Approved by the Regents
October 19, 2023

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

SUBJECT: The University of Michigan Financial Statements for the Year Ended June 30, 2023

ACTION REQUESTED: Adoption of Financial Statements

The Board of Regents has received the University's consolidated audited financial statements for fiscal year 2023, as well as separate audited financial statements for the University of Michigan Health, Intercollegiate Athletics, and the Veritas Insurance Corporation. The Finance, Audit and Investment Committee of the Board has also had a discussion with PricewaterhouseCoopers LLP, the University's independent auditors. We recommend adoption of the University's consolidated audited financial statements as submitted.

Respectfully submitted,

Geoffrey S. Chatas
Executive Vice President and
Chief Financial Officer

October 2023

UNIVERSITY OF MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023
with
REPORT OF INDEPENDENT AUDITORS

THE UNIVERSITY OF MICHIGAN

June 30, 2023

Report of Independent Auditors

To the Regents of the University of Michigan

Opinions

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

In our opinion, based on our audit and the report of other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the University as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Sparrow Health System, which represents $1.6 billion and $1.3 billion, respectively, of the assets and revenues of the University's business-type activities as of and for the year ended June 30, 2023. We did not audit the financial statements of PHP Holdings, LLC, the University's discretely presented component unit, which statements reflect total assets of $73.3 million as of June 30, 2023 and a decrease in net position of $20.9 million for the year end ended. We did not audit the fiduciary financial statements of Sparrow Health System Associate Pension Plan and Sparrow Health System Associate Pension Plan A2 (collectively referred to as the "Sparrow Health Pension Trust Funds"), which represent $676 million and $161 million, respectively, of the total assets and decrease in fiduciary net position of the Pension Trust Funds column of the fiduciary statements. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for Sparrow Health System, PHP Holdings, LLC, and the Sparrow Health Pension Trust Funds, are based solely on the report of the other auditors.

Basis for Opinions

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

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Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 4 through 27 and required supplementary information for the pension plan and postemployment benefits on pages 85 through 91 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers L.L.P.

October 19, 2023

Management's Discussion and Analysis (Unaudited)

Introduction

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

The University is a comprehensive public institution of higher learning with over 65,000 students and approximately 8,700 faculty members on three campuses in southeast Michigan. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels through 19 schools and colleges, and contributes to the state and nation through related research and public service programs. The University also has a nationally renowned health system which includes the University of Michigan Health ("UMH"), the University's Medical School, Michigan Health Corporation (a wholly-owned corporation created for joint venture and managed care initiatives) and UM Health (a wholly-owned corporation created to hold and develop the University's statewide network of hospitals, hospital joint ventures and other hospital affiliations, primarily consisting of Sparrow Health System ["Sparrow Health"] and UMH-West).

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

Financial Highlights

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

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

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

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

Management's Discussion and Analysis (Unaudited)—Continued

On April 1, 2023, the University completed an affiliation with Sparrow Health, a community health care provider in Lansing, Michigan, pursuant to which UM Health became the sole corporate member of Sparrow Health. Sparrow Health 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 Sparrow Health 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 Sparrow Health and the adoption of GASB 96 has been reflected at the beginning of the earliest period presented in the consolidated financial statements, or July 1, 2022, and is summarized as follows (in millions):

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

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

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

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

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

Using the Basic Financial Statements

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

Consolidated Statement of Net Position

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

	2023	**2022**
	(in millions)	
Current assets	$ 6,152	$ 6,578
Noncurrent assets:		
Endowment, life income and other investments	19,318	17,838
Capital assets, net	7,089	6,266
Other	377	705
Total assets	32,936	31,387
Deferred outflows	1,074	1,045
Current liabilities	2,829	2,827
Noncurrent liabilities	9,065	9,514
Total liabilities	11,894	12,341
Deferred inflows	1,402	793
Net position	$ 20,714	$ 19,298

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

Current assets consist primarily of cash and cash equivalents, operating and capital investments, and accounts receivable and totaled $6.2 billion at June 30, 2023. Cash, cash equivalents and investments for operating activities totaled $3.9 billion at June 30, 2023, which represents approximately four months of total expenses excluding depreciation.

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

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

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 Sparrow Health and UMH-West, and irrevocable split-interest agreements. Deferred inflows totaled $1.4 billion at June 30, 2023.

Endowment, Life Income and Other Investments

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

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

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

The University uses its endowment funds to support operations in a way that strikes a balance between generating a predictable stream of annual support for current needs and preserving the purchasing power of the endowment funds for future periods. A majority of the endowment is maintained in the University Endowment Fund ("UEF"), a unitized pool which represents a collection of over 12,600 separate funds, the majority of which are restricted for specific purposes. The UEF is invested in the University's Long Term Portfolio, a single diversified investment pool.

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

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

Endowment spending rate distributions totaled $470 million and withdrawals from funds functioning as endowment totaled $20 million in 2023. Total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 3.9 percent of the current year average fair value of the UEF for 2023. Over the past ten years, total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.4 percent.

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

Capital and Debt Activities

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

Capital asset additions totaled $817 million in 2023. Capital asset additions primarily represent renovation and new construction of academic, research and clinical facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were primarily funded with net position and gifts designated for capital purposes of $590 million, as well as debt proceeds of $214 million and state capital appropriations of $13 million.

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

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

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

Projects completed in 2023 include significant expansion and new construction of academic, research and transportation facilities.

Expansion of the vivarium at the A. Alfred Taubman Biomedical Science Research Building, which was originally constructed in 2005, was completed by finishing 20,000 square feet of remaining shelled space. The vivarium houses specimens for scientific observation and research on a wide range of topics, including the impact of microbiome on human health, underlying causes of serious diseases and various groundbreaking studies in neurobiology, internal medicine and cancer research. This expansion addresses current and forecasted growth, and accommodates the relocation of germ-free vivarium functions from the Life Sciences Institute.

The new Dean Road Transportation Facility is a 70,000 square foot operations and maintenance center on the North Campus that can accommodate articulated buses, heavy equipment and electric buses for future sustainability improvement; while also maintaining current safety guidelines for vehicle maintenance, circulation and appropriate work zones. This new facility will also result in increased operational efficiency since many bus routes begin on North Campus. The University's auto and truck fleet maintenance will remain at the Transportation Services Building on the Stephen M. Ross Athletic Campus.

The University is aware of its financial stewardship responsibility and works diligently to manage its financial resources effectively, including the prudent use of debt to finance capital projects. A strong debt rating is an important indicator of the University’s success in this area. In 2022, S&P Global affirmed its highest credit rating (AAA) for bonds backed by a broad revenue pledge based on the University’s robust enrollment and demand, exceptional student quality, retention and graduation rates, strong reputation of the University’s health system, excellent balance sheet, exceptional research presence and manageable debt burden. Moody’s also affirmed its highest credit rating (Aaa) based on the University’s diversified student demand, sustained philanthropic support, expansive research enterprise, high brand value and reputation of the University’s health system, and well-established strategic and budgetary framework.

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

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

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

During 2023, the Sparrow Obligated Group, a group comprised of five Sparrow Health hospitals whose collective revenues are pledged in support of all Sparrow Health debt issuances, issued $77 million of fixed rate, taxable Michigan Finance Authority Hospital Revenue Bonds Series 2022A with a net original issue premium of $11 million. Total bond proceeds of $88 million were utilized to refund $87 million of existing bonds and provide $1 million for bond issuance costs.

During 2023, the Sparrow Obligated Group also established an escrow fund using existing resources of $86 million to legally defease $83 million of Michigan Finance Authority Hospital Revenue Bonds Series 2015, resulting in a gain on defeasance of $5 million which was recognized into interest expense.

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

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

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

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

Effective interest rates averaged 3.5 percent in 2023, including the federal subsidies for interest on taxable Build America Bonds. Interest expense on long-term debt net of federal subsidies received for interest on taxable Build America Bonds totaled $184 million in 2023.

Obligations for Defined Benefit Pension Plans

Sparrow Health and UMH-West have defined benefit pension plans that cover a significant number of their employees, and generally provide benefits based on years of service and employee earnings. At June 30, 2023, the obligations for defined benefit pension plans, net totaled $15 million.

Obligations for Postemployment Benefits

Using current actuarial assumptions, and presuming a continuation of the current level of benefits, the University's obligations for postemployment benefits totaled $3.7 billion at June 30, 2023. Since a portion of retiree medical services will be provided by the University's health system, this liability is net of the related margin and fixed costs associated with providing those services which totaled $620 million at June 30, 2023.

By implementing a series of health benefit initiatives over the past several years, the University has favorably impacted its total liability for postemployment benefits by $1.8 billion at June 30, 2023. These initiatives have included cost sharing changes, elimination of Medicare Part B reimbursements for certain retirees and the adjustment of retirement eligibility criteria.

Net Position

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

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

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

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

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

Consolidated Statement of Revenues, Expenses and Changes in Net Position

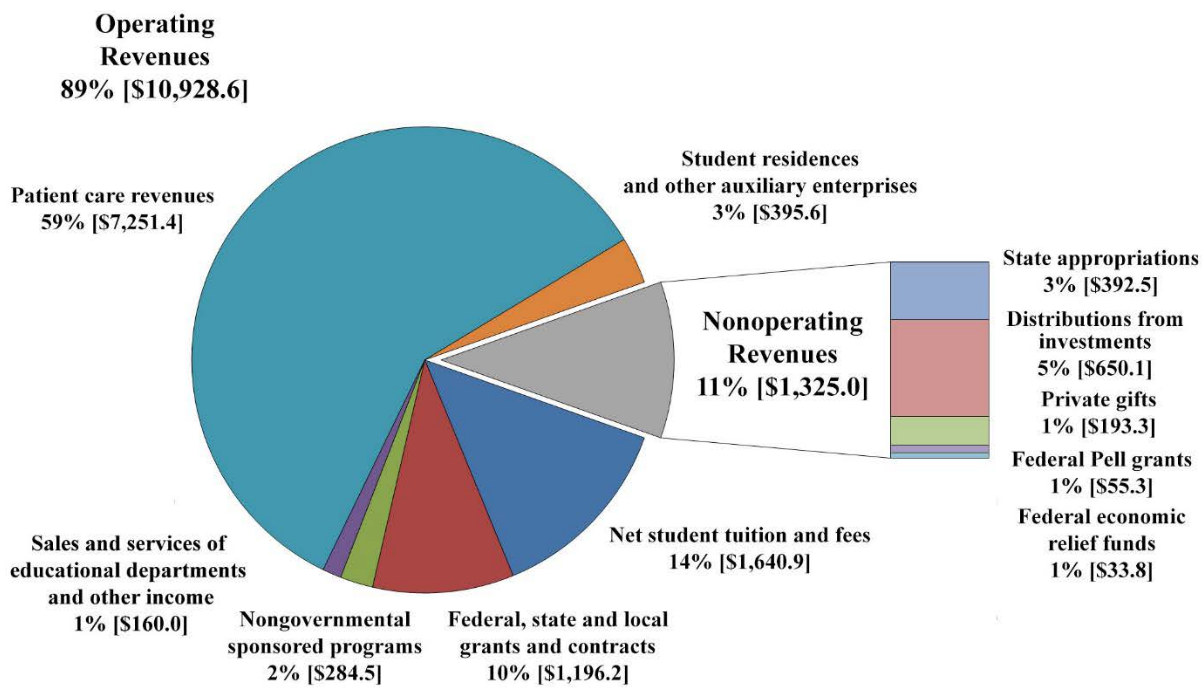
The consolidated statement of revenues, expenses and changes in net position presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. The University's revenues, expenses and changes in net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

	2023	2022
	(in millions)	
Operating revenues:		
Net student tuition and fees	$ 1,640.9	$ 1,586.1
Sponsored programs	1,480.7	1,361.3
Patient care revenues, net	7,251.4	5,605.7
Other	555.6	507.1
	10,928.6	9,060.2
Operating expenses	12,503.2	10,548.4
Operating loss	(1,574.6)	(1,488.2)
Nonoperating and other revenues (expenses):		
State educational appropriations	392.5	391.6
Federal Pell grants	55.3	53.6
Federal economic relief funds	33.8	151.9
Private gifts for operating activities	193.3	219.1
Net investment income	1,078.3	336.3
Interest expense	(201.2)	(125.2)
Federal subsidies for interest on Build America Bonds	5.5	5.5
State capital appropriations	12.9	29.8
Endowment and capital gifts and grants	177.1	235.0
Other	(16.7)	(14.0)
Nonoperating and other revenues, net	1,730.8	1,283.6
Increase (decrease) in net position	156.2	(204.6)
Net position, beginning of year	19,298.5	19,503.1
Affiliation with Sparrow Health	1,259.0	
Net position, beginning of year, as restated	20,557.5	19,503.1
Net position, end of year	$ 20,713.7	$ 19,298.5

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

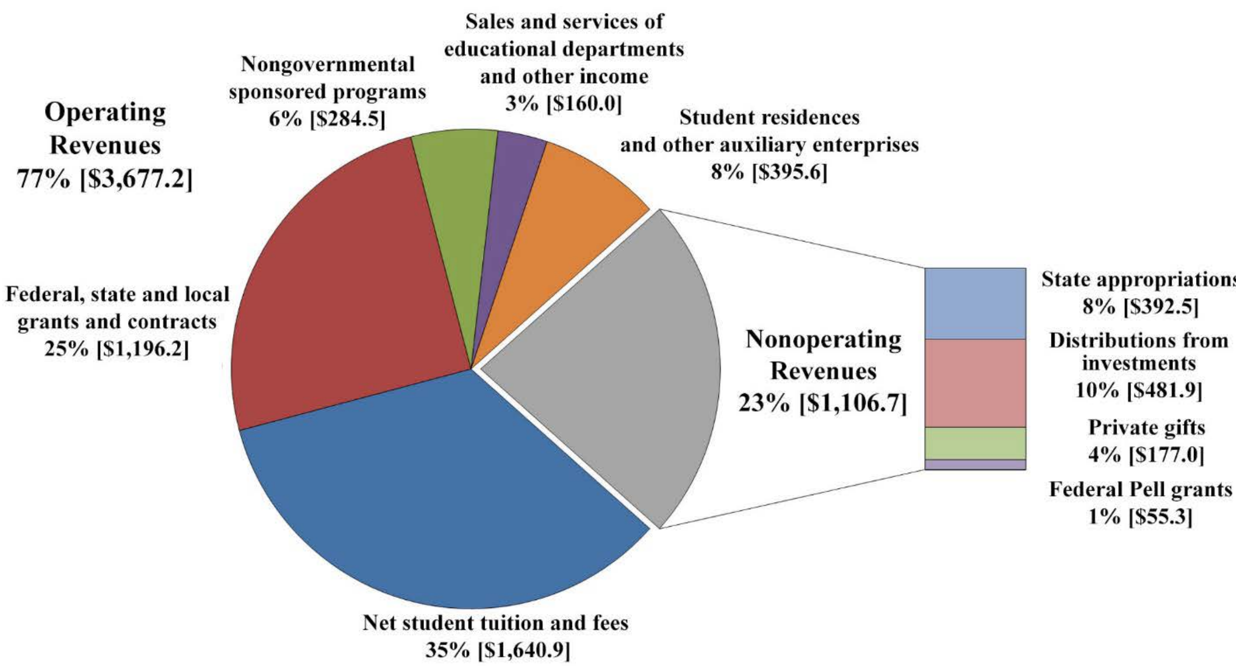
The following is a graphic illustration of revenues by source, both operating and nonoperating, which are used to fund the University's operating activities for the year ended June 30, 2023 (amounts are presented in millions of dollars). Certain recurring sources of the University's revenues are considered nonoperating, as defined by GASB, such as state appropriations, distributions from investments, private gifts and federal Pell grants.

2023 Revenues for Operating Activities



The University measures its performance both for the University as a whole and for the University without its health system and other clinical activities. The exclusion of these activities allows a clearer view of the operations of the schools and colleges, as well as central administration. The following is a graphic illustration of University revenues by source, both operating and nonoperating, which are used to fund operating activities other than the health system and other clinical activities, for the year ended June 30, 2023 (amounts are presented in millions of dollars).

2023 Revenues for Operating Activities
Excluding Revenues from the Health System and Other Clinical Activities



Tuition and state appropriations are the primary sources of funding for the University's academic programs. There is a relationship between the growth or reduction in state support and the University's ability to restrain tuition fee increases. Together, net student tuition and fees and state educational appropriations totaled $2.0 billion in 2023.

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

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

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

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

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

The University receives revenues for sponsored programs from various government agencies and private sources, which normally provide for both direct and indirect costs to perform these sponsored activities, with a significant portion related to federal research. Revenues for sponsored programs totaled $1.5 billion in 2023.

Patient care revenues are principally generated within the University's hospitals and ambulatory care facilities and totaled $7.3 billion in 2023.

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

	2023	**2022**
	(in millions)	
University of Michigan Health	$ 5,305.0	$ 4,926.4
UM Health	1,787.7	522.4
Michigan Health Corporation	23.7	22.6
Other	135.0	134.3
	$ 7,251.4	$ 5,605.7

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

UM Health patient care revenues primarily represent Sparrow Health, a community health care provider in Mid-Michigan, and UMH-West, a community health care provider in West Michigan. Sparrow Health operates multiple hospitals with a combined 845 licensed beds, as well as outpatient clinics throughout the Mid-Michigan region. UMH-West operates a hospital with 208 licensed beds, as well as outpatient clinics and a growing network of specialty services. The University's affiliations with Sparrow Health and UMH-West position UM Health to expand research capabilities, primary care, specialty services and the use of complex medical technologies.

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

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

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

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

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 2023, the University recognized revenue of $34 million primarily associated with the Coronavirus State and Local Fiscal Recovery Fund.

Net investment income totaled $1.1 billion in 2023, driven in part by a stabilized interest rate environment and positive returns in both marketable and alternative asset classes.

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

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

In addition to revenue diversification, the University continues to make cost containment an ongoing priority. This is necessary as the University faces significant financial pressures, particularly in the areas of compensation and benefits, which represent 61 percent of total expenses, as well as in the areas of energy, technology and ongoing maintenance of facilities and infrastructure.

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

	2023		2022	
Operating:				
Compensation and benefits	$ 7,808.4	61%	$ 6,573.9	62%
Supplies and services	3,809.0	30	3,137.1	29
Depreciation	685.4	5	606.5	6
Scholarships and fellowships	200.4	2	230.9	2
	12,503.2	98	10,548.4	99
Nonoperating:				
Interest, net	195.7	2	119.7	1
	$ 12,698.9	100%	$ 10,668.1	100%

The University is committed to recruiting and retaining outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. During 2023, compensation and benefits totaled $7.8 billion, which included compensation of $5.9 billion and employee benefits of $1.9 billion.

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

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

Supplies and services expenses totaled $3.8 billion in 2023 and reflect growth in the University's mission related activities.

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

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

Instruction expenses totaled $1.3 billion in 2023 and reflect the growth in the related revenue sources offset by cost containment efforts.

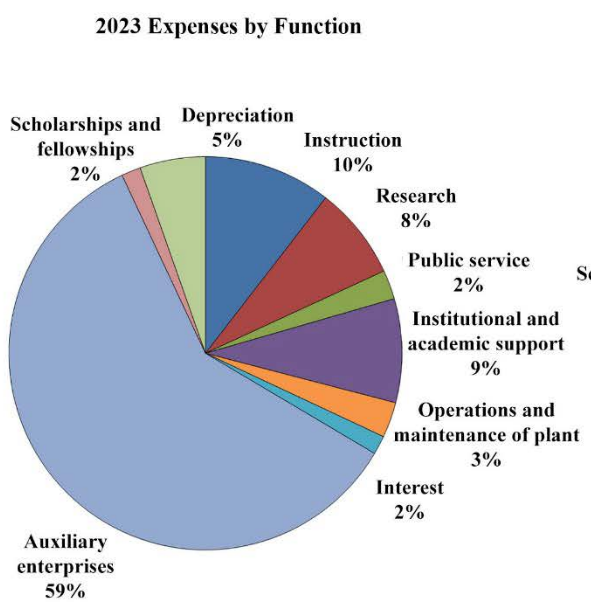
Research expenses totaled $972 million in 2023 and reflect the strength of the University's overall research enterprise. To measure its total volume of research expenditures, the University considers research expenses included in the above table, as well as research related facilities and administrative expenses, research initiative and start-up expenses, and research equipment purchases. These amounts totaled $1.9 billion in 2023.

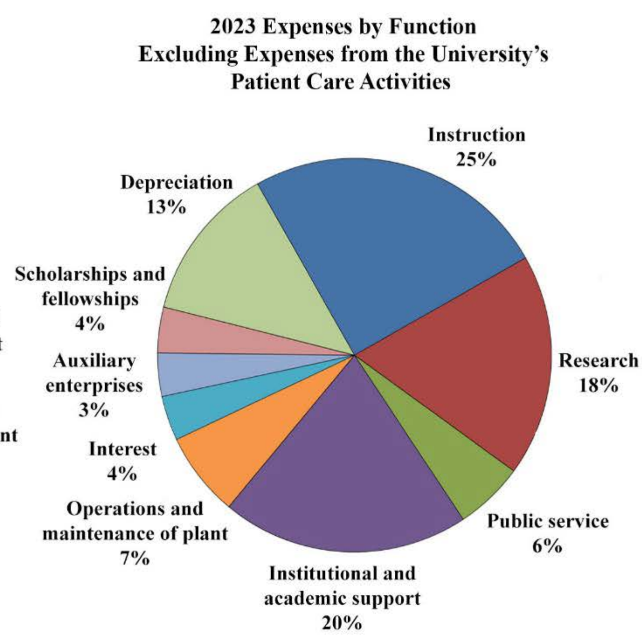
Patient care expenses totaled $7.4 billion in 2023 and reflect the impact of additional patient volume during the period. Increased medical supplies expense resulted from higher patient activity levels, the rising cost of pharmaceuticals and increased expenses related to ongoing global supply chain challenges.

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

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

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





Consolidated Statement of Cash Flows

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

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

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

Economic Factors That May Affect the Future

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

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

The University's budget for 2024 anticipates a 5.1 percent increase in state educational appropriations, a 2.9 percent tuition rate increase for Ann Arbor campus resident undergraduates and a 7.8 percent increase in centrally awarded financial aid. Nonresident undergraduate tuition rates, as well as most graduate and professional rates, will increase 4.9 percent. Resident undergraduate tuition rates for the Dearborn and Flint campuses will increase 4.4 percent and 4.9 percent, respectively.

The University continues to execute its long-range plan to maintain, modernize and expand its complement of older facilities while adding key new facilities for instruction, research, patient care, athletics and residential life. This strategy addresses the University's growth and the continuing effects of technology on teaching, research and clinical activities. Authorized costs to complete construction and other projects totaled $1,875 million at June 30, 2023. Funding for these projects is anticipated to include $1,845 million from internal sources, gifts, grants and proceeds from borrowings and $30 million from the State Building Authority.

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

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

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

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

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

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

UNIVERSITY OF MICHIGAN

Consolidated Statement of Net Position

	June 30, 2023 (in thousands)
Assets	
Current Assets:	
Cash and cash equivalents	$ 750,138
Investments for operating activities	3,126,841
Investments for capital activities	510,541
Investments for student loan activities	68,387
Accounts receivable, net	1,239,770
Current portion of notes and pledges receivable, net	117,669
Current portion of other assets	333,506
Cash collateral held by agent	4,844
Total Current Assets	6,151,696
Noncurrent Assets:	
Endowment, life income and other investments	19,318,390
Notes and pledges receivable, net	259,798
Other assets	116,766
Capital assets, net	7,089,073
Total Noncurrent Assets	26,784,027
Total Assets	**32,935,723**
Deferred Outflows	**1,073,647**
Liabilities	
Current Liabilities:	
Accounts payable	626,498
Accrued compensation and other	726,360
Unearned revenue	441,655
Current portion of insurance and benefits reserves	253,398
Current portion of obligations for postemployment benefits	105,261
Commercial paper and current portion of bonds payable	298,184
Long-term bonds payable subject to remarketing, net	372,335
Collateral held for securities lending	4,844
Total Current Liabilities	2,828,535
Noncurrent Liabilities:	
Accrued compensation	15,324
Insurance and benefits reserves	212,378
Obligations for defined benefit pension plans, net	15,189
Obligations for postemployment benefits	3,611,114
Obligations under life income agreements	65,520
Government loan advances	36,448
Bonds payable	4,784,568
Other liabilities	324,381
Total Noncurrent Liabilities	9,064,922
Total Liabilities	**11,893,457**
Deferred Inflows	**1,402,152**
Net Position	
Net investment in capital assets	3,964,182
Restricted:	
Nonexpendable	2,959,142
Expendable	7,853,068
Unrestricted	5,937,369
Total Net Position	**$ 20,713,761**

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

UNIVERSITY OF MICHIGAN

Consolidated Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2023 (in thousands)
Operating Revenues	
Student tuition and fees	$ 2,186,769
Less scholarship allowances	545,906
Net student tuition and fees	1,640,863
Federal grants and contracts	1,186,061
State and local grants and contracts	10,154
Nongovernmental sponsored programs	284,488
Sales and services of educational departments	158,707
Auxiliary enterprises:	
Patient care revenues (net of provision for bad debts of $211,403)	7,251,435
Student residence fees (net of scholarship allowances of $26,378)	130,896
Other revenues	264,685
Student loan interest income and fees	1,367
Total Operating Revenues	**10,928,656**
Operating Expenses	
Compensation and benefits	7,808,426
Supplies and services	3,809,009
Depreciation	685,362
Scholarships and fellowships	200,439
Total Operating Expenses	**12,503,236**
Operating Loss	(1,574,580)
Nonoperating Revenues (Expenses)	
State educational appropriations	392,473
Federal Pell grants	55,299
Federal economic relief funds	33,837
Private gifts for other than capital and endowment purposes	193,284
Net investment income	1,078,343
Interest expense	(201,204)
Federal subsidies for interest on Build America Bonds	5,493
Total Nonoperating Revenues, Net	**1,557,525**
Loss Before Other Revenues (Expenses)	(17,055)
Other Revenues (Expenses)	
State capital appropriations	12,911
Capital gifts and grants	59,418
Private gifts for permanent endowment purposes	117,716
Other	(16,765)
Total Other Revenues, Net	**173,280**
Increase in Net Position	156,225
Net Position, Beginning of Year	19,298,461
Affiliation with Sparrow Health	1,259,075
Net Position, Beginning of Year, as Restated	20,557,536
Net Position, End of Year	**$ 20,713,761**

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

UNIVERSITY OF MICHIGAN

Consolidated Statement of Cash Flows

	Year Ended June 30, 2023 (in thousands)
Cash Flows from Operating Activities	
Student tuition and fees	$ 1,640,753
Federal, state and local grants and contracts	1,167,819
Nongovernmental sponsored programs	262,386
Sales and services of educational departments and other	418,478
Patient care revenues	7,196,113
Student residence fees	129,769
Payments to employees	(5,991,302)
Payments for benefits	(1,700,366)
Payments to suppliers	(4,221,202)
Payments for scholarships and fellowships	(200,439)
Student loans issued	(5,451)
Student loans collected	10,965
Student loan interest and fees collected	1,367
Net Cash Used in Operating Activities	**(1,291,110)**
Cash Flows from Noncapital Financing Activities	
State educational appropriations	389,670
State supplemental appropriations	35,000
Federal Pell grants	55,299
Federal economic relief funds	28,678
Private gifts and other receipts	300,347
Proceeds from issuance of debt	38,000
Interest payments on debt	(92,712)
Student direct lending receipts	306,502
Student direct lending disbursements	(303,478)
Amounts received for annuity and life income funds	4,503
Amounts paid to annuitants and life beneficiaries and related expenses	(5,961)
Net Cash Provided by Noncapital Financing Activities	**755,848**
Cash Flows from Capital and Related Financing Activities	
State capital appropriations	46,435
Private gifts and other receipts	46,629
Principal and interest payments on lease and subscription liabilities	(83,507)
Proceeds from issuance of capital debt	88,394
Principal payments on capital debt	(240,615)
Interest payments on capital debt	(124,737)
Federal subsidies for Build America Bonds interest	2,746
Payments for bond issuance costs	(817)
Purchases of capital assets	(692,602)
Proceeds from sales of capital assets	1,020
Net Cash Used in Capital and Related Financing Activities	**(957,054)**

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

UNIVERSITY OF MICHIGAN

Consolidated Statement of Cash Flows—Continued

	Year Ended June 30, 2023 (in thousands)
Cash Flows from Investing Activities	
Interest and dividends on investments, net	239,061
Proceeds from sales and maturities of investments	8,972,888
Purchases of investments	(10,113,114)
Decrease in unexpended capital debt proceeds	305,452
Net increase in cash equivalents from noncurrent investments	(176,071)
Net increase in fiduciary custodial funds and other	(25,669)
Net Cash Used in Investing Activities	**(797,453)**
Net Decrease in Cash and Cash Equivalents	(2,289,769)
Cash and Cash Equivalents, Beginning of Year	2,951,905
Affiliation with Sparrow Health	88,002
Cash and Cash Equivalents, Beginning of Year, as Restated	3,039,907
Cash and Cash Equivalents, End of Year	**$ 750,138**

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating loss	$ (1,574,580)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	685,362
Changes in assets and liabilities:	
Accounts receivable, net	(51,004)
Notes and pledges receivable, net	507
Other assets	(36,057)
Accounts payable	27,289
Accrued compensation and other	(73,172)
Unearned revenue	(63,476)
Insurance and benefits reserves	(398,826)
Obligations for defined benefit pension plans, net	198,740
Obligations for postemployment benefits	(581,284)
Changes in deferred outflows	(26,313)
Changes in deferred inflows	601,704
Net Cash Used in Operating Activities	**$ (1,291,110)**

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

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

	December 31, 2022 (in thousands)
Assets	
Current Assets:	
Cash and cash equivalents	$ 41,492
Accounts receivable, net	15,494
Current portion of other assets	1,546
Total Current Assets	58,532
Noncurrent Assets:	
Investments	5,814
Other assets	306
Capital assets, net	8,692
Total Noncurrent Assets	14,812
Total Assets	**73,344**
Liabilities	
Current Liabilities:	
Accounts payable	5,428
Unearned premiums	3,063
Prefunding on self-insured accounts	4,911
Current portion of other liabilities	9,240
Insurance and benefits reserves	29,520
Total Current Liabilities	52,162
Noncurrent Liabilities:	
Other liabilities	371
Total Liabilities	**52,533**
Net Position	
Net investment in capital assets	8,150
Unrestricted	12,661
Total Net Position	**$ 20,811**

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

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

	Year Ended December 31, 2022 (in thousands)
Operating Revenues	
Gross direct written premiums	$ 260,642
Ceded written premiums	(2,117)
Total Operating Revenues	**258,525**
Operating Expenses	
Losses and loss adjustment expenses, net of reinsurance	235,166
Compensation and benefits	17,296
Supplies, services and other	24,270
Depreciation	2,409
Total Operating Expenses	**279,141**
Operating Loss	(20,616)
Nonoperating Expenses	
Net investment loss	257
Interest expense	64
Total Nonoperating Expenses	**321**
Decrease in Net Position	(20,937)
Net Position, Beginning of Year	41,748
Net Position, End of Year	**$ 20,811**

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

UNIVERSITY OF MICHIGAN

Statement of Fiduciary Net Position

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

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

UNIVERSITY OF MICHIGAN

Statement of Changes in Fiduciary Net Position

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

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

Note 1—Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: The University of Michigan (the "University") is a state-supported institution with an enrollment of over 65,000 students on its three campuses. The consolidated financial statements include the individual schools, colleges and departments, the University of Michigan Health ("UMH"), Michigan Health Corporation (a wholly-owned corporation created for joint venture and managed care initiatives), UM Health (a wholly-owned corporation created to hold and develop the University's statewide network of hospitals, hospital joint ventures and other hospital affiliations, primarily consisting of Sparrow Health System ["Sparrow Health"] and UMH-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 Sparrow Health and UMH-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 Sparrow Health, a community health care provider in Lansing, Michigan, pursuant to which UM Health became the sole corporate member of Sparrow Health. Sparrow Health 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 Sparrow Health 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 Sparrow Health 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 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

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

Net position is categorized as:

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

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

  Expendable – Net position subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.
- Unrestricted: Net position not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents. Substantially all unrestricted net position is designated for various academic programs, research initiatives and capital projects.

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

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

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

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

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

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

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

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

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

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year end spot foreign currency exchange rates. Purchases and sales of investments denominated in foreign currencies and related income are translated at spot exchange rates on the transaction dates.

Derivative instruments such as financial futures, forward foreign exchange contracts and interest rate swaps held in investment portfolios, are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. To facilitate trading in financial futures, the University is required to post cash or securities to satisfy margin requirements of the exchange where such futures contracts are listed. The University monitors the required amount of cash and securities on deposit for financial futures transactions and withdraws or deposits cash or securities as necessary.

Accounts receivable are recorded net of an allowance for uncollectible accounts receivable. The allowance is based on management’s judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable.

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

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

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

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

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

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

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 Sparrow Health and UMH-West, and irrevocable split-interest agreements.

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

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

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

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

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

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

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

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

Federal economic relief funds represent amounts received from the federal government to provide economic assistance to entities that have been negatively impacted by the COVID-19 pandemic. During 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.

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 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 comingled pool invested entirely in the Long Term Portfolio. The University establishes the fair value of the UIP at $1.00 per share and any participant in the pool may purchase or redeem shares at that price. The University determines the fair value of UEF shares at the end of each calendar quarter based on the fair value of the pool. Participants may purchase or redeem UEF shares at fair value at each valuation date, subject to minimum holding and notice requirements.

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

Note 2—Cash and Investments—Continued

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

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

Cash and Cash Equivalents: Cash and cash equivalents, which totaled $750,138,000 at June 30, 2023, 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 $187,671,000 at June 30, 2023. The University does not require its deposits to be collateralized or insured.

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

Note 2—Cash and Investments—Continued

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

Investments: At June 30, 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):

Cash equivalents, noncurrent	$ 559,028
Equity securities	684,059
Fixed income securities	4,577,802
Commingled funds	3,118,279
Nonmarketable alternative investments	14,355,447
Other investments	3,910
	23,298,525
Less fiduciary custodial funds	274,366
	$ 23,024,159

Note 2—Cash and Investments—Continued

At June 30, 2023, the fair value of the University's investments based on the inputs used to value them is summarized as follows (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				1,875,120	1,875,120
Natural resources			191,122	2,231,393	2,422,515
	-	-	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

Note 2—Cash and Investments—Continued

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

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

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

Note 2—Cash and Investments—Continued

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 2.8 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, 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, 2023, along with credit quality and effective duration measures, is summarized as follows (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, 98 percent were rated investment grade or better at June 30, 2023, and 62 percent of these securities consisted of either U.S. Treasury and government agencies or non-U.S. government securities rated AAA/Aaa.

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

Note 2—Cash and Investments—Continued

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

	Fair Value	Remaining Life	Outstanding Commitments	Redemption Terms	Redemption Notice
Commingled funds	$ 3,118,279	N/A	$ -	Daily, monthly, quarterly and annually, with varying notice periods	Lock-up provisions range from none to five years
Nonmarketable alternative investments	$ 14,355,447	1-12 years	$ 4,520,344	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, 2023, 75 percent are redeemable within one year, with 62 percent redeemable within 90 days under normal market conditions. The remaining amounts are redeemable beyond one year, with redemption of certain funds dependent on disposition of the underlying assets. The University's committed but unpaid obligation to nonmarketable alternative investments is further discussed in Note 14.

Note 2—Cash and Investments—Continued

The University participates in non-U.S. developed and emerging markets through commingled funds invested in non-U.S./global equities and absolute return strategies. Although all of these funds are reported in U.S. dollars, price changes of the underlying securities in local markets as well as changes to the value of local currencies relative to the U.S. dollar are embedded in investment returns. In addition, a portion of the University's equity securities and nonmarketable alternative investments are denominated in foreign currencies, which must be settled in local (non-U.S.) currencies.

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. Forward foreign currency contracts are typically used to manage the risks related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies and are subject to agreements that provide minimum diversification and maximum exposure limits by country and currency.

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

Euro	$ 972,724
British pound sterling	253,746
Swedish krona	189,547
Japanese yen	121,052
Canadian dollar	39,534
Danish krone	20,237
Other	22,047
	$ 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 $13,505,000 in securities loans outstanding at June 30, 2023. 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.

Note 2—Cash and Investments—Continued

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

Note 3—Accounts Receivable

The composition of accounts receivable at June 30, 2023 is summarized as follows (in thousands):

Patient care	$ 1,020,903
Sponsored programs	224,731
State appropriations, educational and capital	72,047
Student accounts	40,872
Other	76,090
	1,434,643
Less allowance for uncollectible accounts receivable:	
Patient care	179,904
All other	14,969
	$ 1,239,770

Note 4—Notes and Pledges Receivable

The composition of notes and pledges receivable at June 30, 2023 is summarized as follows (in thousands):

Notes:	
Federal student loan programs	$ 40,998
University student loan funds	14,349
Other	5,015
	60,362
Less allowance for uncollectible notes	3,100
Total notes receivable, net	57,262
Gift pledges:	
Capital	119,212
Operations	214,916
	334,128
Less:	
Allowance for uncollectible pledges	8,489
Unamortized discount to present value	5,434
Total pledges receivable, net	320,205
Total notes and pledges receivable, net	377,467
Less current portion	117,669
	$ 259,798

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

Note 4—Notes and Pledges Receivable—Continued

Payments on pledges receivable at June 30, 2023 are expected to be received in the following years ended June 30 (in thousands):

2024	$ 107,709
2025	69,712
2026	66,578
2027	36,600
2028	19,178
2029 and after	34,351
	$ 334,128

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

Note 5—Capital Assets

Capital assets activity for the year ended June 30, 2023 is summarized as follows (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 $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, 2023 is summarized as follows (in thousands):

Commercial paper:	
Tax-exempt, variable rate (3.45%)*	$ 132,415
General revenue bonds:	
Series 2022A, taxable, 3.504% to 4.454% through 2122	1,700,000
Series 2022B, taxable, 3.504% through 2052	300,000
Series 2022C, taxable, 2.734% to 3.599% through 2047	413,205
Series 2022D, 5.00% through 2033	55,325
unamortized premium	12,331
Series 2020A, 4.00% to 5.00% through 2050	138,430
unamortized premium	30,593
Series 2020B, taxable, 1.004% to 2.562% through 2050	850,025
Series 2019A, 5.00% through 2036	114,035
unamortized premium	15,134
Series 2019B, taxable, 2.783% to 3.416% through 2029	10,615
Series 2019C, 4.00% through 2049	61,725
unamortized premium	4,936
Series 2018A, 4.00% to 5.00% through 2048	124,390
unamortized premium	13,931
Series 2017A, 4.86% to 5.00% through 2035	229,535
unamortized premium	29,620
Series 2015, 4.00% to 5.00% through 2035	112,690
unamortized premium	13,589
Series 2014A, 4.25% to 5.00% through 2030	18,925
unamortized premium	1,219
Series 2014B, taxable, 3.416% to 3.516% through 2024	1,000
Series 2013A, 2.50% to 4.00% through 2029	37,830
unamortized premium	629
Series 2012A, variable rate (4.15%)* through 2036	50,000
Series 2012B, variable rate (3.85%)* through 2042	65,000
Series 2012D-1, variable rate (3.65%)* through 2025 with partial swap to fixed through 2025	30,535
Series 2012D-2, variable rate (3.90%)* through 2030 with partial swap to fixed through 2026	39,075
Series 2010A, taxable Build America Bonds, 4.926% to 5.593% through 2040	162,345
Series 2010D, taxable Build America Bonds, 3.906% to 5.333% through 2041	145,000
Series 2009B, variable rate (3.30%)* through 2039	118,710
Series 2008A, variable rate (3.60%)* through 2038	57,085
Series 2008B, variable rate (3.93%)* through 2028 with partial swap to fixed through 2026	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 (5.00%)* through 2043	51,230
Series 2015, 4.00% to 5.00% through 2045	65,565
unamortized premium	5,191
Line of credit, variable rate (5.71%)* through 2024	52,000
	5,455,087
Less:	
Commercial paper and current portion of bonds payable	298,184
Long-term bonds payable subject to remarketing, net	372,335
	$ 4,784,568

* Denotes variable rate at June 30, 2023
** 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, 2023 is summarized as follows (in thousands):

Variable rate bonds payable subject to remarketing	$ 399,655
Less current principal maturities	27,320
Long-term bonds payable subject to remarketing, net	$ 372,335

The University maintains six lines of credit which totaled $2,040,000,000 and were entirely unused at June 30, 2023. In addition, the Sparrow Obligated Group, a group comprised of five Sparrow Health hospitals whose collective revenues are pledged in support of all Sparrow Health debt issuances, maintains an outstanding line of credit totaling $52,000,000, all of which was outstanding at June 30, 2023.

Note 6—Long-term Debt—Continued

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

Long-term debt activity for the year ended June 30, 2023 is summarized as follows (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 3.5 percent in 2023, including federal subsidies for interest on taxable Build America Bonds.

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

During 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.

Bond proceeds of $87,577,000 were used to refund Michigan Finance Authority Hospital Revenue Bonds Series 2012 which had fixed annual interest rates ranging from 4.0 to 5.0 percent and a final maturity date of November 15, 2042. As a result of the refunding, the Sparrow Obligated Group decreased its aggregate debt service payments over the next 20 years by $24,473,000, resulting in a present value economic gain of $17,411,000.

Note 6—Long-term Debt—Continued

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 interest expense.

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
2024	$ 284,550	$ 201,126	$ 485,676
2025	203,865	194,735	398,600
2026	111,300	189,262	300,562
2027	154,605	184,115	338,720
2028	121,420	177,889	299,309
2029-2033	602,130	807,936	1,410,066
2034-2038	614,735	701,576	1,316,311
2039-2043	749,715	563,576	1,313,291
2044-2048	158,685	472,451	631,136
2049-2053	1,113,895	432,746	1,546,641
2054-2118		3,474,120	3,474,120
2119-2122	1,200,000	267,240	1,467,240
Total payments	5,314,900	$ 7,666,772	$ 12,981,672
Plus unamortized premiums	140,187		
	$ 5,455,087		

* Interest on variable rate debt is estimated based on rates in effect at June 30, 2023; amounts do not reflect federal subsidies to be received for Build America Bonds interest

Note 6—Long-term Debt—Continued

The University maintains certain unsecured lines of credit and standby bond purchase agreements that, in accordance with GASB requirements, do not qualify to support the noncurrent classification of variable rate bonds payable subject to remarketing. If all of the variable rate bonds subject to remarketing were put back to the University on July 1, 2023, 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 2024 would decrease to $257,230,000, total principal payments due in 2025 would increase to $449,750,000, total principal payments due in 2026 would increase to $224,460,000, total principal payments due in 2027 would decrease to $140,635,000 and total principal payments due in 2028 would decrease to $104,880,000. Accordingly, principal payments due in subsequent years would be reduced to $524,110,000 in 2029 through 2033, $446,450,000 in 2034 through 2038 and $694,805,000 in 2039 through 2043. Principal payments due in 2044 through 2122 would not change. There would not be a material impact on annual interest payments as a result of these changes.

Note 6—Long-term Debt—Continued

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

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

Note 7—Derivative Instruments

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

Derivative instruments held by the University at June 30, 2023 are summarized as follows (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
Floating-to-fixed interest rate swap on debt	$ 30,475	$ (353)
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 37,365	$ (32)

Note 7—Derivative Instruments—Continued

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

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

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

Investment derivative instruments:	
Investment portfolios:	
Futures	$ (4,171)
Foreign currency forwards	15,406
Other	802
	$ 12,037
Floating-to-fixed interest rate swap on debt	$ 1,337
Effective cash flow hedges:	
Floating-to-fixed interest rate swaps on debt	$ 1,312

Note 7—Derivative Instruments—Continued

Using rates in effect at June 30, 2023, 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 (in thousands):

	Variable Rate Bonds		Swap	Total
	Principal	Interest	Payments, Net	Payments
2024	$ 12,410	$ 2,883	$ (92)	$ 15,201
2025	12,940	2,382	(53)	15,269
2026	12,045	1,903	(15)	13,933
2027	13,970	1,391		15,361
2028	16,540	792		17,332
2029-2030	10,420	254		10,674
	$ 78,325	$ 9,605	$ (160)	$ 87,770

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, 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 $4,096,000 at June 30, 2023 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 year ended June 30, 2023 are summarized as follows (in thousands):

Balance, beginning of year	$ 864,602
Claims incurred and changes in estimates	1,128,310
Claim payments	(1,527,136)
Balance, end of year	465,776
Less current portion	253,398
	$ 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

Sparrow Health: Sparrow Health 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 Sparrow Health 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. Sparrow Health has elected to measure its net pension liability six months prior to the fiscal year end reporting date and amounts measured at December 31, 2022 were determined based on an actuarial valuation at January 1, 2022. 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, 2022 measurement date, the number of plan participants consisted of the following:

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

Note 9—Pension Plans—Continued

Changes in the reported net pension liability for the year ended June 30, 2023 are summarized as follows (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 98 percent at June 30, 2023.

Note 9—Pension Plans—Continued

Significant actuarial assumptions used at the December 31, 2022 measurement date are as follows:

	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.

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:

	Plan A1		Plan A2	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. Large Cap	22.0%	8.6%	10.0%	8.0%
U.S. Small/Mid Cap	8.0%	9.0%	3.0%	8.0%
International Developed	20.0%	9.3%	8.0%	9.3%
Corporate 10+ Year	20.0%	6.7%	45.5%	6.6%
STRIPs			19.5%	5.3%
High Yield	5.0%	7.8%	2.0%	7.8%
Emerging Markets Debt	5.0%	8.8%	2.0%	8.8%
Private Real Estate	8.0%	7.3%	10.0%	7.3%
Private Equity	7.0%	11.7%		
Structured Credit	5.0%	10.5%		

Note 9—Pension Plans—Continued

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

	1% Decrease	1% Increase
Net pension liability	$ 73,092	$ (62,364)

The components of pension expense for the year ended June 30, 2023 are summarized as follows (in thousands):

Service cost	$ 4,429
Interest cost	44,648
Expected investment earnings	(55,935)
Administrative expenses	8,743
Amortization of deferred outflows and deferred inflows	41,938
	$ 43,823

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

	Deferred Outflows	Deferred Inflows
Changes in assumptions	$ 7,006	
Differences between expected and actual plan experience	1,969	$ 221
Differences between expected and actual investment earnings	134,613	
	$ 143,588	$ 221

Note 9—Pension Plans—Continued

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

2024	$ 40,834
2025	34,433
2026	34,433
2027	33,667
	$ 143,367

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

Note 9—Pension Plans—Continued

UMH-West: UMH-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 UMH-West Board of Directors has the authority to establish and amend benefit provisions of the plan.

The annual pension expense and net pension liability is actuarially calculated using the entry age normal level percent of pay method. UMH-West has elected to measure the net pension liability nine months prior to the fiscal year end reporting date and amounts measured at September 30, 2022 were determined based on an actuarial valuation at October 1, 2021. 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, 2022 measurement date, the number of plan participants consisted of the following:

Active participants	369
Vested terminated participants	791
Retirees, beneficiaries and disabled participants	553
	1,713

Note 9—Pension Plans—Continued

Changes in the reported net pension liability for the year ended June 30, 2023 are summarized as follows (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 101 percent at June 30, 2023.

Significant actuarial assumptions used at the September 30, 2022 measurement date are as follows:

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

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

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:

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

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

	1% Decrease	1% Increase
Net pension liability	$ 6,790	$ (5,798)

The components of pension expense for the year ended June 30, 2023 are summarized as follows (in thousands):

Interest cost	$ 4,569
Expected investment earnings	(5,314)
Administrative expenses	147
Amortization of deferred outflows and deferred inflows	2,497
	$ 1,899

Note 9—Pension Plans—Continued

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

	Deferred Outflows	Deferred Inflows
Changes in assumptions	$ 63	
Differences between expected and actual plan experience	534	
Differences between expected and actual investment earnings	18,890	$ 9,783
	$ 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):

2024	$ 2,115
2025	1,604
2026	1,376
2027	4,609
	$ 9,704

The inputs used to determine the fair value of the plan's investments reported at June 30, 2023 are summarized as follows (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, 2022 were determined based on an actuarial valuation at January 1, 2022. There are no significant changes known which would impact the total postemployment liability between the measurement date and the reporting date, other than typical plan experience.

Note 10—Postemployment Benefits—Continued

For purposes of the June 30, 2022 measurement date, the number of plan participants consisted of the following:

	Retiree Health and Welfare	Long-term Disability
Active employees	44,196	38,612
Retirees receiving benefits	12,243	
Surviving spouses	922	
Participants receiving disability benefits		544
	57,361	39,156

Changes in the reported total liability for postemployment benefits obligations for the year ended June 30, 2023 are summarized as follows (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 $619,599,000 at June 30, 2023.

Note 10—Postemployment Benefits—Continued

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

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, 2023 as a percentage of covered payroll of $4,889,673,000 were 76 percent.

Significant actuarial assumptions used at the June 30, 2022 measurement date are as follows:

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

	1% Decrease	1% Increase
Discount rate:		
Retiree health and welfare	$ 702,617	$ (552,156)
Long-term disability	$ 10,955	$ (16,739)
Health care cost trend rates:		
Retiree health and welfare	$ (613,511)	$ 816,955
Long-term disability	$ (10,044)	$ 10,817

Note 10—Postemployment Benefits—Continued

The components of postemployment benefits expense for the year ended June 30, 2023 are summarized as follows (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, 2023 are summarized as follows (in thousands):

	Deferred Outflows	Deferred Inflows
Changes in assumptions	$ 654,212	$ 1,209,737
Differences between expected and actual plan experience	118,394	15,595
	772,606	1,225,332
Benefit payments made after measurement date	105,261	
	$ 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):

2024	$ 34,742
2025	34,742
2026	46,764
2027	53,528
2028	18,647
2029 and beyond	264,303
	$ 452,726

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 year ended June 30, 2023 are summarized as follows (in thousands):

University contributions	$ 372,331
Employee contributions	$ 197,125
Payroll covered under plan	$ 4,889,673
Total payroll	$ 5,058,307

Note 12—Net Position

The composition of net position at June 30, 2023 is summarized as follows (in thousands):

Net investment in capital assets	$ 3,964,182
Restricted:	
Nonexpendable:	
Permanent endowment corpus	2,959,142
Expendable:	
Net appreciation of permanent endowments	3,668,054
Funds functioning as endowment	3,385,536
Restricted for operations and other	799,478
Unrestricted	5,937,369
	$ 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, 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 $303,478,000 during the year ended June 30, 2023 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 $1,226,000 at June 30, 2023, for DoED funding received subsequent to distribution.

Note 14—Commitments and Contingencies

Authorized expenditures for construction and other projects unexpended at June 30, 2023 were $1,875,447,000. Of these expenditures, the University expects that $1,845,447,000 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, natural resources and absolute return strategies. At June 30, 2023, the University had committed, but not paid, a total of $4,520,344,000 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):

2024	$ 1,535,092
2025	1,078,708
2026	761,728
2027	452,496
2028	249,652
2029 and beyond	442,668
	$ 4,520,344

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

Note 14—Commitments and Contingencies—Continued

The University has entered into leases for certain space and equipment, as well as SBITAs, which expire at various dates through 2043. 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
2024	$ 67,709	$ 10,537	$ 78,246
2025	60,145	8,999	69,144
2026	44,472	7,660	52,132
2027	32,204	6,606	38,810
2028	23,916	5,844	29,760
2029-2033	77,288	19,667	96,955
2034-2038	40,404	4,823	45,227
2039-2043	6,271	157	6,428
	$ 352,409	$ 64,293	$ 416,702

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 year ended June 30, 2023 are summarized as follows (in thousands):

	2023				
	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 year ended June 30, 2023 is as follows (in thousands):

Condensed Statement of Net Position	
Assets:	
Current assets	$ 446,069
Noncurrent assets	1,638,665
Total assets	2,084,734
Deferred outflows	163,418
Liabilities:	
Current liabilities	358,034
Noncurrent liabilities	621,547
Total liabilities	979,581
Deferred inflows	19,238
Net position:	
Net investment in capital assets	427,642
Restricted:	
Nonexpendable	10,429
Expendable	49,531
Unrestricted	761,731
Total net position	$ 1,249,333

Condensed Statement of Revenues, Expenses and Changes in Net Position	
Operating revenues	$ 1,794,435
Operating expenses other than depreciation expense	(1,871,017)
Depreciation expense	(107,118)
Operating loss	(183,700)
Nonoperating revenues, net	52,216
Other expenses, net	(10,228)
Loss before transfers	(141,712)
Transfers from other University units	3,875
Decrease in net position	(137,837)
Net position, beginning of year	121,983
Affiliation with Sparrow Health	1,265,187
Net position, beginning of year, as restated	1,387,170
Net position, end of year	$ 1,249,333

Note 16—UM Health—Continued

Condensed Statement of Cash Flows	
Net cash used in operating activities	$ (67,203)
Net cash provided by noncapital financing activities	51,374
Net cash used in capital and related financing activities	(192,668)
Net cash provided by investing activities	184,905
Net decrease in cash and cash equivalents	(23,592)
Cash and cash equivalents, beginning of year	21,947
Affiliation with Sparrow Health	88,002
Cash and cash equivalents, beginning of year, as restated	109,949
Cash and cash equivalents, end of year	$ 86,357

Required Supplementary Information (Unaudited)

Pension Plans

Sparrow Health

Changes in the reported net pension liability for the year ended June 30, 2023 are summarized as follows (amounts in thousands):

Total Pension Liability	
Service cost	$ 4,429
Interest cost	44,648
Changes in assumptions	14,896
Differences between expected and actual plan experience	2,143
Benefit payments	(40,456)
Net change in total pension liability	25,660
Total pension liability, end of year	$ 691,217
Plan Fiduciary Net Position	
Benefit payments	$ (40,456)
Contributions from the employer	10,674
Administrative expenses	(8,743)
Net investment income:	
Expected investment earnings	55,935
Differences between expected and actual investment earnings	(168,265)
Net change in plan fiduciary net position	(150,855)
Plan fiduciary net position, end of year	$ 675,577
Net pension liability, end of year	$ 15,640
Plan fiduciary net position as a percentage of the total pension liability	98%

Pension Plans—Continued

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

	Employer Contributions*	Actuarially Determined Contributions	Excess Contributions
2023	$ 4,611	$ -	$ 4,611

* Reflects no employer contributions after June 30 of the prior fiscal year

Significant methods and assumptions used to calculate the actuarially determined contributions for the year ended June 30, 2023 are as follows:

Actuarially determined contributions	The plan is subject to funding requirements under the provisions of ERISA and the Pension Protection Act of 2006 (including MAP-21, HATFA, BBA, ARPA and IIJA). The actuarially determined contributions represent the IRC Section 430 minimum required contributions.
Contributions in relation to actuarially determined contributions	Under IRC Section 430, the due date to pay minimum required contributions for the plan year is generally 8½ months after the end of the plan year. For the plan years ended December 31, contributions are due by September 15 of the following year.
Actuarial cost method	Unit credit method
Asset valuation method	24-month smoothed value of assets

Interest rate

	First Segment Rate	Second Segment Rate	Third Segment Rate	Effective Rate
2023	4.75%	5.18%	5.92%	5.43%

Mortality	Tables prescribed by the Secretary of Treasury.

Pension Plans—Continued

UMH-West

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

	2023	2022	2021	2020
Total Pension Liability				
Interest cost	$ 4,569	$ 4,543	$ 4,687	$ 4,957
Changes in assumptions	165	89	(3,540)	3,713
Differences between expected and actual plan experience	1,394	989	(1,662)	(124)
Benefit payments	(7,374)	(5,598)	(7,714)	(6,791)
Net change in total pension liability	(1,246)	23	(8,229)	1,755
Total pension liability, end of year	$ 66,512	$ 67,758	$ 67,735	$ 75,964
Plan Fiduciary Net Position				
Benefit payments	$ (7,374)	$ (5,598)	$ (7,714)	$ (6,791)
Contributions from the employer	1,781	891	900	1,244
Administrative expenses	(147)	(76)		
Net investment income:				
Expected investment earnings	5,314	4,997	4,797	5,205
Differences between expected and actual investment earnings	(23,044)	16,162	(1,137)	426
Net change in plan fiduciary net position	(23,470)	16,376	(3,154)	84
Plan fiduciary net position, end of year	$ 66,963	$ 90,433	$ 74,057	$ 77,211
Net pension liability, end of year	$ (451)	$ (22,675)	$ (6,322)	$ (1,247)
Plan fiduciary net position as a percentage of the total pension liability	101%	133%	109%	102%

Required Supplementary Information (Unaudited)—Continued

Pension Plans—Continued

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

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

Pension Plans—Continued

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

	Employer Contributions*	Actuarially Determined Contributions	Excess (Deficient) Contributions
2023	$ 445	$ -	$ 445
2022	$ 1,781	$ -	$ 1,781
2021	$ 891	$ 2,133	$ (1,242)
2020	$ 900	$ 1,336	$ (436)
2019	$ 1,244	$ 393	$ 851
2018	$ 1,047	$ 1,622	$ (575)
2017	$ 2,171	$ 1,754	$ 417

* Reflects no employer contributions after April 30 of the prior fiscal year

Significant methods and assumptions used to calculate the actuarially determined contributions for the years ended June 30 are as follows:

Actuarially determined contributions	The plan is subject to funding requirements under the provisions of ERISA and the Pension Protection Act of 2006 (including MAP-21, HATFA, BBA, ARPA and IIJA). The actuarially determined contributions represent the IRC Section 430 minimum required contributions.
Contributions in relation to actuarially determined contributions	Under IRC Section 430, the due date to pay minimum required contributions for the plan year is generally 8½ months after the end of the plan year. For the plan years ended September 30, contributions are due by June 15 of the following year.
Actuarial cost method	Unit credit method
Asset valuation method	24-month smoothed value of assets

Interest rate

	First Segment Rate	Second Segment Rate	Third Segment Rate	Effective Rate
2023	4.75%	5.36%	6.11%	5.61%
2022	4.75%	5.50%	6.27%	5.76%
2021	3.74%	5.35%	6.11%	5.57%
2020	3.92%	5.52%	6.29%	5.73%
2019	4.16%	5.72%	6.48%	5.94%
2018	4.16%	5.72%	6.48%	5.93%
2017	4.43%	5.91%	6.65%	6.13%

Mortality: Tables prescribed by the Secretary of Treasury.

Required Supplementary Information (Unaudited)—Continued

Postemployment Benefits

The historical reconciliation of the reported total liability for postemployment benefits obligations for the years ended June 30 is summarized as follows (amounts in thousands):

	2023	2022	2021	2020
Service cost	$ 197,945	$ 213,029	$ 151,925	$ 134,115
Interest cost	96,059	101,166	125,421	124,023
Changes in assumptions	(790,355)	(368,216)	731,220	154,777
Differences between expected and actual plan experience	12,421	35,115	18,776	38,230
Benefit payments	(97,354)	(95,581)	(92,684)	(87,712)
Net change	$ (581,284)	$ (114,487)	$ 934,658	$ 363,433
Total liability, end of year	$ 3,716,375	$ 4,297,659	$ 4,412,146	$ 3,477,488
Covered employee payroll	$ 4,889,673	$ 4,502,421	$ 4,255,709	$ 4,214,627
Total liability as a percentage of covered employee payroll	76%	95%	104%	83%

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

Postemployment Benefits—Continued

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

2023	3.54%
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.87%
2018	3.58%
2017	2.85%

UNIVERSITY OF MICHIGAN HEALTH

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023
with
REPORT OF INDEPENDENT AUDITORS

UNIVERSITY OF MICHIGAN HEALTH

June 30, 2023

Page(s)

Report of Independent Auditors

To the Regents of the University of Michigan

Opinion

We have audited the accompanying financial statements of University of Michigan Health ("UMH"), which, as discussed in Note 1, consists of certain departments of the University of Michigan, which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, including the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UMH as of June 30, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matters

As discussed in Note 1, the financial statements of UMH present only the net position, revenues, expenses and changes in net position, and cash flows of that portion of the financial reporting entity of the University of Michigan that is attributable to the transactions of UMH. They do not purport to, and do not, present fairly the financial position of the University of Michigan as of June 30, 2023, and the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP, 500 Woodward Avenue, Detroit, Michigan 48226
T: (313) 394 6000, www.pwc.com/us

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 18 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

October 19, 2023

Management's Discussion and Analysis (Unaudited)

Introduction

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

UMH is a part of the University of Michigan (the "University") and is one of four University units that together comprise Michigan Medicine. Along with UMH, Michigan Medicine includes the University of Michigan Medical School ("Medical School"), Michigan Health Corporation (a wholly owned corporation created for joint venture and managed care initiatives) and UM Health (a wholly owned corporation created to hold and develop Michigan Medicine's statewide network of hospitals, hospital joint ventures and other hospital affiliations, primarily consisting of Sparrow Health System ("Sparrow Health") and UMH-West). Michigan Medicine maintains a tradition of excellence in teaching, advancement of medical science and patient care, consistently ranking among the best health care systems in the nation. The leadership and management of Michigan Medicine are provided by the University's Executive Vice President for Medical Affairs.

Michigan Medicine entities have a tripartite mission focusing on clinical, research, and medical and biomedical educational activities. As part of the clinical mission, UMH operates a 1,043 licensed bed acute care and psychiatric facility, several ambulatory care centers and various other health care programs across Michigan. UMH serves as the principal teaching facility for the Medical School. Substantially all physician services to UMH patients are provided by the University of Michigan Medical Group ("UMMG"). The UMMG comprises the Medical School faculty and activities provided by the UMMG are included within UMH in order to comprehensively present activity related to the clinical mission of Michigan Medicine. UMH also provides educational and clinical opportunities to students of the University's Schools of Nursing, Dentistry, Social Work and Public Health, as well as the College of Pharmacy.

Michigan Medicine and UMH have been recognized by several external organizations. During 2023, this recognition included the following:

- Named to the U.S. News & World Report Honor Roll as one of the best adult hospitals in the nation, as well as Best Hospital in Michigan and Detroit Metro area and receiving top tier national rank in 13 adult specialties.
- Michigan Medicine earned the No. 33 spot in Newsweek's list of "World's Best Hospitals" and the No. 11 spot in the United States. Newsweek also named Michigan Medicine as one of the world's best specialized hospitals in cardiology, endocrinology, gastroenterology, oncology, neurology, orthopedics, pediatric and adolescent medicine, cardiac surgery, neurosurgery, pulmonology and urology.
- C.S. Mott Children's Hospital is the top-ranked children's hospital in the state of Michigan and is the only hospital in the state to be nationally ranked in all ten pediatric specialties, according to U.S. News & World Report.
- C.S. Mott Children's Hospital is the first ChildKind certified hospital in the state of Michigan. ChildKind International is dedicated to improving the quality of pediatric pain care across the world by awarding certification in pediatric pain prevention and treatment.
- Von Voigtlander Women's Hospital has been named among the best hospitals for maternity care by U.S. News & World Report.
- Named one of the world's best smart hospitals by Newsweek, recognizing achievements in electronic functionalities, telemedicine, digital imaging, artificial intelligence and robotics. UMH was cited as standing out when it comes to robotics.
- Michigan Medicine earned a five-star rating from the Centers for Medicare and Medicaid Services for overall hospital quality. The methodology utilizes ratings in areas such as mortality, safety of care, readmission, patient experience and timely and effective care.
- Named one of the top employers in the state of Michigan by Forbes.
- Named the fifth best place in the country to work as a nurse by NurseJournal, making it the top-ranked place for nurses to work in the state of Michigan.
- Michigan Medicine was named one of the top 150 places to work in health care by Becker's Hospital Review.
- Since the inception of the award, Michigan Medicine earned an "A" from The Leapfrog Group, a nonprofit patient safety organization, based on performance on a wide array of patient safety measures.
- The Leapfrog Group has named UMH one of its Top Teaching Hospitals, recognizing hospitals that have achieved true excellence in meeting the nation's highest standards for safety and quality.
- Michigan Medicine received the designation as a "Leader in LGBTQ+ Healthcare Equality" from the Human Rights Campaign, based on the ability to deliver LGBTQ+ inclusive policies and services for patients, visitors and employees.
- UMH received recognition from Practice Greenhealth for its commitment to environmental stability, including the 'Emerald Award' and two Circle of Excellence awards, the 20th consecutive year of recognition for supporting planetary health.

Financial Highlights

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

	2023	2022
	(in millions)	
Operating revenues	$ 5,385.9	$ 5,003.9
Operating (loss) income	$ (17.3)	$ 94.0
(Decrease) increase in net position	$ (173.7)	$ 195.0

Operating revenues increased in 2023 due to growth in outpatient activity and strong pharmacy revenues. Operating expenses increased in 2023 due to costs associated with compensation and benefits and increased patient activity, including increased expenses associated with supplies due to inflation and supply chain shortages. Net position, which represents the residual interest in UMH's assets and deferred outflows after liabilities and deferred inflows are deducted, decreased $173.7 million in 2023, driven by declining operating and financial investment performance, as well as transfers to support the academic mission of the Medical School.

Using the Financial Statements

UMH's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles.

Statement of Net Position

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

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

Current assets consist primarily of cash equivalents and accounts receivable. Cash equivalents on deposit with the University totaled $378.4 million and $535.1 million at June 30, 2023 and 2022, respectively. The net decrease in cash equivalents in 2023 is primarily attributable to decreased operating performance and increased capital spending.

Accounts receivable from patient care services is recorded at the estimated net realizable amount due from patients, third-party payers and others for services rendered. Accounts receivable from net patient care services totaled $580.9 million and $575.8 million at June 30, 2023 and 2022, respectively.

Inventory and other current assets totaled $159.7 million and $119.5 million at June 30, 2023 and 2022, respectively. The increase in 2023 is primarily due to an increase in pharmacy inventory.

Unexpended debt proceeds totaled $281.8 million and $394.8 million at June 30, 2023 and 2022, respectively. The net decrease in unexpended debt proceeds represents increased capital spending on the construction of the D. Dan and Betty Kahn Health Care Pavilion inpatient tower.

Investments, consisting principally of long-term assets held in the University Endowment Fund ("UEF"), totaled $2.0 billion and $2.1 billion at June 30, 2023 and 2022, respectively. Investments decreased in 2023, primarily due to unfavorable market performance.

Total cash equivalents and investments, excluding unexpended debt proceeds, amounted to $2.4 billion at June 30, 2023, which represents 163 days of operating expenses (excluding depreciation and non-cash postemployment benefits expense) as compared to $2.6 billion and 201 days at June 30, 2022. The decrease in 2023 is primarily attributed to decreased operating and market performance.

Net capital assets, defined as gross capital assets less accumulated depreciation, totaled $1.5 billion and $1.4 billion at June 30, 2023 and 2022, respectively. Capital additions totaled $363.3 million in 2023, which was primarily due to spending on the D. Dan and Betty Kahn Health Care Pavilion as well as other facility and infrastructure improvements.

The University has approved a line of credit not to exceed $125.0 million between UMH and UMH-West to better achieve the goals and objectives of providing accessible, quality patient care and performing approved investments. At June 30, 2023, the outstanding principal balance on the line of credit was $58.0 million, and is reported within other noncurrent assets in the statement of net position. The increase in 2023 of $39.0 million is due to increased working capital and capital investment needs at UMH-West.

Deferred outflows represent the consumption of net assets attributable to a future period and are primarily driven by activity associated with the portion of the University's obligations for postemployment benefits allocated to UMH. Deferred outflows totaled $249.6 million and $289.0 million at June 30, 2023 and 2022, respectively.

Current liabilities include accrued compensation, accounts payable, unearned revenue, amounts payable to other University units, the current portion of both obligations for postemployment benefits and outstanding debt, and third-party settlements and reserves. Third-party settlements and reserves totaled $92.2 million and $80.6 million at June 30, 2023 and 2022, respectively. The increase in 2023 is due to activity related to prior year estimates and the establishment of current year positions.

Unearned revenue totaled $39.0 million and $57.7 million at June 30, 2023 and 2022, respectively. The decrease in 2023 is primarily attributable to the earning of funds received from the Centers for Medicare & Medicaid Services related to the advanced funding from the Accelerated and Advance Payment program, as a result of the COVID-19 pandemic. These funds were fully earned without penalty at June 30, 2023.

Outstanding debt totaled $1,421.8 million and $1,384.3 million, with effective interest rates that averaged 3.5 percent at June 30, 2023 and 2022, respectively. UMH received proceeds of $58.0 million from the University during 2023, payable over 20 years at an average interest rate of 4.5 percent to provide funding for an expansion of the specialty and mail order pharmacy program.

Obligations for postemployment benefits totaled $753.5 million and $938.7 million at June 30, 2023 and 2022, respectively, of which $27.1 million and $24.8 million is current. The liability represents the actuarially determined present value of certain medical and dental insurance, prescription drug coverage, group life insurance and long-term disability benefits to eligible retirees and their eligible dependents. The decrease in the reported liability at June 30, 2023 was driven primarily by an increase in the discount rate.

Deferred inflows represent the acquisition of net assets attributable to a future period and are primarily driven by activity associated with the portion of the University's obligations for postemployment benefits allocated to UMH. Deferred inflows totaled $360.1 million and $160.9 million at June 30, 2023 and 2022, respectively.

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

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

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

Restricted nonexpendable net position includes the corpus portion (historical value) of gifts to UMH's permanent endowment funds, as well as certain investment earnings stipulated by the donor to be reinvested permanently. Restricted expendable net position is subject to externally imposed stipulations governing their use and includes net appreciation of permanent endowments not stipulated by the donor to be reinvested permanently.

Unrestricted net position is not subject to externally imposed stipulations and may be designated for specific purposes by action of management or the Board of Regents. Substantially all unrestricted net position is designated for patient care and capital programs.

Statement of Revenues, Expenses and Changes in Net Position

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

	2023	2022
	(in millions)	
Operating revenues	$ 5,385.9	$ 5,003.9
Operating expenses	5,403.2	4,909.9
Operating (loss) income	(17.3)	94.0
Total nonoperating and other revenues, net	43.2	228.9
Income before transfers	25.9	322.9
Transfers to other University units, net	(199.6)	(127.9)
(Decrease) increase in net position	$ (173.7)	$ 195.0

Operating Revenues

Revenues from patient care services represented 98.5 percent of operating revenues at June 30, 2023. The majority of net patient care revenue is received under contractual arrangements with governmental payers (Medicare and Medicaid) and private insurers. Net patient care revenue increased in 2023, driven primarily by an increase in outpatient and pharmacy volumes. A summary of patient activity statistics for the years ended June 30, is as follows:

	2023	2022	% Change
Inpatient discharges	46,600	46,803	(0.4)%
Patient days	328,149	323,658	1.4%
Observation cases	18,666	16,638	12.2%
Surgeries	58,788	56,260	4.5%
Outpatient visits	2,937,401	2,860,683	2.7%
Adjusted cases	193,458	196,925	(1.8)%

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

Operating Expenses

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

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

While total operating expenses increased in 2023, expense management continues to be a focus of UMH leadership, specifically in the areas of compensation and supplies expense.

Compensation and benefits totaled $2.2 billion and $2.1 billion, and represents 41.5 percent and 41.9 percent of total operating expenses for the years ended June 30, 2023 and 2022, respectively. The growth in 2023 is primarily driven by hiring due to increases in patient activity volumes and a competitive labor market.

Supplies expense totaled $1.4 billion and $1.2 billion for the years ended June 30, 2023 and 2022, respectively. The increase reflects growth in patient volumes, new therapies, increased costs of prescription drugs and infusion treatments, as well as increased expenses related to global supply chain challenges.

Medical School faculty and other services expense totaled $801.5 million and $745.5 million for the years ended June 30, 2023 and 2022, respectively. The increase in 2023 is primarily due to increased payments for faculty service coverage. Michigan Medicine Administrative Services expense totaled $338.4 million and $314.8 million for the years ended June 30, 2023 and 2022, respectively. The increase in 2023 is primarily due to funding new information technology initiatives and programs within Michigan Medicine.

Other operating expenses totaled $475.4 million and $370.6 million for the years ended June 30, 2023 and 2022, respectively. The increase in 2023 is primarily due to maintenance and facility costs associated with capacity expansion, routine maintenance and contract labor.

Nonoperating and Other Revenues (Expenses)

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

	2023	2022
	(in millions)	
Federal economic relief funds	$ 17.0	$ 30.0
Interest expense	(52.9)	(48.8)
Net investment income	23.0	233.0
Private gifts for other than capital and permanent endowment purposes	6.5	6.3
Capital and permanent endowment gifts and other	49.6	8.4
	$ 43.2	$ 228.9

UMH received federal funding through the state of Michigan as a result of the Coronavirus State and Local Fiscal Recovery Fund, to help hospitals with workforce recruitment, retention and training. The funding is recognized as federal economic relief funds and totaled $16.6 million and $14.2 million for the years ended June 30, 2023 and 2022, respectively. The funds are intended to compensate health care providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic, as well as increase access to COVID-19 vaccines, testing and healthcare services in the community. The funds are not required to be repaid, provided that UMH can attest to and comply with program terms and conditions. UMH also received reimbursement through the Federal Emergency Management Agency's ("FEMA") Public Assistance Program for eligible costs associated with the ongoing COVID-19 recovery efforts and vaccine initiatives. FEMA funding is recognized as federal economic relief funds and totaled $0.4 million and $1.1 million for the years ended June 30, 2023 and 2022. During 2022, UMH additionally received $14.6 million in federal funding from both the Coronavirus Aid, Relief, and Economic Security Act and The American Rescue Plan Act of 2021, related to the COVID-19 pandemic, which was also recognized as federal economic relief funds.

Substantially all UMH investments are held in University investment pools, which generate both income distributions and unrealized gains and losses. Income distributions consist primarily of payments from the UEF based on the University's endowment spending rule. Additionally, investments held in the UEF are recorded at fair value based on the net asset value of the investment pool. Any unrealized change in the value of these investments is included as a component of net investment income.

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

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

Transfers with Other University of Michigan Units

UMH makes equity transfers to the Medical School and other University units. These transfers are generally in support of the Medical School's academic and research missions. UMH reports these transfers as changes in net position, separately from the excess of revenues over expenses. Transfers with other University units for the years ended June 30 are summarized as follows:

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

Transfers to other University units increased in 2023, primarily driven by increased payments to the Medical School for academic and non-patient care purposes.

Statement of Cash Flows

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

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

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

Economic Factors That May Affect the Future

In an effort to better serve patient needs and ensure statewide care coordination, the Board of Regents approved a definitive agreement for Sparrow Health to join Michigan Medicine in April 2023. This agreement strengthens Michigan Medicine's ability to provide quality health care in communities beyond southeast Michigan, expanding its mission as a statewide referral site for the most critically ill patients. It is also an important step toward the organization's vision of a statewide system of highly coordinated care. The agreement builds upon an affiliation agreement signed by both organizations that paved the way for ongoing collaboration between the two systems and a successful partnership formed through Michigan Medicine at Sparrow Children's Center and a membership interest in PHP Holdings, LLC, to enhance and expand provider-sponsored health insurance in the state of Michigan. Sparrow Health has more than 120 sites of care and is one of the largest health systems in Michigan, with nearly 10,000 caregivers and approximately 600 employed primary-care providers and specialists. With the addition of Sparrow Health, Michigan Medicine now oversees more than 200 care sites across the state.

In support of Michigan Medicine's tripartite mission, the Board of Regents approved plans in 2019 for the construction of the D. Dan and Betty Kahn Health Care Pavilion, a 690,000 square foot clinical inpatient tower with an estimated cost of $920 million. The facility is estimated to be open for patient care by fall 2025 and will accommodate an inpatient care program with 264 single-occupancy patient rooms and 23 surgical and interventional radiology suites. This patient care expansion supports the clinical strategy of Michigan Medicine, increasing capacity to accommodate tertiary and quaternary care needs. Relocation of existing clinical services from the University Hospital will also allow for future redesign and growth for patient programs remaining in that facility. The design will emphasize sustainability with the expectation to achieve Leadership in Energy and Environmental Design Platinum certification, exceeding current energy efficiency standards.

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

In October 2022, the Board of Regents approved the joint operating agreement between UMH and Trinity Health Michigan Oakland. The unique collaboration brings advanced pediatric specialty care to Trinity Health Oakland hospital and the communities it serves. The agreement builds on the two health systems' existing affiliation agreement and follows a joint venture at Chelsea Hospital, a professional services agreement that provides for UMH inpatient services on the 4th floor of Trinity Health Ann Arbor, and UMH joint operating agreements expanding cancer and cardiovascular services on the west side of the state. It is the first-time specialists from Michigan's top-ranked children's hospital will have a multi-specialty presence east of I-275, providing services both in outpatient clinics and through inpatient consultation and procedures.

To provide higher quality and more convenient care for all patients, UMH plans to significantly expand its specialty and mail order pharmacy program. The Board of Regents approved a $6 million purchase of an industrial building, located in Dexter, Michigan, as well as a $52 million renovation plan to grow pharmacy services and automate the order filling process. The expansion will allow UMH to more than double the number of prescriptions it fills through its existing in-house pharmacy. Construction is expected to be completed by fall 2023. Michigan Medicine has also partnered with Zipline to offer drone delivery services for prescription drugs in 2024. This partnership will support the overall effort to improve patient access to specialty pharmacy services.

UMH remains committed to expanding access to more patients by focusing on Care at Home. This program allows UMH to discharge patients sooner and finish their hospital-level care at home with appropriate monitoring, equipment, and house visits. Care at Home brings positive impacts by improving patient experience and bed capacity. In addition, UMH has expanded its telehealth program to provide virtual care for patients from their home, with the goal of providing safe and effective care to patients.

Michigan Medicine continued to foster other existing affiliations with area hospitals and networks to enhance patient care, clinical research, physician recruitment and support services. Michigan Medicine collaborated with affiliated partners MyMichigan Health, Sparrow Health, UMH-West and others, to continue to provide accessible, quality patient care. These clinical affiliation agreements and population management programs are designed to expand community access and improve patient, family and provider experiences across the continuum of care.

Federal and state lawmakers continue to discuss further Medicare and Medicaid changes which may target graduate medical education-related payments, causing a potentially significant impact on teaching hospitals like UMH. Private insurance and managed care contracts historically provide for annual increases in reimbursement rates that meet or exceed the rate of inflation, however, there can be no assurance that such trends will continue.

As a labor-intensive organization, UMH's most significant operating expense is compensation and benefits, and management has resource strategies in place to attract and retain high quality staff. In October 2022, UMH approved a four-year contract with the University of Michigan Professional Nurse Council. In February 2023, the United Michigan Medicine Allied Professionals union was formed and is made up of more than 900 diagnostic technologists who perform imaging scans and studies. In June 2023, UMH approved a four-year contract with the University of Michigan House Officers Association. A large portion of UMH's labor force is unionized and changes in relations with unions and represented employees, including the negotiation of new agreements, could have a material effect on UMH's future financial results.

Management believes that UMH is poised to succeed in an environment where quality, appropriateness and innovation are rewarded. As part of Michigan Medicine, UMH has a multi-year track record of a high degree of integration and alignment with the Medical School. This alignment and integration allows UMH to partner with highly talented physicians and in particular, physicians practicing in specialty areas, thereby providing a greater opportunity for future growth. This competitive advantage, coupled with a solid financial position and record of investment in clinical capacity and information technology, favorably positions UMH to execute the emerging strategic initiatives listed above.

UMH participates in debt issuances originated by the University, which maintains the highest credit ratings of S&P Global (AAA) and Moody's (Aaa). These ratings allow UMH to secure capital funds as needed on extremely competitive terms to further enhance the patient experience. The continued stability of these credit ratings is important to the long-term strategic direction of UMH.

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

UNIVERSITY OF MICHIGAN HEALTH

Statement of Net Position

	June 30, 2023 (in thousands)
Assets	
Current Assets:	
Cash equivalents on deposit with the University	$ 378,390
Accounts receivable, net	580,875
Receivable from other University units	1,680
Current portion of pledges receivable, net	12,141
Inventory and other current assets	159,710
Total Current Assets	1,132,796
Noncurrent Assets:	
Unexpended debt proceeds on deposit with the University	281,840
Investments on deposit with the University	2,016,363
Pledges receivable, net	33,563
Other assets	71,655
Capital assets, net	1,524,806
Total Noncurrent Assets	3,928,227
Total Assets	**5,061,023**
Deferred Outflows	**249,604**
Liabilities	
Current Liabilities:	
Accrued compensation	116,512
Accounts payable and accrued expenses	192,939
Unearned revenue	39,000
Payable to other University units	6,400
Current portion of obligations for postemployment benefits	27,085
Current portion of long-term debt	58,558
Third-party settlements and reserves	92,153
Total Current Liabilities	532,647
Noncurrent Liabilities:	
Long-term debt	1,363,194
Payable to other University units	14,836
Obligations for postemployment benefits	726,410
Other	146,154
Total Noncurrent Liabilities	2,250,594
Total Liabilities	**2,783,241**
Deferred Inflows	**360,051**
Net Position	
Net investment in capital assets	228,790
Restricted:	
Nonexpendable	17,090
Expendable	126,300
Unrestricted	1,795,155
Total Net Position	**$ 2,167,335**

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

UNIVERSITY OF MICHIGAN HEALTH

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2023 (in thousands)
Operating Revenues	
Net patient service revenue (net of provision for bad debts of $166,213 in 2023)	$ 5,305,024
Other revenue	80,847
Total Operating Revenues	**5,385,871**
Operating Expenses	
Compensation and benefits	2,241,956
Supplies, services and other	1,832,727
Depreciation	188,640
Michigan Medicine Administrative Services	338,351
Medical School faculty and other services	801,524
Total Operating Expenses	**5,403,198**
Operating Loss	(17,327)
Nonoperating Revenues (Expenses)	
Federal economic relief funds	16,967
Interest expense	(52,878)
Net investment income	23,015
Private gifts for other than capital and permanent endowment purposes	6,489
Total Nonoperating Expenses, Net	**(6,407)**
Loss Before Other Revenues and Transfers	(23,734)
Other Revenues (Expenses)	
Capital and permanent endowment gifts	49,718
Loss on disposal of capital assets	(81)
Total Other Revenues, Net	**49,637**
Income Before Transfers	25,903
Transfers to other University units, net	(199,626)
Decrease in Net Position	(173,723)
Net Position, Beginning of Year	2,341,058
Net Position, End of Year	**$ 2,167,335**

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

UNIVERSITY OF MICHIGAN HEALTH

Statement of Cash Flows

	Year Ended June 30, 2023 (in thousands)
Cash Flows from Operating Activities	
Received from patient care services	$ 5,297,985
Received from non-patient sources	81,282
Expenses reimbursed by other University units	656
Payments to employees	(2,197,887)
Payments to suppliers	(1,726,865)
Payments to other University units	(1,318,286)
Net Cash Provided by Operating Activities	**136,885**
Cash Flows from Noncapital Financing Activities	
Federal economic relief funds	16,967
Private gifts and other receipts	7,974
Transfers to other University units, net	(178,626)
Net Cash Used in Noncapital Financing Activities	**(153,685)**
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets, net	(296,476)
Interest payments on capital debt	(51,961)
Proceeds from issuance of capital debt	58,000
Principal payments on capital debt	(40,825)
Principal and interest payments on lease and subscription liabilities	(31,701)
Private gifts and other receipts	15,680
Transfers from other University units for capital projects	2,545
Net Cash Used in Capital and Related Financing Activities	**(344,738)**
Cash Flows from Investing Activities	
Investment income	94,245
Net increase in noncurrent investments and other assets	(2,375)
Decrease in unexpended capital debt proceeds	112,938
Net Cash Provided by Investing Activities	**204,808**
Net Decrease in Cash Equivalents	(156,730)
Cash Equivalents on Deposit with the University, Beginning of Year	535,120
Cash Equivalents on Deposit with the University, End of Year	**$ 378,390**

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

Statement of Cash Flows—Continued

	Year Ended June 30, 2023 (in thousands)
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating loss	$ (17,327)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	188,640
Changes in assets and liabilities:	
Accounts receivable, net	(5,062)
Receivable from other University units	(39,662)
Inventory and other current assets	(39,455)
Accrued compensation	(14,129)
Accounts payable and accrued expenses	13,964
Unearned revenue	(18,708)
Payable to other University units	3,879
Third-party settlements and reserves	11,507
Obligations for postemployment benefits	(185,248)
Changes in deferred outflows	39,386
Changes in deferred inflows	199,100
Net Cash Provided by Operating Activities	**$ 136,885**

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

Note 1—Organization and Summary of Significant Accounting Policies

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

UMH is an operating unit of Michigan Medicine. Along with UMH, Michigan Medicine includes the Medical School, Michigan Health Corporation (a wholly owned corporation created for joint venture and managed care initiatives) and UM Health (a wholly owned corporation created to hold and develop Michigan Medicine's statewide network of hospitals, hospital joint ventures and other hospital affiliations, primarily consisting of Sparrow Health System and UMH-West).

UMH and the Medical School maintain various agreements to address the financial design and integration of their patient care activities. Revenue from hospital services and professional revenue from physicians is recorded by UMH. Patient care expenses other than physician compensation are recorded by UMH, while physician compensation is recorded by the Medical School. UMH makes payments to the Medical School for faculty services provided to UMH related to faculty participation in the direction and supervision of clinical and graduate medical education programs.

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

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

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation, outstanding principal balances of debt, lease and subscription liabilities, and unexpended debt proceeds attributable to the acquisition, construction, or improvement of those assets.
- Restricted:

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

  Expendable – Net position subject to externally imposed stipulations that can be fulfilled by actions of UMH pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of UMH's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.
- Unrestricted: Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents. Substantially all unrestricted net position is designated for patient care and capital programs.

Summary of Significant Accounting Policies: UMH considers all highly liquid investments purchased with a maturity of three months or less, to be cash equivalents. Cash equivalents generally represent investments in the University Investment Pool ("UIP"), a short-term commingled pool managed by the University that can be readily liquidated to pay contractual liabilities.

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

Accounts receivable consists primarily of patient activity and is recorded net of allowances for uncollectible accounts receivable, which totaled $142,279,000 at June 30, 2023. The allowance is based on management's judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable.

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

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

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

Investments on deposit with the University represent investments in the University Endowment Fund ("UEF"), a commingled pool which is invested entirely in the Long Term Portfolio, a diversified, equity-oriented investment pool managed by the University. The fair market value of UEF shares is determined at the end of each calendar quarter based on the fair value of the pool. Participants may purchase or redeem UEF shares at fair market value at each valuation date, subject to minimum holding and notice requirements.

Capital assets are recorded at cost or, if donated, at acquisition value at the date of donation. Depreciation of capital assets is provided on a straight-line method over the estimated useful lives of the respective assets, which generally range from three to fifty years. Right-to-use assets are recorded at the present value of payments expected to be made during the related term using discount rates which are based upon the University's incremental borrowing rates, and are depreciated over the shorter of the related term or the expected useful life of the underlying asset.

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

UMH accrues paid time off ("PTO") leave for employees based upon length of service and employee classification. Accrued PTO leave benefits are paid at the employee's regular hourly rate when used, paid as part of the PTO sellback program, or paid upon termination of employment, reduction in force or start of a leave of absence.

UMH's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net position are those that generally result from exchange transactions such as payments or expenditures related to patient care services provided. Nearly all of UMH's revenues and expenses are the result of exchange transactions.

UMH has agreements with third-party payers that provide for payments to UMH at amounts that differ from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for service rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in the future periods as final settlements are determined.

UMH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. As UMH does not pursue collection of amounts once determined to qualify as charity care, they are not reported as revenues in the accompanying statement of revenues, expenses and changes in net position.

Federal economic relief funds represent funding received from the federal government to provide economic assistance to entities that have been negatively impacted by the COVID-19 pandemic. During 2023, UMH recognized $16,600,000 in federal funding received through the state of Michigan as a result of the Coronavirus State and Local Fiscal Recovery Fund, to help hospitals with workforce recruitment, retention and training. UMH also received reimbursement through the Federal Emergency Management Agency's ("FEMA") Public Assistance Program for eligible costs associated with the ongoing COVID-19 recovery efforts and vaccine initiatives. Revenue recognized from FEMA funding totaled $367,000 in 2023.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The most significant areas that require management estimates relate to valuation of accounts receivable and contractual arrangements with third-party payers and reimbursement.

Note 2—Cash Equivalents and Investments

Cash equivalents and investments at June 30, 2023 are summarized as follows (in thousands):

Cash equivalents – University Investment Pool	$ 378,390
Investments:	
University Endowment Fund	2,016,326
Other investments	37
Total investments	2,016,363
Total cash equivalents and investments	$ 2,394,753

The University maintains centralized management for substantially all cash equivalents and investments of UMH. Cash reserves and relatively short duration assets are invested in the UIP, while longer term assets held in the UEF are invested in the University's Long Term Portfolio. The UIP is principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. The longer investment horizon of the Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets.

The UEF consists of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain intact and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by UMH for long term investment purposes, but are not limited by donor stipulations requiring UMH to preserve principal in perpetuity. Substantially all of the amounts invested by UMH in this pool are funds functioning as endowment.

The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio, in which the UEF invests, sets general targets for both equities and fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories. At June 30, 2023, the Long Term Portfolio consisted of cash equivalents (3 percent), fixed income securities (5 percent), U.S. and non-U.S. equities (4 percent), commingled funds (14 percent) and nonmarketable alternative investments (74 percent).

Note 2—Cash Equivalents and Investments—Continued

Commingled (pooled) funds held in the Long Term Portfolio include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Commingled funds are primarily invested in non-U.S./global equities and absolute return strategies, but also include exposure to domestic fixed income and equity securities. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy; however, these investments are structured to limit the University's risk exposure to the amount of invested capital.

Nonmarketable alternative investments held in the Long Term Portfolio consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. These limited partnerships include venture capital, private equity, real estate, natural resources and absolute return strategies. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner.

The Long Term Portfolio holds investments denominated in foreign currencies and forward foreign exchange contracts used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies. Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Long Term Portfolio's non-U.S. dollar exposure amounted to 7 percent of the portfolio at June 30, 2023.

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

Note 2—Cash Equivalents and Investments—Continued

UMH receives quarterly distributions from the UEF based on the University's endowment spending rule. The annual distribution rate is 4.5 percent of the one-quarter lagged seven year moving average fair value of fund shares. To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Monthly distributions are also made from the UIP to UMH based on the 90-day U.S. Treasury Bill rate, up to a maximum value of 2.5 percent. The University's costs to administer and grow the UEF and UIP are funded by investment returns.

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

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

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

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

Note 2—Cash Equivalents and Investments—Continued

A significant portion of the underlying investments of the University's commingled pools include nonmarketable alternative investments and certain commingled funds described earlier in this note that are priced by managers using net asset value. The proprietary valuation techniques and unobservable pricing assumptions used by these managers to estimate fair value may have a significant impact on the resulting fair value determination of these investments. However, UMH uses Level 2 inputs to measure the fair value of its investments in the University's commingled pools described in Note 1 and within this note, since shares may be purchased or sold subject to holding and notice requirements at the fair market values determined by the University.

Note 3—Pledges Receivable

The composition of pledges receivable at June 30, 2023 is summarized as follows (in thousands):

Gift pledges outstanding:	
Capital	$ 43,100
Operations	5,321
	48,421
Less:	
Allowance for uncollectible pledges	987
Unamortized discount to present value	1,730
Total pledges receivable, net	45,704
Less current portion	12,141
	$ 33,563

Payments on pledges receivable at June 30, 2023 are expected to be received in the following years ended June 30 (in thousands):

2024	$ 12,846
2025	12,824
2026	12,748
2027	10,003
	$ 48,421

Note 4—Capital Assets

Capital assets activity for the year ended June 30, 2023 is summarized as follows (in thousands):

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

The increase in construction in progress of $227,001,000 in 2023 represents the amount of capital expenditures for new projects of $363,267,000 net of capital assets placed in service of $136,266,000. Retirements of $108,391,000 in 2023, are primarily related to fully depleted clinical equipment and information technology assets no longer in service.

Note 5—Long-term Debt

Long-term debt at June 30, 2023 is summarized as follows (in thousands):

Payable to the University:	
2022, 4.50% through 2043	$ 58,000
unamortized discount	(2,600)
2020, 3.00% through 2052	412,955
unamortized premium	26,212
2020, 4.05% to 5.05% through 2050	71,000
unamortized premium	15,407
2018, 4.05% to 5.05% through 2048	44,195
unamortized premium	4,888
2017, 4.05% to 5.05% through 2047	93,840
unamortized premium	10,816
2012, 4.71% through 2025	30,535
2012, 3.23% to 3.25% through 2030	39,075
2012, 2.60% to 3.25% through 2033	57,660
2012, 3.65% through 2038	64,940
2012, 2.00% to 5.00% through 2042	53,875
2012, 2.00% to 5.00% through 2032	23,745
unamortized premium	912
2010, 0.68% to 5.00% through 2041	107,095
unamortized discount	(266)
2010, 3.20% to 3.64% through 2040	141,470
unamortized discount	(338)
2010, 2.00% to 5.00% through 2027	52,320
unamortized premium	1,027
2009, 2.00% to 5.00% through 2039	114,595
unamortized premium	394
	1,421,752
Less current portion	58,558
	$ 1,363,194

Note 5—Long-term Debt—Continued

Long-term debt activity for the year ended June 30, 2023 is summarized as follows (in thousands):

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

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

Principal maturities, including interest on debt obligations, based on scheduled bond maturities for the next five years and in subsequent five-year periods are as follows (in thousands):

	Principal	Interest	Total
2024	$ 54,240	$ 51,018	$ 105,258
2025	56,540	48,835	105,375
2026	55,550	46,982	102,532
2027	61,070	44,605	105,675
2028	63,735	42,379	106,114
2029-2033	292,855	180,325	473,180
2034-2038	326,640	121,729	448,369
2039-2043	222,955	63,716	286,671
2044-2048	143,040	30,138	173,178
2049-2053	88,675	6,750	95,425
	1,365,300	$ 636,477	$ 2,001,777
Plus unamortized premiums, net	56,452		
	$ 1,421,752		

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

Note 6—Third-Party Payment and Reimbursement

A substantial portion of UMH's revenue is received under contractual arrangements with Medicare, Medicaid and Blue Cross and Blue Shield of Michigan. Payments from these third-party payers are based on a combination of prospectively determined rates and retrospectively settled amounts. Many of the payment calculations require the use of estimates. Final settlement of the amount due to UMH or payable to Medicare and Medicaid is subject to the laws and regulations governing the federal and state programs and post-payment audits, which may result in further adjustments by the payers. Management believes that reasonable provisions for anticipated adjustments have been made in the financial statements.

Certain adjustments made by third parties in previously settled cost reports are being appealed. Recoveries are recognized in the financial statements as adjustments to prior year settlements at the time the appeals are resolved. Settlement balances are reported net, along with any reserve balances, as third-party settlements and reserves in the statement of net position. The significant settlements from prior periods that resolved in 2023 were related to multiple fiscal years for government payers and resulted in amounts received of $40,565,000. This amount included $38,186,000 of graduate medical education appeal amounts attributable to Medicare fiscal years 2012 through 2020.

UMH also provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since UMH does not pursue collection of amounts once determined to qualify as charity care, they are not reported as revenues in the accompanying statement of revenues, expenses and changes in net position. Patient charges classified and written off under UMH's charity care policy for the year ended June 30, 2023 were $71,821,000.

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

Medicare	27.7%
Medicaid	12.1%
Blue Cross	38.9%
Other	21.3%

Note 7—Transactions with Other University of Michigan Units

UMH has amounts receivable from and payable to other University units at June 30, 2023 as follows (in thousands):

Amounts receivable from other University units:	
UMH-West	$ 58,597
Other	$ 1,083
Amounts payable to other University units:	
Medical School	$ 6,400
Michigan Medicine Administrative Services	$ 14,836

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

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

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

UMH had various other transactions with University units for the year ended June 30, 2023 which are summarized as follows (in thousands):

Operating (expenses) revenues:	
Clinical services provided by the Medical School	$ (801,524)
Amounts received from the Medical School to reimburse UMH for expenses related to Medical School revenue and operating support, net	1,168
Services provided to other University units	150
Services provided by other University units	(71,357)
Insurance premium payments	(71,933)
Services provided by Michigan Medicine Administrative Services	(338,351)
Equity transfers to:	
Medical School academic and other non-patient care purposes, net	(185,569)
Other University units, net	(14,057)

UMH's operations are dependent on services received from the Medical School and the University's Executive Vice President for Medical Affairs ("EVPMA") office, including the majority of the physician services that are provided to UMH patients. Accordingly, UMH recognizes expense for these services in operating expenses. UMH incurred $801,524,000 of expense for services provided by the Medical School in 2023. UMH is also reimbursed for the salary cost of UMH employees that perform professional services related to the Medical School. These reimbursements are recorded as a reduction to compensation and benefits expense on the statement of revenues, expenses and changes in net position, and totaled $1,168,000 in 2023.

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

In the course of normal operations, UMH both provides and receives services from other University units. Services received include benefits administration, grounds maintenance, parking services, information technology, security services, payroll and human resources. UMH included $71,357,000 in operating expenses for these services during 2023. Services provided by UMH include those of University Occupational Health Services and risk management administration. Various University units reimbursed UMH $150,000 in 2023 in connection with these services, which is included as a reduction to total operating expenses.

Operating expenses include UMH's share of the initial premiums charged by the University's captive insurance provider, The Veritas Insurance Corporation ("Veritas"), for liability, property and casualty insurance, including worker's compensation. The premiums are based on the present value, using a discount rate of 5 percent, of the ultimate losses as estimated by an independent actuary. Medical Professional Liability premiums and premium credits are held solely by UMH. Liabilities for excess ultimate losses beyond initial coverage provided by Veritas are reflected within the statements of UMH.

Certain UMH administrative functions are performed by a shared Michigan Medicine Administrative Services environment that combines similar functions from the Medical School and EVPMA office. Functions that are centralized include finance, legal, development, information technology and other services that can be provided from a single office to each part of the Michigan Medicine organization in a cost-effective manner. Costs incurred by the Michigan Medicine Administrative Services environment are allocated to each participating organization based upon effort expended for each function. In 2023, $338,351,000 of operating expense was allocated to UMH for the performance of these functions.

UMH conducts equity transfers to and receives equity transfers from other University units. These equity transfers are generally made in support of the research and academic missions and are made at the discretion of UMH leadership.

In 2016, a ten-year internal arrangement between UMH and the Medical School was established to provide financial support for strategic investments and to increase faculty engagement and integration within the clinical mission. In 2017, the Medical School transferred funds of $129,733,000 to UMH, which were invested in the University's Long Term Portfolio. In exchange for this investment, UMH distributes transfers back to the Medical School equal to the University's endowment distribution rate applied to the investment on an annual basis, with additional distributions occurring based on various metrics related to the financial performance of the clinical mission. Under this arrangement, UMH transferred $12,177,000 to the Medical School during 2023.

Note 8—Postemployment Benefits

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

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

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

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

The University's reported liability for postemployment benefits obligations was calculated using the entry age normal level percent of pay method. UMH's annual postemployment benefits expense and liability represents an allocation of UMH's relative share of the University's expense and liability, based on the method in which the retiree benefits are funded. The funding method is based upon a percentage of salary dollars of active employees who qualify for retiree benefits.

Note 8—Postemployment Benefits—Continued

Changes in the reported total liability for UMH's postemployment benefits obligations for the year ended June 30, 2023 are summarized as follows (in thousands):

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

At June 30, 2023, deferred outflows reported in the statement of net position include benefit payments made after the measurement date of $21,942,000. UMH has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. UMH's reported postemployment benefits obligations at June 30, 2023 as a percentage of covered payroll of $1,645,215,000 were 46 percent.

Significant actuarial assumptions used at the June 30, 2022 measurement date are as follows:

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

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

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

Note 9—Retirement Plan

UMH participates in the University's retirement plan, a defined contribution retirement plan through TIAA and Fidelity Management Trust Company ("FMTC") mutual funds. All staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA, or accounts with FMTC, and are fully vested.

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

UMH contributions	$ 128,544
Employee contributions	$ 68,055
Payroll covered under plan	$ 1,645,215
Total payroll	$ 1,686,059

Note 10—Commitments and Contingencies

UMH has entered into leases for certain space and equipment, as well as subscription-based information technology arrangements, which expire at various dates through 2043. 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
2024	$ 27,724	$ 3,932	$ 31,656
2025	27,101	3,429	30,530
2026	17,680	2,950	20,630
2027	12,315	2,641	14,956
2028	8,918	2,414	11,332
2029-2033	30,667	9,329	39,996
2034-2038	25,422	4,121	29,543
2039-2043	6,189	153	6,342
	$ 156,016	$ 28,969	$ 184,985

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

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

THE VERITAS INSURANCE CORPORATION

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 and 2022
with
REPORT OF INDEPENDENT AUDITORS

THE VERITAS INSURANCE CORPORATION

June 30, 2023 and 2022

Page(s)

Report of Independent Auditors

To the Board of Directors of The Veritas Insurance Corporation

Opinion

We have audited the accompanying financial statements of The Veritas Insurance Corporation (the "Corporation"), a component unit of the University of Michigan, which comprise the statement of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, including the related notes, which collectively comprise the Corporation's basic financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net position of The Veritas Insurance Corporation as of June 30, 2023 and 2022, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Boston, Massachusetts

October 19, 2023

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position of The Veritas Insurance Corporation (the "Corporation") at June 30, 2023 and 2022 and its activities for the two fiscal years ended June 30, 2023. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Corporation, a wholly-owned subsidiary of the University of Michigan (the "University"), provides insurance coverage to the University. The University is the sole shareholder of the Corporation. As part of the University, the assets, liabilities, revenues, expenses and changes in net position of the Corporation are included in the consolidated financial statements of the University.

The Corporation provides direct insurance for medical professional liability, property damage, general liability (including hospital general liability), educators' legal liability (including directors' and officers' liability) and cyber liability. Indemnification is also provided for the University's workers' compensation and auto liability coverages.

The Corporation's insurance policies generally feature aggregate loss limits. For policies incepted in 2023 and 2022, the annual aggregate loss limits were $70.0 million for medical professional liability, $10.0 million for cyber liability and $7.5 million for property damage, while general liability, educators' legal liability and auto liability coverages were limited by a combined annual aggregate loss limit of $12.0 million.

The Corporation writes, on a direct basis, basket aggregate umbrella liability coverage with an annual aggregate limit of $20.0 million. Through November 2021, a portion of this was reinsured by Munich Reinsurance America, Inc. In addition, through July 2022, the Corporation wrote, on a direct basis, additional excess liability coverage for medical professional liability on a claims made basis. This policy was fully reinsured by multiple insurance providers.

Financial Highlights

For the year ended June 30, 2023, the Corporation's net position increased by $17.4 million to $141.0 million. Operating activities increased net position by $4.1 million, while net investment income increased net position by $13.3 million.

In accordance with the Corporation's net position distribution policy, capital and surplus were not sufficient to provide premium credits in 2023.

Using the Financial Statements

The financial statements report information about the Corporation as a whole using accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board, which have also been used in the preparation of the Annual Statement filed with the Vermont Department of Financial Regulation. Financial statements include the Statement of Net Position, which provides information about the Corporation's financial condition at the end of the fiscal year; the Statement of Revenues, Expenses and Changes in Net Position, which presents information regarding the results of operations and changes in net position for the year; the Statement of Cash Flows, which displays information pertaining to cash receipts and disbursements during the year; and the notes to the financial statements. These statements collectively present the financial condition of the Corporation at June 30, 2023 and 2022, and its revenues, expenses and changes in net position and cash flows for the years then ended.

Statement of Net Position

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

	2023	**2022** (in millions)	**2021**
Cash equivalents and investments	$ 387.8	$ 360.4	$ 316.0
Other assets	21.0	142.9	51.4
Total assets	408.8	503.3	367.4
Reserves for losses and loss adjustment expenses	259.3	371.2	267.7
Other liabilities	8.5	8.5	5.6
Total liabilities	267.8	379.7	273.3
Unrestricted net position	$ 141.0	$ 123.6	$ 94.1

The assets of the Corporation totaled $408.8 million at June 30, 2023, a decrease of $94.5 million as compared to the prior year, driven primarily by losses receivable from the University that were received in 2023, offset by an increase in investments.

The major components of assets at June 30, 2023 were $250,000 in cash equivalents, $192.0 million in the University's Daily and Monthly Portfolios and $195.5 million in the University's Long Term Portfolio. The major components of assets at June 30, 2022 were $250,000 in cash equivalents, $194.3 million in the University's Daily and Monthly Portfolios and $165.9 million in the University's Long Term Portfolio. The asset allocations for both 2023 and 2022 are consistent with the asset allocation target ranges adopted by the Corporation's Board of Directors (the "Board").

The major components of liabilities are reserves for losses and loss adjustment expenses ("LAE"). At June 30, 2023, reserves for losses and LAE totaled $259.3 million, a decrease of $111.9 million, or 30.2 percent from the prior year. Of this amount, $106.3 million related to reserves on known claims and $153.0 million related to incurred but not reported reserves. The Corporation's reserves for losses and LAE are based upon management's best estimates, claim adjusters' determinations and actuarial valuations, discounted at a rate of 5 percent for both 2023 and 2022. The decrease in reserves for losses and LAE is primarily due to higher payout of claims compared to incurred losses in 2023.

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

	2023	2022 (in millions)	2021
Reserves for losses and LAE, beginning of year	$ 371.2	$ 267.7	$ 223.8
Less receivables from the University for unpaid losses	140.3	43.2	
Less reinsurance recoverable on unpaid losses	2.1	1.8	5.3
Net reserves for losses and LAE, beginning of year	228.8	222.7	218.5
Incurred losses and LAE related to:			
Current year	70.3	76.3	62.0
Prior years	4.3	(24.4)	(12.6)
Total incurred losses and LAE	74.6	51.9	49.4
Total paid losses and LAE	(63.8)	(45.8)	(45.2)
Net reserves for losses and LAE, end of year	239.6	228.8	222.7
Receivables from the University for unpaid losses	18.5	140.3	43.2
Reinsurance recoverable on unpaid losses	1.2	2.1	1.8
Reserves for losses and LAE, end of year	$ 259.3	$ 371.2	$ 267.7

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

	2023	2022	2021
Medical professional liability	79.6%	70.6%	78.2%
Workers' compensation	5.7	4.1	5.5
Educators' legal liability	5.3	3.5	4.4
Property damage	1.5	1.3	1.9
Basket aggregate liability and excess insurance	0.8	0.5	0.6
Auto liability	0.4	0.2	0.4
General liability	6.2	19.5	8.9
Hospital premises liability	0.1	0.1	0.1
Cyber liability	0.4	0.2	
	100.0%	100.0%	100.0%

The Corporation may return funds to the University, its policyholder, for favorable loss experience and investment returns in the form of premium credits. The Board declares premium credits based on unrestricted net position in excess of adopted goals. One-fourth of the excess net position can be distributed as premium credits subject to an annual review. The premium credits are accrued in the financial statements during the year in which they are declared and paid to the University in the subsequent year's premium renewals as credits. No premium credits were declared during the years ended June 30, 2023 and 2022.

Net position is unrestricted and totaled $141.0 million and $123.6 million at June 30, 2023 and 2022, respectively. This is in excess of the $250,000 minimum unimpaired paid-in capital and surplus required by the state of Vermont. The increase in 2023 is due primarily to investment income of $13.3 million.

The Corporation's net position distribution policy includes the potential for premium credits and allows for a one-time dividend when audited balances of net position are such that the reserve to net position ratio is lower than 1:1. All dividends are subject to approval by the Vermont Department of Financial Regulation.

Statement of Revenues, Expenses and Changes in Net Position

The Corporation's revenues, expenses and changes in net position for the years ended June 30 are summarized as follows:

	2023	2022 (in millions)	2021
Direct written premiums	$ 79.4	$ 80.0	$ 78.0
Change in unearned premiums	(0.3)	(0.5)	(0.7)
Ceded written premiums expired		(1.2)	(1.7)
Total operating revenues	79.1	78.3	75.6
Losses and loss adjustment expenses	74.6	51.9	49.4
Other operating expenses	0.4	0.4	0.5
Total operating expenses	75.0	52.3	49.9
Operating income	4.1	26.0	25.7
Nonoperating revenues	13.3	3.5	57.7
Increase in net position	$ 17.4	$ 29.5	$ 83.4

The Corporation's operating revenues totaled $79.1 million in 2023, compared to $78.3 million in 2022, an increase of $0.8 million, or 1.0 percent. The direct written premium contributions from the University are based on actuarially projected needs using loss data valued six to ten months prior to the inception of the policy. This loss data is adjusted for loss trend and exposure changes which include a factor for inflation. Based on these projections, the direct written premiums needed for 2023 were $0.6 million lower than 2022, with the decrease being driven primarily by elimination of the excess medical professional liability policy in 2023.

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

	2023	**2022**	**2021**
Medical professional liability	70.2%	71.8%	75.2%
Workers' compensation	5.6	6.1	6.8
Educators' legal liability	8.0	6.7	5.9
Property damage	8.1	7.9	7.8
Basket aggregate liability and excess insurance	3.3	3.0	2.0
Auto liability	0.6	0.6	0.7
General liability	1.9	1.8	1.5
Hospital premises liability	0.2	0.2	0.1
Cyber liability	2.1	1.9	
	100.0%	100.0%	100.0%

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

	2023	**2022** (in millions)	**2021**
Incurred losses and LAE related to:			
Current year	$ 70.3	$ 76.3	$ 62.0
Prior years	4.3	(24.4)	(12.6)
Total incurred losses and LAE	$ 74.6	$ 51.9	$ 49.4

In 2023, total incurred losses and LAE increased $22.7 million, or 43.7 percent, to $74.6 million. The increase is primarily due to a combination of changes in exposures and severity resulting in current policy year incurred losses of $70.3 million and prior policy year unfavorable claims development of $4.3 million.

Management's Discussion and Analysis (Unaudited)—Continued

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

In 2022, favorable prior year loss development totaling $24.4 million is mainly attributable to medical professional liability. For medical professional liability, prior years incurred losses decreased by $28.5 million mainly due to the lower claims emergence than actuarially expected for most policy years. General liability losses decreased by $0.9 million due to lower claims emergence than actuarially expected for the most recent policy years. educators' legal liability losses increased by $0.5 million due to unfavorable development greater than actuarially expected for policy year 2020/21. Workers compensation losses increased by $1.2 million due to unfavorable development greater than actuarially expected for policy year 2020/21. Basket Aggregate losses increased by $2.9 million due to unfavorable development greater than actuarially expected for policy year 2019/20. Other lines of business had unfavorable claims emergence of $0.4 million.

Nonoperating revenues, representing net investment income, increased $9.8 million to $13.3 million in 2023, as compared to $3.5 million in 2022. This increase was primarily a result of higher investment returns within the University's Daily and Monthly Portfolios, and the University's Long Term Portfolio compared to the prior year.

Statement of Cash Flows

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

	2023	**2022** (in millions)	**2021**
Cash received from operations	$ 79.4	$ 85.5	$ 78.0
Cash expended for operations	(65.4)	(44.5)	(59.6)
Net cash provided by operating activities	14.0	41.0	18.4
Net cash used in investing activities	(14.0)	(41.0)	(18.4)
Net change in cash equivalents	$ -	$ -	$ -

The primary source of cash received from operations is the collection of premiums. Premiums collected totaled $79.4 million and $80.0 million in 2023 and 2022 , respectively. The $6.1 million decrease in cash received from operations in 2023 is primarily due to a decrease in reinsurance recovery of $3.5 million, and a $0.6 million decrease in premiums collected.

Cash expended for operating activities, which primarily represents payment of losses and LAE, ceded reinsurance premiums and other underwriting expenses, totaled $65.4 million in 2023, as compared to $44.5 million in 2022. The increase in 2023 is due to increased payments for losses and LAE in the current year.

Cash used in investing activities, which primarily represents the purchase, sale or maturity of investments, totaled $14.0 million in 2023, as compared to $41.0 million in 2022. The decrease in 2023 is due to $155.2 million of investment purchases offset by $141.2 million of sales and maturities.

Economic Factors That May Affect the Future

The Corporation faces several factors which directly or indirectly affect its financial position and operations. State and federal regulations relating to insurance liabilities could change. In addition, the insurance marketplace is competitive and the Corporation's ability to place coverage in the insurance market and purchase reinsurance may change.

The Corporation acquires certain reinsurance and excess insurance coverage in the commercial market. In recent years, the Corporation has been able to access adequate levels of commercial reinsurance and excess insurance at moderate premium costs. However, insurance industry results due to underwriting performance, investment returns, and major accidents and disasters could impact the cost of, and the Corporation's value assessment of, commercial risk transfer options in the future.

The Corporation employs an investment strategy that balances asset allocation between current and noncurrent investments. Current assets are invested in the University's Daily and Monthly Portfolios, while noncurrent assets are invested in the University's Long Term Portfolio. The strategy seeks to maximize total return at the appropriate level of risk over a time horizon commensurate with payment patterns of the Corporation's loss retentions. However, investment results looking forward are subject to future market conditions and volatility.

The Corporation discounts reserves for losses based on expected investment returns and actuarially determined payment patterns. A discount rate of 5 percent was used for 2023, 2022 and 2021. This estimate may change based on periodic assessments of investment strategies, actual returns and future market conditions. Each year the discount rate is reviewed with the Board and the University's Treasurer's Office.

THE VERITAS INSURANCE CORPORATION

Statement of Net Position

	June 30, 2023	June 30, 2022
Assets		
Current Assets:		
Cash equivalents	$ 250,000	$ 250,000
Investments on deposit with the University	192,015,298	194,260,598
Losses receivable from the University	19,798,799	140,741,419
Prepaid premium tax	5,831	9,695
Total Current Assets	212,069,928	335,261,712
Noncurrent Assets:		
Investments on deposit with the University	195,493,294	165,870,155
Reinsurance recoverable on unpaid losses	1,224,991	2,100,096
Total Noncurrent Assets	196,718,285	167,970,251
Total Assets	**408,788,213**	**503,231,963**
Liabilities		
Current Liabilities:		
Reserves for losses and loss adjustment expenses	86,720,843	201,826,029
Unearned premium reserves	5,179,366	4,898,227
Losses payable and accrued liabilities	3,398,505	3,537,406
Total Current Liabilities	95,298,714	210,261,662
Noncurrent Liabilities:		
Reserves for losses and loss adjustment expenses	172,537,882	169,417,509
Total Liabilities	**267,836,596**	**379,679,171**
Net Position		
Unrestricted	140,951,617	123,552,792
Total Net Position	**$ 140,951,617**	**$ 123,552,792**

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

THE VERITAS INSURANCE CORPORATION

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2023	2022
Operating Revenues		
Gross direct written premiums	$ 79,389,103	$ 79,984,346
Change in unearned premiums	(281,139)	(470,445)
Total direct written premiums earned	79,107,964	79,513,901
Ceded written premiums		(832,500)
Change in prepaid reinsurance		(388,781)
Total ceded written premiums expired	-	(1,221,281)
Net earned premiums	79,107,964	78,292,620
Total Operating Revenues	**79,107,964**	**78,292,620**
Operating Expenses		
Losses and loss adjustment expenses	74,647,703	51,909,849
Management fees	75,938	66,500
Premium tax	195,131	170,643
Other expenses	121,478	119,331
Total Operating Expenses	**75,040,250**	**52,266,323**
Operating Income	4,067,714	26,026,297
Nonoperating Revenues		
Net investment income	13,331,111	3,444,299
Total Nonoperating Revenues	**13,331,111**	**3,444,299**
Increase in Net Position	17,398,825	29,470,596
Net Position, Beginning of Year	123,552,792	94,082,196
Net Position, End of Year	**$ 140,951,617**	**$ 123,552,792**

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

THE VERITAS INSURANCE CORPORATION

Statement of Cash Flows

	Year Ended June 30, 2023	2022
Cash Flows from Operating Activities		
Insurance premiums collected, net	$ 79,389,103	$ 79,984,346
Payments for losses and loss adjustment expenses	(64,090,513)	(43,279,402)
(Payments) collections for losses recoverable	(863,180)	5,469,629
Payments for net ceded reinsurance premiums		(832,500)
Payments for other expenses	(197,415)	(189,630)
Payments for premium tax	(191,267)	(200,000)
Net Cash Provided by Operating Activities	**14,046,728**	**40,952,443**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	141,210,370	139,990,914
Purchases of investments	(155,265,018)	(180,942,894)
Interest, dividends and fees, net	7,920	(463)
Net Cash Used in Investing Activities	**(14,046,728)**	**(40,952,443)**
Net Change in Cash Equivalents	-	-
Cash Equivalents, Beginning of Year	250,000	250,000
Cash Equivalents, End of Year	**$ 250,000**	**$ 250,000**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 4,067,714	$ 26,026,297
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Losses receivable from the University	120,942,620	(97,500,823)
Prepaid premium tax	3,864	(857)
Prepaid reinsurance premiums		388,781
Reinsurance recoverable on paid losses		5,916,956
Reinsurance recoverable on unpaid losses	875,105	(256,528)
Reserves for losses and loss adjustment expenses	(111,984,813)	103,514,430
Unearned premium reserves	281,139	470,445
Premium tax payable		(28,500)
Losses payable and accrued liabilities	(138,901)	2,422,242
Net Cash Provided by Operating Activities	**$ 14,046,728**	**$ 40,952,443**

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

Note 1—Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: The Veritas Insurance Corporation (the "Corporation"), domiciled in Vermont, is a wholly-owned captive insurance subsidiary of the University of Michigan (the "University"). The University is the sole shareholder of the Corporation. The Corporation is considered to be an integral part of the University. As a part of the University, the assets, liabilities, revenues, expenses and changes in net position of the Corporation are included in the consolidated financial statements of the University. As a wholly-owned subsidiary of the University, the Corporation is exempt from federal income taxes under the provisions of Sections 501(c)(3) and 115(a) of the Internal Revenue Code.

The Corporation provides direct insurance for medical professional liability, property damage, general liability (including hospital general liability), educators' legal liability (including directors' and officers' liability) and cyber liability. Indemnification is also provided for the University's workers' compensation and auto liability coverages.

The Corporation's insurance policies generally feature aggregate loss limits. For policies incepted in 2023 and 2022, the annual aggregate loss limits were $70,000,000 for medical professional liability, $10,000,000 for cyber liability and $7,500,000 for property damage, while general liability, educators' legal liability and auto liability coverages were limited by a combined annual aggregate loss limit of $12,000,000.

The Corporation writes, on a direct basis, basket aggregate umbrella liability coverage with annual aggregate limits of $20,000,000. Through November 2021, a portion of this was reinsured by Munich Reinsurance America, Inc. In addition, through July 2022, the Corporation wrote, on a direct basis, additional excess liability coverage for medical professional liability on a claims made basis. This policy was fully reinsured by multiple insurance providers. For insurance written and reinsurance ceded with a policy term different from the financial reporting period, unearned premium and prepaid reinsurance is recognized for the unexpired terms of the policies in force.

All coverages are provided on an occurrence basis with the exception of educators' legal liability, cyber liability and excess medical professional liability, which are provided on a claims made basis.

The Corporation maintains $250,000 in cash equivalents to meet the state of Vermont's minimum unimpaired paid-in capital and surplus requirement for a single parent captive insurance company.

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

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

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

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

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

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

Investments in nonmarketable limited partnerships, held indirectly through participation in the Long Term Portfolio, are generally carried at fair value provided by the management of the investment partnerships at June 30, 2023 and 2022. As these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for these investments existed.

Derivative instruments, such as financial futures, forward foreign exchange contracts and interest rate swaps held indirectly through participation in the Daily and Monthly Portfolios and Long Term Portfolio, are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. Investments in the Long Term Portfolio denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments denominated in foreign currencies and related income are translated at the spot exchange rate on the transaction dates.

The reserves for losses and loss adjustment expenses ("LAE") are reported gross of reinsurance and include case basis estimates of reported losses, plus supplemental amounts related to incurred but not reported losses. The reserves are based upon management's best estimate, which includes claim adjusters' valuations and actuarial determinations, and are discounted to present value. The interest rate used to discount reserves at both June 30, 2023 and 2022 was 5 percent, which reflects management's best estimate of the total portfolio rate of return. Future adjustments to these amounts resulting from the continuous review process, as well as differences between estimates and ultimate losses, will be reflected in the statement of revenues, expenses and changes in net position when such adjustments become known.

In the normal course of business, the Corporation seeks to reduce the losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Ceded written premiums are recognized pro-rata over the term of the underlying reinsurance policy. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Amounts recoverable from reinsurers for losses paid by the Corporation as of the statement of net position date are recorded as a current asset. Estimated amounts recoverable from reinsurers related to noncurrent reserves for losses are recorded as a noncurrent asset. The Corporation is contingently liable should the reinsurers become unable to meet their contractual obligations.

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

The Corporation's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net position are those that generally result from the exchange of premiums and payment of claims.

Premiums are earned and reinsurance premiums are expensed on a monthly pro-rata basis over the terms of the underlying insurance policies. Unearned premium reserves and prepaid reinsurance premiums represent that portion of premiums written or ceded applicable to the unexpired terms of the policies in force.

Premium taxes are expensed over the terms of the policies to which they relate. Accordingly, prepaid premium tax is established for the portion of those premium taxes applicable to the unexpired period of the policies in force.

The Corporation distributes, in the form of returned premium credits, unrestricted net position in excess of adopted goals. One-fourth of the excess net position can be distributed as premium credits subject to an annual review. The distribution policy includes guidelines for declaring dividends, which allows for a one-time dividend when audited balances of net position are such that the reserve to net position ratio is lower than 1:1. All premium credits and dividend declarations are at the discretion of the Board of Directors (the "Board") and dividends are subject to prior approval from the Vermont Department of Financial Regulation. There were no premium credits or dividends declared in 2023 or 2022.

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

Note 2—Cash Equivalents and Investments

The Board has adopted an asset allocation target range of 45-55 percent to cash equivalents and fixed income securities and 45-55 percent to equity-oriented strategies, with $250,000 to be maintained in cash equivalents to meet the state of Vermont's minimum unimpaired paid-in capital and surplus requirement.

Cash equivalents and investments of the Corporation are invested in the University's centrally managed investment pools. Cash reserves and relatively short duration assets are invested in the University's Daily and Monthly Portfolios, while longer term assets are invested in the University's Long Term Portfolio. The Daily and Monthly Portfolios are principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. The longer investment horizon of the Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets.

The Corporation's cash equivalents and investments on deposit with the University at June 30, 2023 and 2022 are summarized as follows:

	Cost Basis	Unrealized Gains	Fair Value
2023			
Cash equivalents	$ 250,000		$ 250,000
Daily and Monthly Portfolios	189,541,574	$ 2,473,724	192,015,298
Long Term Portfolio	165,743,191	29,750,103	195,493,294
	$ 355,534,765	$ 32,223,827	$ 387,758,592
2022			
Cash equivalents	$ 250,000		$ 250,000
Daily and Monthly Portfolios	191,101,458	$ 3,159,140	194,260,598
Long Term Portfolio	134,327,586	31,542,569	165,870,155
	$ 325,679,044	$ 34,701,709	$ 360,380,753

Note 2—Cash Equivalents and Investments—Continued

At June 30, 2023 and 2022, the Daily and Monthly Portfolios were comprised of 10 percent and 15 percent money market securities, 71 percent and 68 percent fixed income securities and the remaining 19 percent and 17 percent in fixed income oriented externally managed commingled funds, limited partnerships and other investments providing additional diversification benefits to the pools. Money market securities include mutual funds, overnight pooled vehicles managed by the University's custodian and short term highly liquid securities generally maturing in 90 days or less. Of the fixed income securities, 98 percent were rated investment grade, and 66 percent consisted of U.S. Treasury and government agencies and non-U.S. government securities rated AAA/Aaa at June 30, 2023, compared to 97 percent and 67 percent, respectively, at June 30, 2022. Fixed income securities considered investment grade are those rated at least BBB and Baa by two nationally recognized statistical rating organizations, S&P Global and Moody's.

Effective duration is a commonly used measure of interest rate risk, incorporating a security's yield, coupon, final maturity, call features and other embedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. This measure indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The weighted average effective duration of the fixed income securities in the Daily and Monthly Portfolios was 1.8 years and 1.3 years at June 30, 2023 and 2022, respectively.

The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio sets general targets for both equities and fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories. At June 30, 2023 and 2022, the Long Term Portfolio consisted of cash equivalents (3 percent and 2 percent), fixed income securities (5 percent and 6 percent), U.S. and non-U.S. equities (4 percent and 3 percent), commingled funds (14 percent and 15 percent) and nonmarketable alternative investments (74 percent and 74 percent).

Commingled (pooled) funds held in the Long Term Portfolio and Monthly Portfolio include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Commingled funds are primarily invested in non-U.S./global equities and absolute return strategies, but also include exposure to domestic fixed income and equity securities. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy; however, these investments are structured to limit the University's risk exposure to the amount of invested capital.

Note 2—Cash Equivalents and Investments—Continued

Nonmarketable alternative investments held in the Long Term Portfolio and Monthly Portfolio consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. These limited partnerships include venture capital, private equity, real estate, natural resources and absolute return strategies. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner.

The Long Term Portfolio holds investments denominated in foreign currencies and forward foreign exchange contracts used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies. Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Long Term Portfolio's non-U.S. dollar exposure amounted to 7 and 8 percent of the portfolio at June 30, 2023 and 2022, respectively.

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

Note 2—Cash Equivalents and Investments—Continued

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

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

A significant portion of the underlying investments of the University's commingled pools include nonmarketable alternative investments and certain commingled funds described earlier in this note that are priced by managers using net asset value. The proprietary valuation techniques and unobservable pricing assumptions used by these managers to estimate fair value may have a significant impact on the resulting fair value determination of these investments. However, the Corporation uses Level 2 inputs to measure the fair value of its investments in the University's commingled pools, since shares may be purchased or sold subject to holding and notice requirements at the fair market values determined by the University.

Note 3—Reserves for Losses and Loss Adjustment Expenses

Activity in the reserves for losses and LAE for the years ended June 30, 2023 and 2022 is summarized as follows:

	2023	2022
Reserves for losses and LAE, beginning of year	$ 371,243,538	$ 267,729,108
Less receivables from the University for unpaid losses	140,291,004	43,237,502
Less reinsurance recoverable on unpaid losses	2,100,096	1,843,568
Net reserves for losses and LAE, beginning of year	228,852,438	222,648,038
Add incurred losses and LAE related to:		
Current year	70,354,706	76,328,589
Prior years	4,292,997	(24,418,740)
Total incurred losses and LAE	74,647,703	51,909,849
Less paid losses and LAE related to:		
Current year	6,921,520	10,973,029
Prior years	57,030,091	34,732,420
Total paid losses and LAE	63,951,611	45,705,449
Net reserves for losses and LAE, end of year	239,548,534	228,852,438
Receivables from the University for unpaid losses	18,485,200	140,291,004
Reinsurance recoverable on unpaid losses	1,224,991	2,100,096
Reserves for losses and LAE, end of year	259,258,725	371,243,538
Less current portion	86,720,843	201,826,029
	$ 172,537,882	$ 169,417,509

The liabilities for losses and LAE reserves are determined by actuarial estimates of ultimate reported losses based upon the Corporation's historical and industry loss experience.

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

The payment pattern utilized for loss reserve discounting purposes has been actuarially determined. The discounting of reserves has reduced liabilities and increased unrestricted net position by $34,349,162 and $33,004,114 at June 30, 2023 and 2022, respectively.

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

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

Note 4—Transactions with the University of Michigan

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

For the years ended June 30, 2023 and 2022, the University provided claims administration and risk management services, with an estimated value of $3,142,000 and $3,023,000, respectively, at no cost to the Corporation.

The University contracts with a qualified risk consultant for actuarial services to assist in the projection and valuation of the Corporation's losses. The University also contracts for insurance brokerage services which assist the Corporation in placing ceded reinsurance in the commercial market. Fees paid for actuarial and brokerage services are included in the risk management services provided by the University, at no cost to the Corporation.

Note 4—Transactions with the University of Michigan—Continued

In 2021, the Corporation signed an indemnification agreement with the University for all defense and indemnity costs that the Corporation would incur in connection with certain claims against the University. Pursuant to this agreement, the Corporation has recorded receivables from the University equal to the amount of reserves recorded for these claims. The receivables are reported as losses receivable from the University and the reserves are reported as current reserves for losses and loss adjustment expenses in the statement of net position.

In 2021, the Corporation also received a letter from the University stating that the University will and has the ability to fully support the Corporation in maintaining the minimum unimpaired paid-in capital and surplus requirement of $250,000 as required by the state of Vermont, through October 22, 2022.

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

Note 5—Unrestricted Net Position

The Corporation is required to file an Annual Report with the Vermont Department of Financial Regulation. There were no differences in net position and changes in net position between the audited financial statements and the Annual Report for the years ended June 30, 2023 and 2022.

Unrestricted net position at June 30, 2023 and 2022 is summarized as follows:

	2023	2022
Common stock, par value $1,000 per share - authorized, issued and outstanding 1,000 shares	$ 1,000,000	$ 1,000,000
Additional paid-in capital	4,454,333	4,454,333
Retained earnings	135,497,284	118,098,459
	$ 140,951,617	$ 123,552,792

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023
with
REPORT OF INDEPENDENT AUDITORS

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

June 30, 2023

Page(s)

Report of Independent Auditors

To the Regents of the University of Michigan

Opinion

We have audited the accompanying financial statements of the Intercollegiate Athletics of the University of Michigan ("ICA"), which, as discussed in Note 1, consists of certain departments of the University of Michigan, which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ICA as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1, the financial statements of ICA present only the net position, revenues, expenses and changes in net position, and cash flows of that portion of the business-type activities of the University of Michigan that is attributable to the transactions of ICA. They do not purpose to, and do not, present fairly the financial position of the University of Michigan as of June 30, 2023, and the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP, 500 Woodward Avenue, Detroit, Michigan 48226
T: (313) 394 6000, www.pwc.com/us

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the accompanying management’s discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers L.L.P.

October 19, 2023

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

Management's Discussion and Analysis (Unaudited)

Introduction

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

ICA operates under the control of the Regents of the University of Michigan (the "University") to administer the intercollegiate athletic programs of the University. As part of the University, the assets, deferred outflows, liabilities, deferred inflows, revenues, expenses and changes in net position of ICA are included in the consolidated financial statements of the University. All organizations controlled by ICA, consisting of its various departments, are included in the financial statements. Organizations not controlled by ICA, such as certain booster and alumni organizations, are not included in the financial statements.

Financial Highlights

ICA's financial position remains strong, with total assets and deferred outflows of $868.9 million and total liabilities and deferred inflows of $398.2 million at June 30, 2023. Net position, which represents the residual interest in ICA's total assets and deferred outflows after total liabilities and deferred inflows are deducted, totaled $470.7 million at June 30, 2023. ICA's change in net position for the years ended June 30 is summarized as follows:

	2023	2022
	(in millions)	
Operating revenues	$ 205.6	$ 187.6
Operating expenses	$ 234.5	$ 200.6
Net nonoperating and other activities	$ 14.6	$ 33.6
(Decrease) increase in net position	$ (14.3)	$ 20.6

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

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

ICA’s operating revenues increased $18.0 million in 2023 due primarily to an eight home game football schedule, compared to a seven home game football schedule in 2022, and increased corporate sponsorship and licensing revenues.

Significant recurring sources of revenue for ICA, including gifts and investment income, are included in nonoperating revenues, as required by GASB. Net nonoperating and other activities decreased $19.0 million in 2023 due primarily to a decrease in net investment income.

ICA’s operating expenses increased $33.9 million in 2023 due primarily to the department returning to pre-COVID-19 levels of operations, increases in salaries, wages, and benefits, and increases in team and game expenses, specifically travel costs, as a result of inflation.

Using the Financial Statements

ICA’s financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with GASB principles.

Statement of Net Position

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

	2023	**2022**
	(in thousands)	
Net current assets (liabilities):		
Cash equivalents	$ 113,354	$ 124,062
Receivables and other assets, net	24,285	23,569
Advance sale of game tickets	(50,396)	(52,804)
Current portion of notes payable	(8,786)	(12,463)
Other current liabilities	(28,421)	(16,491)
Total net current assets	50,036	65,873
Net noncurrent assets, deferred outflows, (liabilities) and (deferred inflows):		
Investments	219,786	216,015
Pledges receivable, net	29,941	37,389
Other noncurrent assets	15,656	14,870
Capital assets, net	454,971	459,994
Deferred outflows	10,918	12,781
Other liabilities	(1,877)	(2,189)
Unearned revenues	(3,484)	(4,777)
Obligations for postemployment benefits	(40,062)	(47,504)
Notes payable	(241,795)	(250,521)
Deferred inflows	(23,428)	(16,925)
Total net noncurrent assets and net deferred (inflows) outflows	420,626	419,133
Net position	$ 470,662	$ 485,006

Outstanding debt at June 30, 2023 totaled $250.6 million.

ICA's net position decreased $14.3 million in 2023. The composition of ICA's net position at June 30 is summarized as follows:

	2023	**2022**
	(in thousands)	
Net investment in capital assets	$ 202,094	$ 194,580
Restricted:		
Nonexpendable	118,315	107,733
Expendable	186,224	215,086
Unrestricted	(35,971)	(32,393)
	$ 470,662	$ 485,006

Results of Operations

ICA measures its results of operations based on certain activities in its current funds (auxiliary and expendable funds) which are summarized as follows for the years ended June 30:

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

ICA's revenues (as defined herein) increased $19.0 million in 2023 primarily due to an eight home game football schedule, compared to a seven home game football schedule in 2022, and increased corporate sponsorship and licensing revenues. ICA's expenses and other uses (as defined herein) increased $28.6 million in 2023 due primarily to the department returning to pre-COVID-19 levels of operations, increases in salaries, wages, and benefits, and increases in team and game expenses, specifically travel costs, as a result of inflation.

Management's Discussion and Analysis (Unaudited)—Continued

Statement of Cash Flows

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

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

Cash received from operations primarily consists of conference distributions, spectator admissions and preferred seat contributions. Cash received from noncapital financing primarily consists of private gifts. Cash used in capital and related financing activities primarily relates to ICA's continued investment in its physical plant.

Economic Factors That May Affect the Future

ICA believes that it is well positioned to generate sufficient cash flows to sustain continued success in its operations and support of the student-athlete.

A major portion of ICA's revenue, such as conference media contracts and corporate sponsorship arrangements, is contractually defined for future years. However, a significant portion of ICA's revenue base, such as gifts, football admissions and premium seat sales, is directly tied to the success of its football program. While ICA has historically sold out the premium seats at Michigan Stadium and enjoyed football season ticket renewals of greater than 95 percent, ICA would be negatively impacted if the football program were to experience declined success, which would likely result in decreased spectator admissions, preferred seat contributions and gift revenue.

Additional external risks which may significantly impact ICA include lawsuits involving the National Collegiate Athletic Association, grant-in-aid limits and the overall student-athlete support structure. Health care, injury prevention, full cost of attendance provisions, student-athlete trust funds and professional agent representation will continue to be discussed. Furthermore, potential future landscape changes could arise in the form of additional benefits for student-athletes beyond their participation.

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

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

Statement of Net Position

	June 30, 2023 (in thousands)
Assets	
Current Assets:	
Cash equivalents on deposit with the University	$ 113,354
Accounts receivable, net	9,059
Current portion of pledges receivable, net	12,816
Current portion of prepaid expenses and other assets	2,410
Total Current Assets	137,639
Noncurrent Assets:	
Endowment investments on deposit with the University	219,786
Pledges receivable, net	29,941
Prepaid expenses and other assets	15,656
Capital assets, net	454,971
Total Noncurrent Assets	720,354
Total Assets	**857,993**
Deferred Outflows	**10,918**
Liabilities	
Current Liabilities:	
Accounts payable and accrued expenses	16,454
Accrued compensation	8,959
Advance sale of game tickets	50,396
Current portion of unearned revenues	3,008
Current portion of notes payable to the University	8,786
Total Current Liabilities	87,603
Noncurrent Liabilities:	
Other liabilities	1,877
Unearned revenues	3,484
Obligations for postemployment benefits	40,062
Notes payable to the University	241,795
Total Noncurrent Liabilities	287,218
Total Liabilities	**374,821**
Deferred Inflows	**23,428**
Net Position	
Net investment in capital assets	202,094
Restricted:	
Nonexpendable	118,315
Expendable	186,224
Unrestricted	(35,971)
Total Net Position	**$ 470,662**

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

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2023 (in thousands)
Operating Revenues	
Spectator admissions	$ 65,107
Conference distributions	58,971
Preferred seat contributions, net	32,763
Corporate sponsorships and other media rights	20,389
Licensing royalties	12,638
Facilities revenues	6,017
Concessions, publications and parking	5,697
Other revenues	3,980
Total Operating Revenues	**205,562**
Operating Expenses	
Salaries, wages and benefits	89,138
Financial aid	32,375
Team and game	50,175
Other operating and administrative	16,341
Operations and maintenance of plant	16,145
Depreciation	30,359
Total Operating Expenses	**234,533**
Operating Loss	(28,971)
Nonoperating Revenues (Expenses)	
Private gifts for other than capital and endowment purposes	9,928
Net investment income	3,336
Interest expense and other, net	(10,191)
Total Nonoperating Revenues, Net	**3,073**
Net Loss Before Other Revenues and Transfers	(25,898)
Other Revenues	
Capital gifts	4,030
Private gifts for permanent endowment purposes	10,446
Total Other Revenues	**14,476**
Net Loss Before Transfers	(11,422)
Transfers to other University units, net	(2,922)
Decrease in Net Position	(14,344)
Net Position, Beginning of Year	485,006
Net Position, End of Year	**$ 470,662**

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

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

Statement of Cash Flows

	Year Ended June 30, 2023 (in thousands)
Cash Flows from Operating Activities	
Spectator admissions	$ 61,993
Conference distributions	58,971
Preferred seat contributions, net	32,876
Corporate sponsorships and other media rights	11,508
Licensing royalties	16,359
Facilities revenues	5,960
Concessions, publications and parking	5,361
Other revenues	4,294
Payments for salaries, wages and benefits	(84,711)
Payments for financial aid	(32,375)
Payments for team and game expenses	(45,755)
Payments for other operating and administrative expenses	(16,922)
Payments for operations and maintenance of plant	(15,259)
Net Cash Provided by Operating Activities	**2,300**
Cash Flows from Noncapital Financing Activities	
Private gifts for other than capital and endowment purposes	9,696
Transfers to other University units, net	(2,921)
Net Cash Provided by Noncapital Financing Activities	**6,775**
Cash Flows from Capital and Related Financing Activities	
Capital gifts	10,392
Proceeds from issuance of capital debt	95
Principal payments on capital debt	(12,498)
Interest payments on capital debt	(10,275)
Purchases of capital assets	(17,511)
Net Cash Used in Capital and Related Financing Activities	**(29,797)**
Cash Flows from Investing Activities	
Investment income	10,260
Increase in investments on deposit with the University, net	(246)
Net Cash Provided by Investing Activities	**10,014**
Net Decrease in Cash Equivalents	(10,708)
Cash Equivalents on Deposit with the University, Beginning of Year	124,062
Cash Equivalents on Deposit with the University, End of Year	**$ 113,354**

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

INTERCOLLEGIATE ATHLETICS
OF THE UNIVERSITY OF MICHIGAN

Statement of Cash Flows—Continued

	Year Ended June 30, 2023 (in thousands)
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating loss	$ (28,971)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	30,359
Changes in assets and liabilities:	
Accounts receivable, net	817
Prepaid expenses and other assets	(1,935)
Accounts payable and accrued expenses	2,329
Accrued compensation	(5,463)
Advance sale of game tickets	(2,408)
Unearned revenues	(1,729)
Changes in deferred outflows	1,863
Changes in deferred inflows	7,438
Net Cash Provided by Operating Activities	**$ 2,300**

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

Note 1—Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: Intercollegiate Athletics of the University of Michigan ("ICA") operates under the control of the Regents of the University of Michigan (the "University") to administer the intercollegiate athletic programs of the University. As part of the University, the assets, deferred outflows, liabilities, deferred inflows, revenues, expenses and changes in net position of ICA are included in the consolidated financial statements of the University. All organizations controlled by ICA, consisting of its various departments, are included in the financial statements; organizations not controlled by ICA, such as certain booster and alumni organizations, are not included in the financial statements. As part of the University, ICA is exempt from income taxes under Internal Revenue Code Sections 501(c)(3) and 115.

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

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

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

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt, and lease and subscription liabilities attributable to the acquisition, construction or improvement of those assets.
- Restricted:

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

  Expendable – Net position subject to externally imposed stipulations that can be fulfilled by actions of ICA pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of ICA's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.
- Unrestricted: Net position not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents.

Summary of Significant Accounting Policies: ICA considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents generally represent investments in the University Investment Pool ("UIP"), a short-term commingled pool managed by the University that can be readily liquidated to pay contractual liabilities.

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

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

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

Endowment investments primarily represent investments in the University Endowment Fund ("UEF"), a commingled pool which is invested entirely in the Long Term Portfolio, a diversified, equity-oriented investment pool managed by the University. The fair market value of UEF shares is determined at the end of each calendar quarter based on the fair value of the pool. Participants may purchase or redeem UEF shares at fair market value at each valuation date, subject to minimum holding and notice requirements.

Capital assets are recorded at cost or, if donated, at acquisition value at the date of donation. Depreciation of capital assets is provided on a straight-line method over the estimated useful lives of the respective assets, which generally range from four to forty years. Right-to-use assets are recorded at the present value of payments expected to be made during the related term using discount rates which are based upon the University's incremental borrowing rates, and are depreciated over the shorter of the related term or the expected useful life of the underlying asset.

Advance sale of game tickets consists of spectator admissions collected for athletic contests scheduled for the subsequent fiscal year and therefore not earned as of the end of the current fiscal year.

Unearned revenues consist primarily of cash received from unearned sponsorships and other contracts which have not yet been earned under the terms of the agreements.

For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Regents to appropriate an amount of realized and unrealized endowment appreciation as determined to be prudent. The University's policy is to retain net realized and unrealized appreciation with the endowment after spending rule distributions. Cumulative net appreciation of permanent endowment funds, which totaled $82,740,000 at June 30, 2023, is available to meet spending policy rate distributions and is recorded in restricted expendable net position. The University's endowment spending rule is further discussed in Note 2.

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

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

Conference distributions consist of television revenue, bowl distributions, National Collegiate Athletic Association (“NCAA”) distributions and conference championship payouts distributed to ICA by the Big Ten Conference, net of spectator admissions revenue sharing.

Preferred seat contributions represent an annual seating program for men’s football, basketball and ice hockey with seat location linked to contribution levels.

ICA records non-cash, value-in-kind trade transactions in both corporate sponsorships and other media rights revenue, and team and game expense. These transactions consist primarily of athletic apparel and footwear, and amounted to $3,204,000 at June 30, 2023.

Team and game expenses include post-season play expenditures, net of reimbursement from the Big Ten Conference, the NCAA and sponsoring bowl organizations.

Interest expense and other is recorded net of gain or loss on disposal of plant assets.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2—Cash Equivalents and Investments

The University maintains centralized management for substantially all cash and investments of ICA. Cash reserves and relatively short duration assets are invested in the UIP, while longer term assets held in the UEF are invested in the University's Long Term Portfolio. The UIP is principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. The longer investment horizon of the University's Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets.

The UEF consists of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain intact and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by ICA for long-term investment purposes, but are not limited by donor stipulations requiring ICA to preserve principal in perpetuity.

The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio, in which the UEF invests, sets general targets for both equities and fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories. At June 30, 2023, the Long Term Portfolio consisted of cash equivalents (3 percent), fixed income securities (5 percent), U.S. and non-U.S. equities (4 percent), commingled funds (14 percent) and nonmarketable alternative investments (74 percent).

Commingled (pooled) funds held in the Long Term Portfolio include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Commingled funds are primarily invested in non-U.S./global equities and absolute return strategies, but also include exposure to domestic fixed income and equity securities. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy; however, these investments are structured to limit the University's risk exposure to the amount of invested capital.

Note 2—Cash Equivalents and Investments—Continued

Nonmarketable alternative investments held in the Long Term Portfolio consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. These limited partnerships include venture capital, private equity, real estate, natural resources and absolute return strategies. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner.

The Long Term Portfolio holds investments denominated in foreign currencies and forward foreign exchange contracts used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies. Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Long Term Portfolio's non-U.S. dollar exposure amounted to 7 percent of the portfolio at June 30, 2023.

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

ICA receives quarterly distributions from the UEF based on the University's endowment spending rule. The annual distribution rate is 4.5 percent of the one-quarter lagged seven year moving average fair value of fund shares. To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Monthly distributions are also made from the UIP to ICA based on the 90-day U.S. Treasury Bill rate, up to a maximum value of 2.5 percent. The University's costs to administer and grow the UEF and UIP are funded by investment returns.

Note 2—Cash Equivalents and Investments—Continued

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

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

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

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

A significant portion of the underlying investments of the University's commingled pools include nonmarketable alternative investments and certain commingled funds described earlier in this note that are priced by managers using net asset value. The proprietary valuation techniques and unobservable pricing assumptions used by these managers to estimate fair value may have a significant impact on the resulting fair value determination of these investments. However, ICA uses Level 2 inputs to measure the fair value of its investments in the University's commingled pools described in Note 1 and within this note, since shares may be purchased or sold subject to holding and notice requirements at the fair market values determined by the University.

Note 3—Pledges Receivable

The composition of pledges receivable at June 30, 2023 is summarized as follows (in thousands):

Gift pledges outstanding:	
Capital	$ 35,051
Operations	9,421
	44,472
Less:	
Allowance for uncollectible pledges	1,137
Unamortized discount to present value	578
Total pledges receivable, net	42,757
Less current portion	12,816
	$ 29,941

Payments on pledges receivable at June 30, 2023, are expected to be received in the following years ended June 30 (in thousands):

2024	$ 13,282
2025	9,736
2026	6,189
2027	7,083
2028	4,432
2029 and after	3,750
	$ 44,472

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $30,578,000 at June 30, 2023, are not recognized as assets in the accompanying financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation.

Note 4—Capital Assets

Capital assets activity for the year ended June 30, 2023 is summarized as follows (in thousands):

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

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

Note 5—Notes Payable to the University of Michigan

Long-term debt activity for the year ended June 30, 2023 is summarized as follows (in thousands):

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

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

In 2023, ICA incurred interest costs totaling $10,527,000.

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

	Principal	Interest	Total
2024	$ 8,310	$ 9,587	$ 17,897
2025	8,630	9,239	17,869
2026	9,070	8,877	17,947
2027	9,455	8,500	17,955
2028	9,910	8,103	18,013
2029-2033	56,170	33,759	89,929
2034-2038	108,075	18,619	126,694
2039-2043	25,160	5,768	30,928
2044-2048	10,895	1,406	12,301
	245,675	$ 103,858	$ 349,533
Plus unamortized premiums	4,906		
	$ 250,581		

Note 6—Transactions with Other University of Michigan Units

ICA reimbursed the University for certain goods and services received in addition to making intra-University equity transfers during the year ended June 30, 2023 as follows (in thousands):

Financial Aid (Tuition and Housing)	$ 23,791
Goods and Services:	
Utilities	4,007
Plant services	1,469
Technology/Telecommunications	1,104
Insurance coverage	1,537
Security	974
Medical services	1,402
Business and finance allocation	847
Budget administration allocation	642
Marching Band support	470
Other	1,000
Total Goods and Services	13,452
Equity Transfers:	
Recreational Sports and Unions infrastructure renewal	1,800
Television revenue sharing	1,500
Total Equity Transfers	3,300
	$ 40,543

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

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

During 2023, ICA received $142,000 from the Michigan Matching Initiative for Student Support and the Bicentennial Matching Program, which offered an additional incentive for donors to establish or support endowed scholarship funds for undergraduate and graduate fellowships. Qualifying scholarship endowment gifts were matched at 25 percent for the Matching Initiative and 50 percent for the Bicentennial Matching Program.

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

Certain facilities used by ICA are located on land owned by the University which is not included in these financial statements. The University does not charge ICA rent for the use of this land.

Note 7—Postemployment Benefits

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

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

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

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

The University's reported liability for postemployment benefits obligations was calculated using the entry age normal level percent of pay method. ICA's annual postemployment benefits expense and liability represents an allocation of ICA's relative share of the University's expense and liability, based on the method in which the retiree benefits are funded. The funding method is based upon a percentage of salary dollars of active employees that qualify for retiree benefits.

Note 7—Postemployment Benefits—Continued

Changes in the reported total liability for ICA's postemployment benefits obligations for the year ended June 30, 2023 are summarized as follows (in thousands):

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

At June 30, 2023, deferred outflows reported in the statement of net position include benefit payments made after the measurement date of $872,000. ICA has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. ICA's reported postemployment benefits obligations at June 30, 2023, as a percentage of covered payroll of $65,558,000 was 63 percent.

Significant actuarial assumptions used at the June 30, 2022 measurement date are as follows:

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

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

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

Note 8—Retirement Plan

ICA participates in the University's retirement plan, a defined contribution retirement plan through TIAA and Fidelity Management Trust Company ("FMTC") mutual funds. All staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA, or accounts with FMTC, and are fully vested.

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

ICA contributions	$ 3,129
Employee contributions	$ 1,657
Payroll covered under plan	$ 65,558
Total payroll	$ 69,975

Note 9—Commitments and Contingencies

ICA's authorized expenditures for construction and other projects unexpended at June 30, 2023 were $26,696,000.

ICA has entered into leases for equipment, as well as SBITAs which expire at various dates through 2028. Future payments, including both principal and interest on these commitments for the next five years, are as follows (in thousands):

	Principal	Interest	Total
2024	$ 420	$ 22	$ 442
2025	434	8	442
2026	9		9
2027	9		9
2028	5		5
	$ 877	$ 30	$ 907