 through 2044. Principal payments due in 2045 through 2122 would not change. There would not be a material impact on annual interest payments as a result of these changes.

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

| | |
|---|---|
| **Condensed Statement of Net Position** | |
| Assets: | |
| Current assets | $ 469,267 |
| Noncurrent assets | 1,168,195 |
| Total assets | 1,637,462 |
| Deferred outflows | 143,931 |
| Liabilities: | |
| Current liabilities | 417,516 |
| Noncurrent liabilities | 323,278 |
| Total liabilities | 740,794 |
| Deferred inflows | 6,885 |
| Net position: | |
| Net investment in capital assets | 312,868 |
| Unrestricted | 720,846 |
| Total net position | $ 1,033,714 |
| **Condensed Statement of Revenues, Expenses and Changes in Net Position** | |
| Operating revenues | $ 1,235,030 |
| Operating expenses other than depreciation expense | (1,307,214) |
| Depreciation expense | (57,612) |
| Operating loss | (129,796) |
| Nonoperating expenses, net | (2,266) |
| Other revenues, net | 46,991 |
| Decrease in net position | (85,071) |
| Net position, beginning of year | 1,118,785 |
| Net position, end of year | $ 1,033,714 |
| **Condensed Statement of Cash Flows** | |
| Net cash used in operating activities | $ (207,992) |
| Net cash used in noncapital financing activities | (3,321) |
| Net cash used in capital and related financing activities | (61,470) |
| Net cash provided by investing activities | 261,395 |
| Net decrease in cash and cash equivalents | (11,388) |
| Cash and cash equivalents, beginning of year | 72,163 |
| Cash and cash equivalents, end of year | $ 60,775 |

## NOTE 7—DERIVATIVE INSTRUMENTS

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

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

**2024**

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

**2023**

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

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

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

## NOTE 7—DERIVATIVE INSTRUMENTS, CONTINUED

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

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

Using rates in effect at June 30, 2024, the projected cash flows for the floating-to-fixed interest rate swaps deemed effective cash flow hedges, along with the debt service requirements of the associated variable rate debt, are summarized as follows:

| | Variable Rate Bonds | | Swap | Total |
|---|---|---|---|---|
| (in thousands) | Principal | Interest | Payments, Net | Payments |
| 2025 | $ 12,940 | $ 2,248 | $ (84) | $ 15,104 |
| 2026 | 12,045 | 1,797 | (24) | 13,818 |
| 2027 | 13,970 | 1,314 | | 15,284 |
| 2028 | 16,540 | 749 | | 17,289 |
| 2029 | 8,285 | 208 | | 8,493 |
| 2030 | 2,135 | 33 | | 2,168 |
| | $ 65,915 | $ 6,349 | $ (108) | $ 72,156 |

By using derivative financial instruments to hedge exposures to changes in interest rates, the University is exposed to termination risk and basis risk. There is termination risk with floating-to-fixed interest rate swaps as the University or swap counterparty may terminate a swap if the other party fails to perform under the terms of the contract or its credit rating falls below investment grade. Termination risk is the risk that the associated variable rate debt no longer carries a synthetic fixed rate and if at the time of termination a swap has a negative fair value, the University is liable to the counterparty for payment equal to the swap's fair value. The University is also exposed to basis risk as a portion of the variable payments paid to the University by the counterparties are based on a percentage of the Secured Overnight Financing Rate ("SOFR"). Basis risk is the risk that changes in the relationship between the floating Securities Industry and Financial Markets Association Municipal Index and SOFR may impact the synthetic fixed rate of the variable rate debt. At June 30, 2024 and 2023, the University is not exposed to credit risk as the swaps have negative fair values.

The University is subject to collateral requirements with its counterparties on certain derivative instrument positions. To meet trading margin requirements for bond futures, the University had cash and U.S. government securities with a fair value of $4,937,000 and $4,096,000 at June 30, 2024 and 2023, respectively, on deposit with its futures broker as collateral.

## NOTE 8—SELF-INSURANCE

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

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

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

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

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

## NOTE 9—PENSION PLANS

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

The annual pension expense and net pension liability is actuarially calculated using the entry age normal level percent of pay method. UM Health-Sparrow has elected to measure its net pension liability six months prior to the fiscal year end reporting date and amounts measured at December 31, 2023 and 2022 were determined based on an actuarial valuation at January 1, 2023 and 2022, respectively. There are no significant changes known which would impact the net pension liability between the measurement date and the reporting date, other than typical plan experience.

For purposes of the December 31, 2023 and 2022 measurement dates, the number of plan participants consisted of the following:

**2024**

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

**2023**

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

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

**2024**

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

**2023**

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

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

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

**2024**

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

**2023**

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

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

## NOTE 9—PENSION PLANS, CONTINUED

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

**2024**

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

**2023**

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

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

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

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

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

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

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

Deferred outflows and deferred inflows related to changes in assumptions and differences between expected and actual experience will be recognized into expense in the following years ended June 30 (in thousands):

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

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

**2024**

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

**2023**

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

**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.

## NOTE 9—PENSION PLANS, CONTINUED

The annual pension expense and net pension liability is actuarially calculated using the entry age normal level percent of pay method. UM Health-West has elected to measure the net pension liability nine months prior to the fiscal year end reporting date and amounts measured at September 30, 2023 and 2022 were determined based on an actuarial valuation at October 1, 2022 and 2021, respectively. There are no significant changes known which would impact the net pension liability between the measurement date and the reporting date, other than typical plan experience.

For purposes of the September 30, 2023 and 2022 measurement dates, the number of plan participants consisted of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## NOTE 9—PENSION PLANS, CONTINUED

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

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

Deferred outflows and deferred inflows related to changes in assumptions and differences between expected and actual experience will be recognized into expense in the following years ended June 30 (in thousands):

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

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

**2024**

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

**2023**

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

## NOTE 10—POSTEMPLOYMENT BENEFITS

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

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

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

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

The University's reported liability for postemployment benefits obligations is calculated using the entry age normal level percent of pay method. The University has elected to measure the total postemployment liability one year prior to the fiscal year end reporting date and amounts measured at June 30, 2023 and 2022 were determined based on an actuarial valuation at January 1, 2023 and 2022, respectively. There are no significant changes known which would impact the total postemployment liability between the measurement date and the reporting date, other than typical plan experience.

For purposes of the June 30, 2023 and 2022 measurement dates, the number of plan participants consisted of the following:

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

## NOTE 10—POSTEMPLOYMENT BENEFITS, CONTINUED

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

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

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

Since a portion of retiree medical services will be provided by the University's health system, the reported liability for postemployment benefits obligations is net of the related margin and fixed costs associated with providing those services which totaled $214,019,000 and $619,599,000 at June 30, 2024 and 2023, respectively.

The University's liability for postemployment benefits obligations is not reduced by the anticipated Medicare Retiree Drug Subsidy for future periods. This subsidy would reduce the reported total postemployment benefits liability by approximately $448,000,000 and $365,000,000 at June 30, 2024 and 2023, respectively.

Assets used to fund postemployment benefits are not maintained in a separate legal trust. The University has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. The University's reported postemployment benefits obligations at June 30, 2024 and 2023, as a percentage of covered payroll of $5,222,386,000 and $4,889,673,000 were 77 percent and 76 percent, respectively.

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

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

* Bond Buyer 20-year General Obligation Municipal Bond Index as of the last publication of the measurement period
** Based on the University's study of mortality experience from 2015-2019

A one-percentage point change in the discount rate and assumed health care cost trend rates would impact the reported total liability for postemployment benefits obligations at June 30, 2024 and 2023 as follows:

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

## NOTE 10—POSTEMPLOYMENT BENEFITS, CONTINUED

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

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

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

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

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

Deferred outflows and deferred inflows related to changes in assumptions and the differences between expected and actual plan experience will be recognized into expense in the following years ended June 30 (in thousands):

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

## NOTE 11—RETIREMENT PLAN

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

For payroll covered under the plan, eligible employees generally contribute 5 percent of their pay and the University generally contributes 10 percent of employees' pay to the plan. The University contribution commences after an employee has completed one year of employment. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by University contributions. Contributions and covered payroll under the plan (excluding participants' additional contributions) for the years ended June 30, 2024 and 2023 are summarized as follows:

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

## NOTE 12—NET POSITION

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

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

Unrestricted net position is not subject to externally imposed stipulations; however, it is subject to internal restrictions. For example, unrestricted net position may be designated for specific purposes by action of management or the Board of Regents. At June 30, 2024 and 2023, substantially all of the unrestricted net position has been designated for various academic programs, research initiatives and capital projects.

## NOTE 13—FEDERAL DIRECT LENDING PROGRAM

The University distributed $314,844,000 and $303,478,000 during the years ended June 30, 2024 and 2023, respectively, for student loans through the U.S. Department of Education ("DoED") Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues in the accompanying consolidated financial statements. The statement of net position includes a receivable of $5,347,000 and $1,226,000 at June 30, 2024 and 2023, respectively, for DoED funding received subsequent to distribution.

## NOTE 14—COMMITMENTS AND CONTINGENCIES

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

Under the terms of various limited partnership agreements approved by the Board of Regents or University officers, the University is obligated to make periodic payments for advance commitments to venture capital, private equity, real estate, infrastructure, natural resources and absolute return strategies. At June 30, 2024, the University had committed, but not paid, a total of $4,483,776,000 in funding for these alternative investments. Based on historical capital calls and discussions with those managing the limited partnerships, outstanding commitments for such investments are anticipated to be paid in the following years ended June 30 (in thousands):

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

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

The University has entered into leases for certain space and equipment, as well as SBITAs, which expire at various dates through 2040. Future payments, including both principal and interest on these commitments for the next five years and in subsequent five-year periods are as follows:

| (in thousands) | Principal | Interest | Total |
|---|---|---|---|
| 2025 | $ 70,093 | $ 11,966 | $ 82,059 |
| 2026 | 55,588 | 10,176 | 65,764 |
| 2027 | 42,746 | 8,664 | 51,410 |
| 2028 | 33,417 | 7,483 | 40,900 |
| 2029 | 23,851 | 6,492 | 30,343 |
| 2030-2034 | 92,713 | 20,407 | 113,120 |
| 2035-2039 | 38,466 | 4,344 | 42,810 |
| 2040 | 1,424 | 6 | 1,430 |
| | $ 358,298 | $ 69,538 | $ 427,836 |

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

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

## NOTE 15—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended June 30, 2024 and 2023 are summarized as follows:

**2024**

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

**2023**

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

## NOTE 16—UM HEALTH

Condensed financial information for UM Health, a blended component unit, before the elimination of certain intra-University transactions, at and for the years ended June 30, 2024 and 2023 is as follows:

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

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