# 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 |

## 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 |