NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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 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 UMH-West) and Veritas Insurance Corporation (a wholly-owned captive insurance company). 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, 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 UMH-West pension plan trust which is considered a fiduciary component unit.

During 2022, the University adopted GASB Statement No. 87, *Leases* ("GASB 87"), which establishes a single model for lease accounting based on the principle that leases serve to finance the right to use an underlying asset. The statement requires lessees to recognize right-to-use assets and related liabilities, and lessors to recognize receivables and corresponding deferred inflows of resources, for leases that were previously classified as operating and recognized as inflows or outflows of resources. The adoption of GASB 87 has been reflected at the beginning of the earliest period presented in the financial statements, or July 1, 2020, resulting in an increase to the following line items within the University's consolidated statement of net position as of this date (in thousands):

Current portion of notes and pledges receivable, net	$ 129
Notes and pledges receivable, net	$ 282
Capital assets, net	$ 263,291
Accounts payable	$ 50,254
Other noncurrent liabilities	$ 213,037
Deferred inflows	$ 411

Net position is categorized as:

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

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

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

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

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

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

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

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

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

Investments in nonmarketable limited partnerships are carried at fair value, which is generally established using the NAV provided by the management of the investment partnerships at June 30, 2022 and 2021. The University may also adjust the fair value of these investments based on market conditions, specific redemption terms and restrictions, risk considerations and other factors. As these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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 plan for 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. In 2020, the University received amounts from the Centers for Medicare and Medicaid Services under the terms of their Accelerated and Advance Payment Program, which was expanded in response to the COVID-19 pandemic. The unearned portion of these additional advanced payments totaled $41,240,000 and $261,396,000 at June 30, 2022 and 2021, respectively, and will be reported as patient care revenues as the qualifying patient care services are performed.

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 plan for 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 $3,589,441,000 and $3,684,197,000 at June 30, 2022 and 2021, respectively, is recorded in restricted expendable net position. The University's endowment spending rule is further discussed in Note 2.

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

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

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

Patient care services are provided to patients who meet certain criteria under the University's charity care policies without charge or at amounts less than its established rates. Accordingly, charity care is not reported as revenue in the accompanying statement of revenues, expenses and changes in net position. Charges forgone for charity care services totaled $60,229,000 and $62,596,000 in 2022 and 2021, respectively.

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

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

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 2022 and 2021, the University received payments primarily from four programs, the Provider Relief Fund, the Higher Education Emergency Relief Fund, the Coronavirus State and Local Fiscal Recovery Fund and the Coronavirus Relief Fund.

The Provider Relief Fund is administered through the U.S. Department of Health and Human Services and offers funding to hospitals and health care providers to support expenses incurred or revenues lost associated with the COVID-19 pandemic. Funds received are recognized into revenue as the University identifies eligible expenditures or lost revenues which qualify for reimbursement. Revenue recognized under the terms of this program totaled $18,666,000 and $135,325,000 in 2022 and 2021, respectively.

The Higher Education Emergency Relief Fund is administered through the U.S. Department of Education and was designed to facilitate the distribution of emergency financial aid grants directly to students, as well as to provide funding for institutions negatively impacted by the COVID-19 pandemic. Under the terms of the student portion of this program, revenue is recognized once eligible expenditures associated with the distribution of aid to students have been incurred. For the institutional portions of this program, revenue is recognized as the University identifies eligible expenditures or lost revenues which qualify for reimbursement. Revenue recognized under the terms of this program totaled $110,324,000 and $77,055,000 in 2022 and 2021, respectively.

The Coronavirus State and Local Fiscal Recovery Fund is administered through the U.S. Department of the Treasury and delivers aid to state, local and tribal governments to support their response to and recovery from the COVID-19 pandemic. Funds received are recognized into revenue as the University identifies eligible expenditures or lost revenues which qualify for reimbursement. Revenue recognized under the terms of this program totaled $16,695,000 in 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Coronavirus Relief Fund is administered through the U.S. Department of the Treasury and provides assistance to state, local and tribal governments to support expenses incurred due to the public health emergency associated with the COVID-19 pandemic. Funds received from the state of Michigan are recognized into revenue as the University identifies eligible expenditures which qualify for reimbursement. Revenue recognized under the terms of this program totaled $42,380,000 in 2021.

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 short-term insurance and other 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 a 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 with investment restrictions outside of the Daily, Monthly and Long Term Portfolios.

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

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

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

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

Cash and Cash Equivalents and Unexpended Bond Proceeds: Cash and cash equivalents, which totaled $2,951,905,000 and $1,003,846,000 at June 30, 2022 and 2021, respectively, represent cash and short-term money market investments in mutual funds, overnight collective funds managed by the University's custodian or short-term highly liquid investments registered as securities and held by the University or its agents in the University's name. Of its cash and cash equivalents, the University had actual cash balances in its bank accounts in excess of Federal Deposit Insurance Corporation limits in the amount of $36,227,000 and $72,126,000 at June 30, 2022 and 2021, respectively. The University does not require its deposits to be collateralized or insured.

Unexpended bond proceeds, which totaled $305,452,000 and $52,451,000 at June 30, 2022 and 2021, respectively, represent short-term money market investments in mutual funds. These amounts are used solely for the reimbursement of qualifying expenditures for construction projects associated with certain outstanding general revenue bonds issued by the University.

Cash and cash equivalents and unexpended bond proceeds 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 $2,998,384,000 and $926,114,000 at June 30, 2022 and 2021, respectively. Level 2 securities, which primarily consist of commercial paper and repurchase agreements, totaled $150,811,000 and $5,500,000 at June 30, 2022 and 2021, respectively.

Investments: At June 30, 2022 and 2021, the University's investments, which are held by the University or its agents in the University's name, are summarized as follows:

(in thousands)	2022	2021
Cash equivalents, noncurrent	$ 371,602	$ 276,168
Equity securities	624,928	752,048
Fixed income securities	3,010,240	3,010,819
Commingled funds	2,657,802	3,190,302
Nonmarketable alternative investments	13,778,984	13,183,395
Other investments	6,607	5,561
	20,450,163	20,418,293
Less fiduciary custodial funds	293,682	274,374
	$ 20,156,481	$ 20,143,919

NOTE 2—CASH AND INVESTMENTS, CONTINUED

At June 30, 2022 and 2021, the fair value of the University's investments based on the inputs used to value them is summarized as follows:

2022

(in thousands)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Cash equivalents, noncurrent	$ 371,602	-	-	-	$ 371,602
Equity securities:					
Domestic	149,188		$ 68,219		217,407
Foreign	405,453		2,068		407,521
	554,641	-	70,287	-	624,928
Fixed income securities:					
U.S. Treasury	1,877,265				1,877,265
U.S. government agency		$ 55,483			55,483
Corporate and other		1,069,366	8,126		1,077,492
	1,877,265	1,124,849	8,126	-	3,010,240
Commingled funds:					
Absolute return				$ 1,985,526	1,985,526
Domestic equities	4,067			347,147	351,214
Global equities	7,497			296,002	303,499
U.S. fixed income	2,430				2,430
Other	15,133				15,133
	29,127	-	-	2,628,675	2,657,802
Nonmarketable alternative investments:					
Venture capital				4,881,566	4,881,566
Absolute return				2,336,711	2,336,711
Private equity			448,100	2,129,959	2,578,059
Real estate			20,289	1,726,906	1,747,195
Natural resources			266,079	1,969,374	2,235,453
	-	-	734,468	13,044,516	13,778,984
Other investments	(2,005)	(169)	8,781	-	6,607
	$ 2,830,630	$ 1,124,680	$ 821,662	$ 15,673,191	20,450,163
					293,682
Less fiduciary custodial funds					$ 20,156,481

2021

(in thousands)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Cash equivalents, noncurrent	$ 276,168	-	-	-	$ 276,168
Equity securities:					
Domestic	155,737		$ 52,154		207,891
Foreign	542,969		1,188		544,157
	698,706	-	53,342	-	752,048
Fixed income securities:					
U.S. Treasury	1,887,542				1,887,542
U.S. government agency		$ 49,513			49,513
Corporate and other		1,068,479	5,285		1,073,764
	1,887,542	1,117,992	5,285	-	3,010,819
Commingled funds:					
Absolute return				$ 2,524,614	2,524,614
Domestic equities	14,060			268,714	282,774
Global equities	49			359,321	359,370
U.S. fixed income	3,092				3,092
Other	20,452				20,452
	37,653	-	-	3,152,649	3,190,302
Nonmarketable alternative investments:					
Venture capital				4,592,803	4,592,803
Absolute return				2,556,764	2,556,764
Private equity			449,800	2,460,896	2,910,696
Real estate			8,658	1,590,549	1,599,207
Natural resources			203,886	1,320,039	1,523,925
	-	-	662,344	12,521,051	13,183,395
Other investments	(2,665)	(1,235)	9,461	-	5,561
	$ 2,897,404	$ 1,116,757	$ 730,432	$ 15,673,700	20,418,293
					274,374
Less fiduciary custodial funds					$ 20,143,919

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.

NOTE 2—CASH AND INVESTMENTS, CONTINUED

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

Fixed income securities have inherent financial risks, including credit risk and interest rate risk. Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations ("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.

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 2.6 years at June 30, 2022 compared to 3.2 years at June 30, 2021. 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, 2022 and 2021, 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, 2022 and 2021, along with credit quality and effective duration measures, is summarized as follows:

2022

(in thousands)	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 1,874,199				$ 1,874,199	2.3
U.S. Treasury inflation protected	3,066				3,066	14.6
U.S. government agency	55,483				55,483	4.7
Mortgage backed		$ 28,735	$ 977	$ 3,816	33,528	1.8
Asset backed		113,288	684		113,972	0.6
Corporate and other		863,373	21,025	45,594	929,992	3.5
	$ 1,932,748	$ 1,005,396	$ 22,686	$ 49,410	$ 3,010,240	2.6

2021

(in thousands)	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 1,884,675				$ 1,884,675	2.7
U.S. Treasury inflation protected	2,867				2,867	17.1
U.S. government agency	49,513				49,513	5.2
Mortgage backed		$ 40,465	$ 66	$ 10,047	50,578	1.6
Asset backed		111,033		400	111,433	0.8
Corporate and other		845,052	19,927	46,774	911,753	4.5
	$ 1,937,055	$ 996,550	$ 19,993	$ 57,221	$ 3,010,819	3.2

Of the University's fixed income securities, 98 percent and 97 percent were rated investment grade or better at June 30, 2022 and 2021, respectively, and 73 percent of these securities consisted of either U.S. treasury and government agencies or non-U.S. government securities rated AAA/Aaa at both June 30, 2022 and 2021.

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

Nonmarketable alternative investments consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner. The University's limited partnerships are diversified in terms of manager selection, industry and geographic focus. At June 30, 2022 and 2021, 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.

NOTE 2—CASH AND INVESTMENTS, CONTINUED

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, 2022 is summarized as follows (amounts in thousands):

	Fair Value	Remaining Life	Outstanding Commitments	Redemption Terms	Redemption Notice
Commingled funds	$ 2,657,802	N/A	$ -	Daily, monthly, quarterly and annually, with varying notice periods	Lock-up provisions range from none to five years
Nonmarketable alternative investments	$ 13,778,984	1-12 years	$ 5,179,752	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, 2022 and 2021, 71 percent and 79 percent, respectively, are redeemable within one year, with 46 percent and 65 percent, respectively, redeemable within 90 days under normal market conditions. The remaining amounts are redeemable beyond one year, with redemption of certain funds dependent on disposition of the underlying assets. The University's committed but unpaid obligation to nonmarketable alternative investments is further discussed in Note 14.

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

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

The value of the University's non-U.S. dollar holdings, net of the value of the outstanding forward foreign exchange contracts, totaled $1,564,351,000 or 8 percent of total investments at June 30, 2022, and $1,777,448,000 or 9 percent of total investments at June 30, 2021, and are summarized as follows:

(in thousands)	2022	2021
Euro	$ 876,311	$ 885,763
British pound sterling	234,271	279,092
Swedish krona	195,165	236,595
Canadian dollar	106,781	143,015
Japanese yen	106,570	135,042
Danish krone	23,433	29,657
Other	21,820	68,284
	$ 1,564,351	$ 1,777,448

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 $42,466,000 and $21,472,000 in securities loans outstanding at June 30, 2022 and 2021, respectively. At loan inception, an approved borrower must deliver collateral of cash, securities or letters of credit to the University's lending agent equal to 102 percent of fair value for domestic securities and 105 percent for foreign securities. Collateral positions are monitored daily to ensure that borrowed securities are never less than 100 percent collateralized. At June 30, 2022, collateral of $52,693,000 (124 percent of securities on loan) includes invested cash of $23,037,000 and U.S. government securities of $29,656,000, while at June 30, 2021, collateral of $22,227,000 (104 percent of securities on loan) includes invested cash of $20,040,000 and U.S. government securities of $2,187,000.

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

NOTE 3—ACCOUNTS RECEIVABLE

The composition of accounts receivable at June 30, 2022 and 2021 is summarized as follows:

(in thousands)	2022	2021
Patient care	$ 797,306	$ 778,548
Sponsored programs	187,237	177,384
State appropriations, educational and capital	72,768	71,804
Student accounts	37,612	38,445
Other	52,979	45,947
	1,147,902	1,112,128
Less allowance for uncollectible accounts receivable:		
Patient care	140,314	131,628
All other	11,113	9,900
	$ 996,475	$ 970,600

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4—NOTES AND PLEDGES RECEIVABLE

The composition of notes and pledges receivable at June 30, 2022 and 2021 is summarized as follows:

(in thousands)	2022	2021
Notes:		
Federal student loan programs	$ 46,227	$ 54,341
University student loan funds	14,363	14,233
Other	2,277	8,192
	62,867	76,766
Less allowance for uncollectible notes	3,100	3,100
Total notes receivable, net	59,767	73,666
Gift pledges:		
Capital	100,495	94,264
Operations	232,882	212,471
	333,377	306,735
Less:		
Allowance for uncollectible pledges	7,827	7,407
Unamortized discount to present value	3,167	3,449
Total pledges receivable, net	322,383	295,879
Total notes and pledges receivable, net	382,150	369,545
Less current portion	108,164	108,789
	$ 273,986	$ 260,756

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

Payments on pledges receivable at June 30, 2022 are expected to be received in the following years ended June 30 (in thousands):

2023	$ 94,692
2024	71,686
2025	49,704
2026	46,335
2027	20,856
2028 and after	50,104
	$ 333,377

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $137,460,000 and $129,158,000 at June 30, 2022 and 2021, respectively, are not recognized as assets in the accompanying financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met due to uncertainties with regard to their realizability and valuation.

NOTE 5—CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2022 and 2021 is summarized as follows:

2022

(in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 155,111	$ 1,722	$ 950	$ 155,883
Land improvements	168,121	2,710	216	170,615
Infrastructure	264,874			264,874
Buildings	9,986,838	463,350	51,977	10,398,211
Construction in progress	481,905	(203,002)		278,903
Equipment	2,231,283	126,709	188,897	2,169,095
Library materials	724,672	30,215	5	754,882
Right-to-use assets	382,614	32,433	6,555	408,492
	14,395,418	454,137	248,600	14,600,955
Less accumulated depreciation	7,962,995	606,523	234,375	8,335,143
	$ 6,432,423	$ (152,386)	$ 14,225	$ 6,265,812

2021

(in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 153,218	$ 1,897	$ 4	$ 155,111
Land improvements	163,626	5,671	1,176	168,121
Infrastructure	264,778	96		264,874
Buildings	9,507,952	516,904	38,018	9,986,838
Construction in progress	635,515	(153,610)		481,905
Equipment	2,239,751	91,249	99,717	2,231,283
Library materials	699,201	25,471		724,672
Right-to-use assets	365,057	35,496	17,939	382,614
	14,029,098	523,174	156,854	14,395,418
Less accumulated depreciation	7,492,799	620,037	149,841	7,962,995
	$ 6,536,299	$ (96,863)	$ 7,013	$ 6,432,423

The decrease in construction in progress of $203,002,000 in 2022 represents the amount of capital expenditures for new projects of $287,679,000 net of assets placed in service of $490,681,000. The decrease in construction in progress of $153,610,000 in 2021 represents the amount of capital expenditures for new projects of $359,238,000 net of assets placed in service of $512,848,000.

NOTE 6—LONG-TERM DEBT

Long-term debt at June 30, 2022 and 2021 is summarized as follows:

(in thousands)	2022	2021
Commercial paper:		
Tax-exempt, variable rate (0.96%)*	$ 140,505	$ 149,305
Taxable, variable rate (1.09%)*	630	4,220
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	55,775	
unamortized premium	13,858	
Series 2020A, 4.00% to 5.00% through 2050	138,430	138,430
unamortized premium	33,091	35,589
Series 2020B, taxable, 1.004% to 2.562% through 2050	850,025	850,025
Series 2019A, 5.00% through 2036	123,335	132,140
unamortized premium	17,809	20,674
Series 2019B, taxable, 2.714% to 3.416% through 2029	12,210	13,765
Series 2019C, 4.00% through 2049	61,725	61,725
unamortized premium	5,189	5,443
Series 2018A, 4.00% to 5.00% through 2048	127,280	130,025
unamortized premium	14,911	15,915
Series 2017A, 4.86% to 5.00% through 2035	239,970	420,990
unamortized premium	32,720	60,910
Series 2015, 4.00% to 5.00% through 2035	112,690	280,950
unamortized premium	14,715	38,791
Series 2014A, 4.25% to 5.00% through 2030	18,925	70,425
unamortized premium	1,327	5,201
Series 2014B, taxable, 3.216% to 3.516% through 2024	1,980	2,945
Series 2013A, 2.50% to 5.00% through 2029	39,370	40,780
unamortized premium	812	1,005
Series 2012A, variable rate (0.83%)* through 2036	50,000	50,000
Series 2012B, variable rate (0.56%)* through 2042	65,000	65,000
Series 2012D-1, variable rate (0.58%)* through 2025 with partial swap to fixed through 2025	44,760	48,915
Series 2012D-2, variable rate (0.83%)* through 2030 with partial swap to fixed through 2026	44,135	49,025
Series 2012E**, variable rate through 2033		82,020
Series 2010A, taxable Build America Bonds, 4.926% to 5.593% through 2040	163,110	163,110
Series 2010D, taxable Build America Bonds, 3.756% to 5.333% through 2041	146,620	148,205
Series 2009B, variable rate (1.20%)* through 2039	118,710	118,710
Series 2008A, variable rate (0.60%)* through 2038	57,085	57,085
Series 2008B, variable rate (0.86%)* through 2028 with partial swap to fixed through 2026	46,115	52,715
	5,206,022	3,314,038
Less:		
Commercial paper and current portion of bonds payable	209,311	235,875
Long-term bonds payable subject to remarketing, net	274,392	300,542
	$ 4,722,319	$ 2,777,621

* Denotes variable rate at June 30, 2022
** 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, 2022 and 2021 is summarized as follows:

(in thousands)	2022	2021
Variable rate bonds payable subject to remarketing	$ 425,805	$ 441,450
Less:		
Current principal maturities	26,150	15,645
Long-term liquidity agreements:		
Unsecured lines of credit	125,263	125,263
Long-term bonds payable subject to remarketing, net	$ 274,392	$ 300,542

The University's available lines of credit totaled $1,190,000,000 and were entirely unused at both June 30, 2022 and 2021.

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

Long-term debt activity for the years ended June 30, 2022 and 2021 is summarized as follows:

2022				
(in thousands)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 153,525		$ 12,390	$ 141,135
Bonds	3,160,513	$ 2,482,838	578,464	5,064,887
	$ 3,314,038	$ 2,482,838	$ 590,854	$ 5,206,022

2021				
(in thousands)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 135,305	$ 164,875	$ 146,655	$ 153,525
Bonds	3,240,866		80,353	3,160,513
	$ 3,376,171	$ 164,875	$ 227,008	$ 3,314,038

The University maintains a combination of variable and fixed rate debt supported by general revenues, with effective interest rates that averaged 2.9 percent and 2.5 percent in 2022 and 2021, respectively, 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.

NOTE 6—LONG-TERM DEBT, CONTINUED

During 2022, the University issued $2,468,980,000 of General Revenue Bonds with a net original issue premium of $13,858,000 which included $1,700,000,000 of fixed rate, taxable bonds Series 2022A, $300,000,000 of fixed rate, taxable green bonds Series 2022B, $413,205,000 of fixed rate, taxable bonds Series 2022C and $55,775,000 of fixed rate, tax-exempt bonds Series 2022D. Total bond proceeds of $2,482,838,000 were utilized to refund $69,410,000 of existing bonds, establish an escrow of $411,701,000 to advance refund existing bonds, as well as provide $298,618,000 for capital projects designed to advance the University's commitment to decarbonization, $1,686,312,000 for capital projects and other general purposes, and $16,797,000 for debt issuance costs.

Bond proceeds of $69,410,000 were used to refund a portion of the General Revenue Bonds Series 2012E, which had an interest rate of 0.78 percent at March 31, 2022 and a final maturity date of April 1, 2033. As a result of the refunding, the University's aggregate debt service payments increased over the next 11 years by $6,811,000, resulting in a present value economic loss of $7,161,000.

The University also established three escrow funds with bond proceeds of $411,701,000 to advance refund $49,470,000 of General Revenue Bonds Series 2014A, $162,885,000 of General Revenue Bonds Series 2015 and $166,840,000 of General Revenue Bonds Series 2017A which had average interest rates of 4.9 percent, 5.0 percent and 5.0 percent, respectively. These bonds are considered legally defeased as amounts were deposited in irrevocable escrow funds with an escrow trustee to provide for all future debt service payments on the refunded bonds to the dates of redemption. As a result of these advance refundings, the University reduced its aggregate debt service payments over the next 25 years by $30,853,000, resulting in a present value economic gain of $29,851,000.

Deferred outflows associated with the University's refunding activity totaled $34,397,000 and $4,064,000 at June 30, 2022 and 2021, respectively; and deferred inflows associated with the University's refunding activity totaled $47,486,000 at June 30, 2022. 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
2023	$ 196,860	$ 184,422	$ 381,282
2024	97,925	179,897	277,822
2025	201,540	176,333	377,873
2026	102,155	171,799	273,954
2027	145,010	167,520	312,530
2028-2032	557,410	763,760	1,321,170
2033-2037	533,435	659,930	1,193,365
2038-2042	742,085	553,573	1,295,658
2043-2047	165,125	471,971	637,096
2048-2052	1,130,045	432,746	1,562,791
2053-2117		3,474,120	3,474,120
2118-2122	1,200,000	267,240	1,467,240
Total payments	5,071,590	$ 7,503,311	$ 12,574,901
Plus unamortized premiums	134,432		
	$ 5,206,022		

* Interest on variable rate debt is estimated based on rates in effect at June 30, 2022; amounts do not reflect federal subsidies to be received for Build America Bonds interest

The University maintains certain unsecured lines of credit and standby bond purchase agreements that, in accordance with GASB requirements, do not qualify to support the noncurrent classification of variable rate bonds payable subject to remarketing. If all of the variable rate bonds subject to remarketing were put back to the University 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 2023 would decrease to $170,710,000, total principal payments due in 2024 would increase to $115,365,000, total principal payments due in 2025 would increase to $363,497,000, total principal payments due in 2026 would increase to $280,633,000 and total principal payments due in 2027 would decrease to $131,040,000. Accordingly, principal payments due in subsequent years would be reduced to $482,675,000 in 2028 through 2032, $379,950,000 in 2033 through 2037 and $652,550,000 in 2038 through 2042. Principal payments due in 2043 through 2122 would not change. There would not be a material impact on annual interest payments due to the low variable rate of interest on these bonds.

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, 2022 and 2021 are summarized as follows:

2022		
(in thousands)	Notional Amount	Fair Value
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 82,255	$ 55
Foreign currency forwards:		
Australian dollar	80,923	(4,742)
Thailand baht	57,203	4,667
New Zealand dollar	71,097	3,501
Japanese yen	73,249	3,165
Colombian peso	47,389	(3,102)
Israeli shekel	36,851	2,843
All other currencies	601,769	(10,256)
	968,481	(3,924)
Other	38,220	(184)
	$ 1,088,956	$ (4,053)
Floating-to-fixed interest rate swaps on debt	$ 44,670	$ (1,690)
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 49,280	$ (1,343)

NOTE 7—DERIVATIVE INSTRUMENTS, CONTINUED

2021

(in thousands)	Notional Amount	Fair Value
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 97,399	$ (432)
Foreign currency forwards:		
Euro	193,416	(8,305)
New Zealand dollar	144,792	4,769
Swedish krona	165,644	(4,624)
Canadian dollar	83,602	(4,456)
Japanese yen	240,261	3,250
Australian dollar	140,630	3,241
All other currencies	889,389	10,842
	1,857,734	4,717
Other	25,134	248
	$ 1,980,267	$ 4,533
Floating-to-fixed interest rate swaps on debt	$ 48,815	$ (4,982)
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 60,760	$ (4,739)

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.

At June 30, 2022 and 2021, the fair value of floating-to-fixed interest rate swaps associated with the University's variable rate debt is ($3,033,000) and ($9,721,000), respectively, and is included in the statement of net position as a component of other liabilities. The deferred outflows associated with the fair value of swaps deemed effective cash flow hedges totaled $587,000 and $3,550,000 at June 30, 2022 and 2021, respectively.

The change in fair value of derivative instruments, which includes realized gains and losses on positions closed, for the years ended June 30, 2022 and 2021 is summarized as follows:

(in thousands)	2022	2021
Investment derivative instruments:		
Investment portfolios:		
Futures	$ (15,763)	$ 25,502
Foreign currency forwards	(51,023)	13,688
Other	374	731
	$ (66,412)	$ 39,921
Floating-to-fixed interest rate swaps on debt	$ 3,292	$ 2,219
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 3,396	$ 2,448

Using rates in effect at June 30, 2022, the projected cash flows for the floating-to-fixed interest rate swaps deemed effective cash flow hedges, along with the debt service requirements of the associated variable rate debt, are summarized as follows:

	Variable Rate Bonds		Swap	Total
(in thousands)	Principal	Interest	Payments, Net	Payments
2023	$ 11,925	$ 724	$ 876	$ 13,525
2024	12,410	622	625	13,657
2025	12,940	514	359	13,813
2026	12,045	410	101	12,556
2027	13,970	300		14,270
2028-2030	26,960	224		27,184
	$ 90,250	$ 2,794	$ 1,961	$ 95,005

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 LIBOR. Basis risk is the risk that changes in the relationship between the floating Securities Industry and Financial Markets Association Municipal Index and LIBOR may impact the synthetic fixed rate of the variable rate debt. At June 30, 2022 and 2021, 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 $5,940,000 and $7,477,000 at June 30, 2022 and 2021, respectively, on deposit with its futures broker as collateral.

NOTE 8—SELF-INSURANCE

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

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

Changes in the total reported liability for insurance and benefits reserves for the years ended June 30, 2022 and 2021 are summarized as follows:

(in thousands)	2022	2021
Balance, beginning of year	$ 439,848	$ 303,431
Claims incurred and changes in estimates	1,267,941	948,519
Claim payments	(884,175)	(812,102)
Balance, end of year	823,614	439,848
Less current portion	646,591	269,789
	$ 177,023	$ 170,059

During 2022, the University and attorneys for claimants who alleged abuse by the late University physician Robert Anderson reached a settlement agreement that would resolve those survivors' claims against the University pending documentation and approval by the claimants, as recommended by their attorneys, and the federal court overseeing the process. The total amount for the settlement is $490,750,000.

Event Subsequent to June 30, 2022: 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 PLAN

UMH-West has a noncontributory, single-employer defined benefit pension plan, which covered substantially all employees prior to being frozen at December 31, 2007. The plan generally provides benefits based on each employee's years of service and final average earnings, as defined, and does not provide any automatic or ad-hoc cost of living adjustments. 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 one year prior to the fiscal year end reporting date and amounts measured at June 30, 2021 and 2020 were determined based on an actuarial valuation at October 1, 2020 and 2019, respectively. There are no significant changes known which would impact the net pension liability between the measurement date and the reporting date, other than typical plan experience.

For purposes of the June 30, 2021 and 2020 measurement dates, the number of plan participants consisted of the following:

	2021	2020
Active participants	429	493
Vested terminated participants	784	810
Retirees, beneficiaries and disabled participants	516	465
	1,729	1,768

Changes in the reported net pension liability for the years ended June 30, 2022 and 2021 are summarized as follows:

2022			
(in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance, beginning of year	$ 67,735	$ 74,057	$ (6,322)
Interest cost	4,543		4,543
Changes in assumptions	89		89
Differences between expected and actual plan experience	989		989
Benefit payments	(5,598)	(5,598)	-
Contributions from the employer		891	(891)
Administrative expenses		(76)	76
Net investment income:			
Expected investment earnings		4,997	(4,997)
Differences between expected and actual investment earnings		16,162	(16,162)
Balance, end of year	$ 67,758	$ 90,433	$ (22,675)

2021			
(in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance, beginning of year	$ 75,964	$ 77,211	$ (1,247)
Interest cost	4,687		4,687
Changes in assumptions	(3,540)		(3,540)
Differences between expected and actual plan experience	(1,662)		(1,662)
Benefit payments	(7,714)	(7,714)	-
Contributions from the employer		900	(900)
Net investment income:			
Expected investment earnings		4,797	(4,797)
Differences between expected and actual investment earnings		(1,137)	1,137
Balance, end of year	$ 67,735	$ 74,057	$ (6,322)

The plan fiduciary net position as a percentage of the total pension liability was 133 percent and 109 percent at June 30, 2022 and 2021, respectively.

NOTE 9—PENSION PLAN, CONTINUED

Significant actuarial assumptions used at the June 30, 2021 and 2020 measurement dates are as follows:

	2021	2020
Discount rate	7.0%	7.0%
Inflation	2.0%	2.0%
Investment rate of return	7.0%	7.0%
Mortality table	Pri-2012, Scale MP-2020	Pri-2012, Scale MP-2019

Discount rates are based on the expected rate of return on pension plan investments. The projection of cash flows used to determine the single discount rate for each fiscal year end assumed that employer contributions will be made based on the minimum contribution projection under provisions of ERISA and the Pension Protection Act of 2006, including MAP-21, 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 of 7.0 percent at both June 30, 2021 and 2020, respectively, was determined using the expected future rates of return for the target asset allocation of the portfolio. The target allocation and best estimate geometric rates of return by asset class are summarized as follows:

	2021		2020	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	25.0%	7.8%	25.0%	7.9%
U.S. mid cap	10.5%	8.6%	10.5%	8.6%
U.S. small cap	6.5%	9.0%	6.5%	9.1%
International developed	14.0%	5.9%	14.0%	6.2%
Emerging market	9.0%	5.5%	9.0%	5.7%
STRIPs	7.0%	3.7%	7.0%	4.6%
Corporate 10+ year	28.0%	4.4%	28.0%	4.6%

A one-percentage point change in the discount rate would impact the reported net pension liability at June 30, 2022 and 2021 as follows:

	2022		2021	
(in thousands)	1% Decrease	1% Increase	1% Decrease	1% Increase
Net pension liability	$ 6,934	$ (5,912)	$ 7,463	$ (6,250)

The components of pension income for the years ended June 30, 2022 and 2021 are summarized as follows:

(in thousands)	2022	2021
Interest cost	$ 4,543	$ 4,687
Expected investment earnings	(4,997)	(4,797)
Administrative expenses	76	
Amortization of deferred outflows and deferred inflows	(4,755)	(1,139)
	$ (5,133)	$ (1,249)

Deferred outflows and deferred inflows related to the reported net pension liability at June 30, 2022 and 2021 are summarized as follows:

	2022		2021	
(in thousands)	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Changes in assumptions	$ 43	$ 501	$ 526	$ 2,021
Differences between expected and actual plan experience	477	235		966
Differences between expected and actual investment earnings	916	13,101	1,377	988
	1,436	13,837	1,903	3,975
Contributions made after measurement date	1,781		891	
	$ 3,217	$ 13,837	$ 2,794	$ 3,975

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):

2023	$ 3,074
2024	3,090
2025	3,005
2026	3,232
	$ 12,401

NOTE 9—PENSION PLAN, CONTINUED

The inputs used to determine the fair value of the plan's investments reported at June 30, 2022 and 2021 are summarized as follows:

2022

(in thousands)	Level 1	Level 2	NAV	Total Fair Value
Equity securities	$ 67,034			$ 67,034
Fixed income securities		$ 22,738		22,738
Nonmarketable alternative investments			$ 661	661
	$ 67,034	$ 22,738	$ 661	$ 90,433

2021

(in thousands)	Level 1	Level 2	NAV	Total Fair Value
Equity securities	$ 49,482			$ 49,482
Fixed income securities		$ 24,326		24,326
Nonmarketable alternative investments			$ 249	249
	$ 49,482	$ 24,326	$ 249	$ 74,057

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, 2021 and 2020 were determined based on an actuarial valuation at January 1, 2021 and 2020, respectively. There are no significant changes known which would impact the total postemployment liability between the measurement date and the reporting date, other than typical plan experience.

For purposes of the June 30, 2021 and 2020 measurement dates, the number of plan participants consisted of the following:

2021

	Retiree Health and Welfare	Long-term Disability
Active employees	43,880	38,402
Retirees receiving benefits	11,835	
Surviving spouses	892	
Participants receiving disability benefits		555
	56,607	38,957

2020

	Retiree Health and Welfare	Long-term Disability
Active employees	44,746	38,181
Retirees receiving benefits	11,125	
Surviving spouses	883	
Participants receiving disability benefits		555
	56,754	38,736

NOTE 10—POSTEMPLOYMENT BENEFITS, CONTINUED

Changes in the reported total liability for postemployment benefits obligations for the years ended June 30, 2022 and 2021 are summarized as follows:

2022 (in thousands)	Retiree Health and Welfare	Long-term Disability	Total
Balance, beginning of year	$ 4,083,296	$ 328,850	$ 4,412,146
Service cost	174,102	38,927	213,029
Interest cost	93,398	7,768	101,166
Changes in assumptions	(344,206)	(24,010)	(368,216)
Differences between expected and actual plan experience	38,479	(3,364)	35,115
Benefit payments	(62,869)	(32,712)	(95,581)
Balance, end of year	3,982,200	315,459	4,297,659
Less current portion	63,891	33,463	97,354
	$ 3,918,309	$ 281,996	$ 4,200,305

2021 (in thousands)	Retiree Health and Welfare	Long-term Disability	Total
Balance, beginning of year	$ 3,172,947	$ 304,541	$ 3,477,488
Service cost	118,293	33,632	151,925
Interest cost	114,122	11,299	125,421
Changes in assumptions	713,614	17,606	731,220
Differences between expected and actual plan experience	26,070	(7,294)	18,776
Benefit payments	(61,750)	(30,934)	(92,684)
Balance, end of year	4,083,296	328,850	4,412,146
Less current portion	62,869	32,712	95,581
	$ 4,020,427	$ 296,138	$ 4,316,565

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 $783,862,000 and $794,964,000 at June 30, 2022 and 2021, respectively.

The University's liability for postemployment benefits obligations is not reduced by the anticipated Medicare Retiree Drug Subsidy for future periods. This subsidy would reduce the reported total postemployment benefits liability by approximately $437,000,000 and $443,000,000 at June 30, 2022 and 2021, respectively.

Assets used to fund postemployment benefits are not maintained in a separate legal trust. The University has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. The University's reported postemployment benefits obligations at June 30, 2022 and 2021 as a percentage of covered payroll of $4,502,421,000 and $4,255,709,000 were 95 percent and 104 percent, respectively.

Significant actuarial assumptions used at the June 30, 2021 and 2020 measurement dates are as follows:

	2021	2020
Discount rate*	2.16%	2.21%
Inflation rate	2.00%	2.00%
Immediate/ultimate administrative trend rate	0.0%/3.0%	0.0%/3.0%
Immediate/ultimate medical trend rate	6.0%/4.5%	6.0%/4.5%
Immediate/ultimate Rx trend rate	7.0%/4.5%	7.25%/4.5%
Increase in compensation rate faculty/staff/union	4.5%/4.75%/3.75%	0.0%/0.0%/3.75%
Mortality table**	PUB-2010 Teachers Head Count Table, Scale MP-2020	PUB-2010 Teachers Head Count Table, Scale MP-2019
Average future work life expectancy (years):		
Retiree health and welfare	8.81	9.04
Long-term disability	11.16	11.46

* 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, 2022 and 2021 as follows:

2022 (in thousands)	1% Decrease	1% Increase
Discount rate:		
Retiree health and welfare	$ 896,861	$ (695,000)
Long-term disability	$ 14,038	$ (12,815)
Health care cost trend rates:		
Retiree health and welfare	$ (780,982)	$ 1,065,747
Long-term disability	$ (12,428)	$ 12,831

2021 (in thousands)	1% Decrease	1% Increase
Discount rate:		
Retiree health and welfare	$ 948,617	$ (726,846)
Long-term disability	$ 12,530	$ (10,140)
Health care cost trend rates:		
Retiree health and welfare	$ (807,936)	$ 1,102,842
Long-term disability	$ (17,191)	$ 17,486

NOTE 10—POSTEMPLOYMENT BENEFITS, CONTINUED

The components of postemployment benefits expense for the years ended June 30, 2022 and 2021 are summarized as follows:

2022 (in thousands)	Retiree Health and Welfare	Long-term Disability	Total
Service cost	$ 174,102	$ 38,927	$ 213,029
Interest cost	93,398	7,768	101,166
Amortization of deferred outflows and deferred inflows	47,630	894	48,524
	$ 315,130	$ 47,589	$ 362,719

2021 (in thousands)	Retiree Health and Welfare	Long-term Disability	Total
Service cost	$ 118,293	$ 33,632	$ 151,925
Interest cost	114,122	11,299	125,421
Amortization of deferred outflows and deferred inflows	82,332	3,346	85,678
	$ 314,747	$ 48,277	$ 363,024

Deferred outflows and deferred inflows related to the reported total liability for postemployment benefits obligations at June 30, 2022 and 2021 are summarized as follows:

	2022		2021	
(in thousands)	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Changes in assumptions	$ 779,951	$ 600,527	$ 905,690	$ 329,105
Differences between expected and actual plan experience	128,647	17,606	111,758	16,253
	908,598	618,133	1,017,448	345,358
Benefit payments made after measurement date	97,354		95,581	
	$ 1,005,952	$ 618,133	$ 1,113,029	$ 345,358

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 based upon the average future work life expectancy of plan participants (in thousands):

2023	$ 48,524
2024	48,524
2025	48,524
2026	36,502
2027	29,738
2028 and beyond	78,653
	$ 290,465

NOTE 11—RETIREMENT PLAN

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

For payroll covered under the plan, eligible employees generally contribute 5 percent of their pay and the University generally contributes 10 percent of employees' pay to the plan. The University contribution commences after an employee has completed one year of employment. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by University contributions. Contributions and covered payroll under the plan (excluding participants' additional contributions) for the years ended June 30, 2022 and 2021 are summarized as follows:

(in thousands)	2022	2021
University contributions	$ 347,465	$ 264,244
Employee contributions	$ 180,423	$ 170,622
Payroll covered under plan	$ 4,502,421	$ 4,255,709
Total payroll	$ 4,646,695	$ 4,400,615

NOTE 12—NET POSITION

The composition of net position at June 30, 2022 and 2021 is summarized as follows:

(in thousands)	2022	2021
Net investment in capital assets	$ 3,522,018	$ 3,669,608
Restricted:		
Nonexpendable:		
Permanent endowment corpus	2,821,876	2,625,459
Expendable:		
Net appreciation of permanent endowments	3,589,441	3,684,197
Funds functioning as endowment	3,218,330	2,973,422
Restricted for operations and other	807,252	924,677
Unrestricted	5,339,544	5,625,701
	$ 19,298,461	$ 19,503,064

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, 2022 and 2021, 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 $315,257,000 and $311,608,000 during the years ended June 30, 2022 and 2021, respectively, for student loans through the U.S. Department of Education ("DoED") Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements. The statement of net position includes a receivable of $4,250,000 and $1,065,000 at June 30, 2022 and 2021, respectively, for DoED funding received subsequent to distribution.

NOTE 14—COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction and other projects unexpended at June 30, 2022 were $1,394,163,000. Of these expenditures, the University expects that $1,045,800,000 will be funded by internal sources, gifts, grants and proceeds from borrowings; $42,911,000 by the State Building Authority and the remaining $305,452,000 will be funded using unexpended bond proceeds.

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, 2022, the University had committed, but not paid, a total of $5,179,752,000 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):

2023	$ 1,859,543
2024	1,011,915
2025	888,538
2026	578,673
2027	329,054
2028 and beyond	512,029
	$ 5,179,752

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

The University has entered into leases for certain space and equipment, which expire at various dates through 2042. Future lease 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
2023	$ 47,679	$ 7,835	$ 55,514
2024	42,335	7,947	50,282
2025	39,040	7,283	46,323
2026	27,948	6,632	34,580
2027	24,075	6,023	30,098
2028-2032	71,668	21,441	93,109
2033-2037	43,373	6,551	49,924
2038-2042	6,134	490	6,624
	$ 302,252	$ 64,202	$ 366,454

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

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

NOTE 15—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended June 30, 2022 and 2021 are summarized as follows:

2022

(in thousands)	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 1,125,341	$ 117,962			$ 1,243,303
Research	646,105	273,108			919,213
Public service	164,759	106,328			271,087
Academic support	325,726	67,659			393,385
Student services	115,220	33,183			148,403
Institutional support	209,526	333,070			542,596
Operations and maintenance of plant	101,012	229,393			330,405
Auxiliary enterprises	3,886,145	1,976,401			5,862,546
Depreciation			$ 606,523		606,523
Scholarships and fellowships				$ 230,946	230,946
	$ 6,573,834	$ 3,137,104	$ 606,523	$ 230,946	$ 10,548,407

2021

(in thousands)	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 1,092,866	$ 81,251			$ 1,174,117
Research	616,727	236,395			853,122
Public service	191,972	95,496			287,468
Academic support	310,667	49,039			359,706
Student services	107,156	24,950			132,106
Institutional support	191,449	163,357			354,806
Operations and maintenance of plant	93,937	172,678			266,615
Auxiliary enterprises	3,532,681	1,738,913			5,271,594
Depreciation			$ 620,037		620,037
Scholarships and fellowships				$ 200,431	200,431
	$ 6,137,455	$ 2,562,079	$ 620,037	$ 200,431	$ 9,520,002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16—UM HEALTH

Condensed financial information for UM Health, a blended component unit, before the elimination of certain intra-University transactions, at and for the years ended June 30, 2022 and 2021 is as follows:

(in thousands)	2022	2021
Condensed Statement of Net Position		
Assets:		
Current assets	$ 108,089	$ 126,853
Noncurrent assets	356,607	361,731
Total assets	464,696	488,584
Deferred outflows	3,217	2,589
Liabilities:		
Current liabilities	84,599	91,677
Noncurrent liabilities	245,347	272,826
Total liabilities	329,946	364,503
Deferred inflows	15,984	6,288
Net position:		
Net investment in capital assets	61,967	56,529
Restricted:		
Nonexpendable	682	682
Expendable	19,525	14,853
Unrestricted	39,809	48,318
Total net position	$ 121,983	$ 120,382
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Operating revenues	$ 529,560	$ 508,348
Operating expenses other than depreciation expense	482,303	447,786
Depreciation expense	33,897	34,539
Operating income	13,360	26,023
Nonoperating expenses, net	(11,667)	(3,734)
Other expenses, net	(92)	(2,379)
Net revenues before transfers	1,601	19,910
Transfers from other University units		13,000
Increase in net position	1,601	32,910
Net position, beginning of year	120,382	87,472
Net position, end of year	$ 121,983	$ 120,382
Condensed Statement of Cash Flows		
Net cash provided by operating activities	$ 14,740	$ 49,662
Net cash provided by noncapital financing activities	7,286	2,463
Net cash used in capital and related financing activities	(70,753)	(68,345)
Net cash provided by investing activities	13,295	4,939
Net decrease in cash and cash equivalents	(35,432)	(11,281)
Cash and cash equivalents, beginning of year	57,379	68,660
Cash and cash equivalents, end of year	$ 21,947	$ 57,379