REPORT OF INDEPENDENT AUDITORS

To the Regents of the University of Michigan:

We have audited the accompanying financial statements of the business-type activities and aggregate fiduciary activities of the University of Michigan (the "University"), which comprise the statements of net position and of fiduciary net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, of cash flows, and of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

MANAGEMENT'S RESPONSIBILITY 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; this includes 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' RESPONSIBILITY

Our responsibility is to express opinions on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

REPORT OF INDEPENDENT AUDITORS

pwc

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate fiduciary activities of the University of Michigan as of June 30, 2021 and 2020, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As discussed in Note 1 to the financial statements, the University changed the manner in which it accounts for fiduciary activities in 2021. Our opinion is not modified with respect to this matter.

OTHER MATTER

The accompanying management's discussion and analysis on pages 27 through 45 and the required supplementary information for the pension plan and postemployment benefits on pages 87 through 89 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary 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 audits 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 21, 2021

PricewaterhouseCoopers LLP, 500 Woodward Avenue, Detroit, Michigan 48226
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MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position of the University of Michigan (the "University") at June 30, 2021 and 2020 and its activities for the three fiscal years ended June 30, 2021. 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 University is a comprehensive public institution of higher learning with over 63,500 students and approximately 8,500 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 System ("UMHS"), 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 Metropolitan Hospital). The University's health system currently includes four hospitals as well as numerous health centers and outpatient clinics.

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.

The global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, was declared a pandemic by the World Health Organization on March 11, 2020 and a national emergency by the President of the United States on March 13, 2020. The outbreak and related actions taken by federal and state governments in response have impacted several aspects of the University's mission, including those related to instruction, research, patient care and other auxiliary activities.

FINANCIAL HIGHLIGHTS

The University's financial position remains strong, with total assets and deferred outflows of \$30.2 billion and total liabilities and deferred inflows of \$10.7 billion at June 30, 2021, compared to total assets and deferred outflows of \$24.0 billion and total liabilities and deferred inflows of \$9.5 billion at June 30, 2020. 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 \$19.5 billion and \$14.5 billion at June 30, 2021 and 2020, respectively. Changes in net position represent the University's results of operations and are summarized for the years ended June 30 as follows:

(in millions)	2021	2020	2019
Operating revenues and educational appropriations	$ 8,831	$ 8,340	$ 8,411
Federal economic relief funds	256	144	
Private gifts for operating activities	184	179	178
Operating and net interest expenses	(9,608)	(9,445)	(9,099)
	(337)	(782)	(510)
Net investment income	5,141	323	810
Endowment, capital gifts and grants, and other	176	182	223
Increase (decrease) in net position	$ 4,980	$ (277)	$ 523

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

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 and health care professionals and a period of constrained state appropriations and rising health care, regulatory and facility costs. During 2021 and 2020, the University also faced significant challenges associated with the COVID-19 pandemic, which impacted a broad range of its activities. 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 benefit 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 Statement of Fiduciary Net Position; and the Statement of Changes in Fiduciary Net Position. These basic financial statements are prepared in accordance with Governmental Accounting Standards Board ("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, while its fiduciary activities are reported in the fiduciary financial statements.

CONSOLIDATED STATEMENT OF NET POSITION

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

(in millions)	2021	2020	2019
Current assets	$ 4,898	$ 4,010	$ 2,885
Noncurrent assets:			
Endowment, life income and other investments	17,533	12,704	12,660
Capital assets, net	6,187	6,273	6,227
Other	445	518	500
Total assets	29,063	23,505	22,272
Deferred outflows	1,124	514	371
Current liabilities	2,538	2,374	1,708
Noncurrent liabilities	7,688	6,647	5,611
Total liabilities	10,226	9,021	7,319
Deferred inflows	454	471	520
Net position	$ 19,507	$ 14,527	$ 14,804

During 2021, the University adopted GASB Statement No. 84, *Fiduciary Activities* ("GASB 84"), which required the removal of fiduciary activities from the University's consolidated financial statements at July 1, 2019, resulting in a decrease in current assets and current liabilities of $46 million, and a decrease in endowment, life income and other investments and noncurrent liabilities of $174 million as compared to amounts previously reported. As a result of the adoption of this statement, the University's fiduciary activities are now presented within the statement of fiduciary net position and the statement of changes in fiduciary net position.

For purposes of management's discussion and analysis, comparative data for the consolidated statement of net position has been provided by reflecting the adoption of GASB 84 at June 30, 2019.

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 increased $888 million to $4.9 billion at June 30, 2021, as compared to $4.0 billion at June 30, 2020, primarily as a result of the University's continued focus on liquidity in response to uncertainties surrounding the COVID-19 pandemic, as well as increased patient care receivables. Cash, cash equivalents and investments for operating activities totaled $2.9 billion at June 30, 2021, 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 plan for Metropolitan Hospital. Deferred outflows totaled $1.1 billion and $514 million at June 30, 2021 and 2020, respectively.

Current liabilities consist primarily of accounts payable, accrued compensation, unearned revenue, commercial paper, the current portion of bonds payable and net long-term bonds payable subject to remarketing. Current liabilities totaled $2.5 billion and $2.4 billion at June 30, 2021 and 2020, respectively.

Deferred inflows represent the acquisition of net assets attributable to a future period and are associated with the University's obligations for post-employment benefits, Metropolitan Hospital's defined benefit pension plan and irrevocable split-interest agreements. Deferred inflows totaled $454 million and $471 million at June 30, 2021 and 2020, respectively.

ENDOWMENT, LIFE INCOME AND OTHER INVESTMENTS

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

(in millions)	2021	2020	2019
Endowment investments	$ 17,023	$ 12,313	$ 12,275
Life income investments	191	145	147
Noncurrent portion of insurance and benefits obligations investments	293	225	216
Other	26	21	22
	$ 17,533	$ 12,704	$ 12,660

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, a unitized pool which represents a collection of over 12,000 separate (individual) funds, the majority of which are restricted for specific purposes. The University Endowment Fund is invested in the University's Long Term Portfolio, a single diversified investment pool.

The endowment spending rule provides for distributions from the University Endowment Fund to the entities 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 University Endowment Fund 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, departments may also use withdrawals from funds functioning as endowment to support capital expenditures and operations.

Endowment spending rate distributions totaled $404 million, $384 million and $361 million and withdrawals from funds functioning as endowment totaled $4 million, $7 million and $38 million in 2021, 2020 and 2019, respectively. Total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 3.8 percent, 4.3 percent and 4.5 percent of the current year average fair value of the University Endowment Fund for 2021, 2020 and 2019, respectively. Over the past ten years, total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.6 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 $488 million in 2021 as compared to $618 million in 2020. 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 $427 million, as well as debt proceeds of $29 million and state capital appropriations of $32 million.

Projects completed in 2021 include significant new construction and renovation of academic and research facilities.

The new Ford Motor Company Robotics Building brings all parts of the Michigan Robotics enterprise together in one complex. This 134,000 square foot state-of-the-art facility houses classrooms, makerspaces, research and testing laboratories, associated support functions and offices. The building also provides space for its corporate partner, Ford Motor Company, to perform robotics research and engineering activities in collaboration with the University and other industry leaders, and has specialized labs for robot walking, flight testing, rehabilitation robotics, and electronics and software development.

The Edward Henry Kraus Building, which was originally completed in 1915, underwent an extensive renovation of 183,000 square feet as well as construction of an infill addition of 62,000 square feet within the exterior courtyard. This renovation and addition enables the School of Kinesiology to consolidate its programs and operations into one location and allows for future growth.

Laboratory renovations at two of the North Campus Research Complex buildings, which cover 158,000 square feet, will accommodate growth of the Medical School's wet laboratory research over the next decade. A 6,900 square foot infill addition improves connectivity between the buildings and throughout the complex. The project also addressed deferred maintenance including heating, ventilation, air conditioning, electrical and life safety system upgrades, and provided accessibility improvements and new finishes in public spaces.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Renovation and expansion of the Engineering Lab Building on the University's Dearborn campus, which was originally constructed in 1959, facilitates entrepreneurial problem solving, encourages multidisciplinary cooperation in the context of 21st-century engineering instruction, and provides students with new collaboration and project spaces. It also allows for research partnerships with industry, as well as expanded K-12 and community outreach efforts, with a focus on women and minorities. The 123,000 square feet facility includes classrooms, research and teaching laboratories, faculty offices and student support spaces. Replacement of regional boilers and electrical distribution equipment were also part of this project.

Expansion of the William R. Murchie Science Building on the University's Flint campus addresses immediate space limitations, and supports growing demand for instructional, research, and collaborative spaces for the science, technology, engineering and math disciplines, and create engineering-specific instructional and research laboratories. The project added 61,000 square feet and a third wing to the current Murchie building structure.

Construction in progress, which totaled $482 million and $636 million at June 30, 2021 and 2020, respectively, includes important projects for academic instruction, research and patient care, as well as central campus utilities.

The new Central Campus Classroom Building is being constructed to replace the 1964 addition to the Ruthven building. When complete, this new facility will include 100,000 square feet of active learning classrooms, including an auditorium that will seat approximately 550 students, with total building classroom capacity in excess of 1,400 students. The project also includes the 1928 Ruthven building which will be renovated to include a 200 person multipurpose room as well as space to accommodate the University's central administration staff that is currently located in the Fleming Administration Building. This project is scheduled to be completed in fall 2021.

Renovation and expansion of the W.K. Kellogg Institute and Dental Building will create a more welcoming, accessible facility with an improved patient entrance as well as new modern teaching clinics including a special care clinic to treat patients with complex medical conditions and disabilities. An open, flexible research space will be created along with space designed to foster collaboration among faculty and students. This project will also address deferred maintenance including exterior envelope repairs and life safety, electrical, mechanical and plumbing system improvements. This project is scheduled to be completed in summer 2022.

Expansion of the University's Central Power Plant will enhance power reliability and reduce greenhouse gas emissions, in accordance with a recommendation by the 2015 President's Committee on Greenhouse Gas Reduction. The Central Power Plant is a highly efficient, reliable on-campus source of heat and electricity that supports mission-critical functions across the University, including research and the demands of a major regional medical center. The expansion includes a 15 megawatt combustion turbine to increase the amount of energy that can be generated on campus, as well as reduce the amount of coal-based electricity purchased by the University. A cumulative reduction of more than 400,000 metric tons of carbon is expected within the first ten years of operation. This project is scheduled to be completed in fall 2021.

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 2020, 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 years ended June 30 is summarized as follows:

2021

(in millions)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 135	$ 165	$ 146	$ 154
Bonds	3,241		81	3,160
	$ 3,376	$ 165	$ 227	$ 3,314

2020

(in millions)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 145		$ 10	$ 135
Bonds	2,330	$ 1,026	115	3,241
	$ 2,475	$ 1,026	$ 125	$ 3,376

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

During 2020, the University issued $988 million of general revenue bonds with a net original issue premium of $38 million, which included $138 million of fixed rate, tax-exempt bonds, and $850 million of fixed rate, taxable bonds. Total bond proceeds of $1,026 million were utilized to refund existing bonds of $26 million and provide $150 million for capital projects, $848 million for capital projects, refunding of debt and general purposes, and $2 million for debt issuance costs.

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

(in millions)	**2021**	**2020**	**2019**
Variable rate:			
Commercial paper	$ 154	$ 135	$ 145
Bonds	523	551	566
Fixed rate bonds	2,637	2,690	1,764
	$ 3,314	$ 3,376	$ 2,475

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 2.5 percent and 2.9 percent in 2021 and 2020, respectively, including the federal subsidies for interest on taxable Build America Bonds. Interest expense net of federal subsidies received for interest on taxable Build America Bonds totaled $89 million and $80 million in 2021 and 2020, respectively.

OBLIGATIONS FOR POSTEMPLOYMENT BENEFITS

Using current actuarial assumptions, and presuming a continuation of the current level of benefits, the University's obligations for postemployment benefits totaled $4.4 billion at June 30, 2021, as compared to $3.5 billion and $3.1 billion at June 30, 2020 and 2019, respectively. The increase in the reported liability at June 30, 2021 was driven primarily by a decrease in the discount rate offset by a reduction in expected health care claims cost due to favorable experience and changes in health care claims trend assumption rates. The increase in the reported liability at June 30, 2020 was driven primarily by a decrease in the discount rate and mortality and longevity improvements, offset by a reduction in expected health care claims cost due to favorable experience. 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 $795 million, $629 million and $580 million at June 30, 2021, 2020 and 2019, respectively.

By implementing a series of health benefit initiatives over the past several years, the University has favorably impacted its total liability for postemployment benefits by $2.0 billion at June 30, 2021. These initiatives have included cost sharing changes, elimination of Medicare Part B reimbursements for certain retirees and the adjustment of retirement eligibility criteria.

NET POSITION

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

(in millions)	2021	2020	2019
Net investment in capital assets	$ 3,677	$ 3,767	$ 3,743
Restricted:			
Nonexpendable:			
Permanent endowment corpus	2,625	2,483	2,329
Expendable:			
Net appreciation of permanent endowments	3,684	2,055	2,144
Funds functioning as endowment	2,974	2,260	2,382
Restricted for operations and other	925	852	686
Unrestricted	5,622	3,110	3,520
	$ 19,507	$ 14,527	$ 14,804

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

Restricted nonexpendable net position represents the historical value (corpus) of gifts to the University's permanent endowment funds. Restricted expendable net position is subject to externally imposed stipulations governing their use and includes net appreciation of permanent endowments, funds functioning as endowment and net position restricted for operations, facilities and student loan programs. Restricted expendable net position increased 47 percent, or $2.4 billion, to $7.6 billion at June 30, 2021, as compared to a decrease of 1 percent, or $45 million, to $5.2 billion at June 30, 2020. The increase experienced during 2021 was driven primarily by strong investment returns within the University's Long Term Portfolio.

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, 2021 totaled $5.6 billion and included funds functioning as endowment of $7.7 billion offset by unfunded obligations for postemployment benefits of $3.6 billion. Unrestricted net position at June 30, 2020 totaled $3.1 billion and included funds functioning as endowment of $5.5 billion offset by unfunded obligations for postemployment benefits of $3.4 billion. Unrestricted net position also includes other net resources which totaled $1.5 billion and $1.0 billion at June 30, 2021 and 2020, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

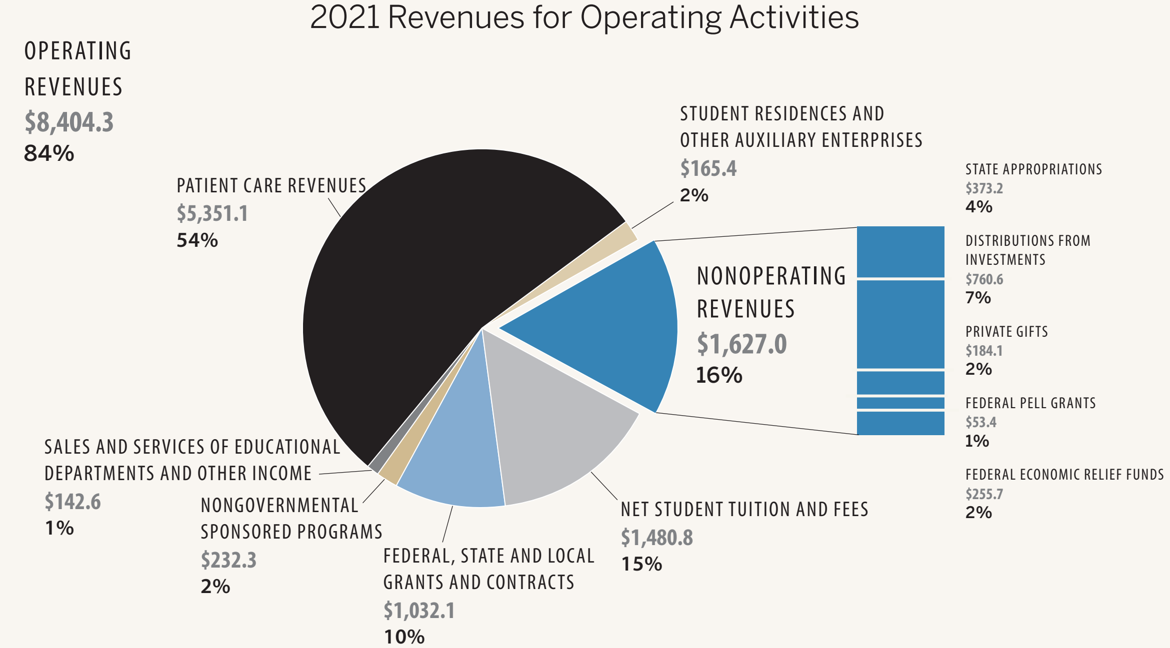
The consolidated statement of revenues, expenses and changes in net position presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. The University's revenues, expenses and changes in net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

(in millions)	2021	2020	2019
Operating revenues:			
Net student tuition and fees	$ 1,480.8	$ 1,455.6	$ 1,366.5
Sponsored programs	1,264.4	1,259.9	1,266.4
Patient care revenues, net	5,351.1	4,767.9	4,845.1
Other	308.0	472.2	511.9
	8,404.3	7,955.6	7,989.9
Operating expenses	9,519.1	9,364.3	9,025.0
Operating loss	(1,114.8)	(1,408.7)	(1,035.1)
Nonoperating and other revenues (expenses):			
State educational appropriations	373.2	331.3	370.4
Federal Pell grants	53.4	53.5	51.2
Federal economic relief funds	255.7	143.8	
Private gifts for operating activities	184.1	178.8	177.8
Net investment income	5,141.3	322.6	810.0
Interest expense	(94.7)	(86.0)	(81.4)
Federal subsidies for interest on Build America Bonds	5.5	5.6	7.0
State capital appropriations	32.1	13.9	
Endowment and capital gifts and grants	151.0	167.6	206.1
Other	(6.6)	0.7	16.9
Nonoperating and other revenues, net	6,095.0	1,131.8	1,558.0
Increase (decrease) in net position	4,980.2	(276.9)	522.9
Net position, beginning of year	14,527.0	14,803.9	14,281.0
Net position, end of year	$ 19,507.2	$ 14,527.0	$ 14,803.9

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, 2021 (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.

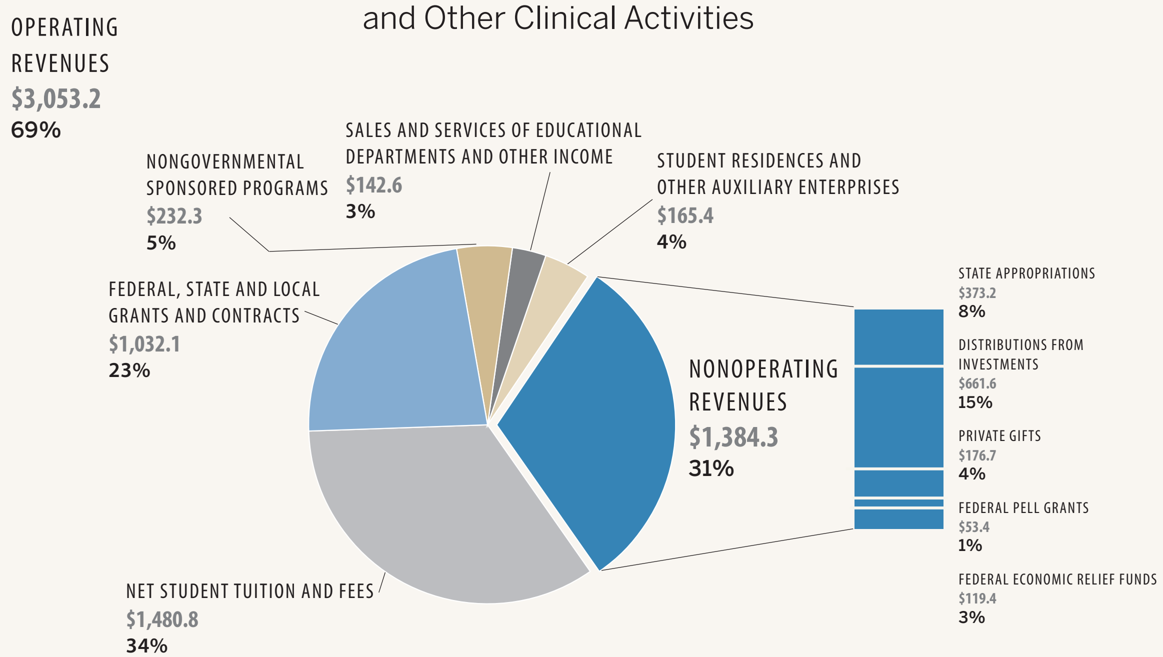
2021 Revenues for Operating Activities



MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

The University measures its performance both for the University as a whole and for the University without its health system and other clinical activities. The exclusion of these activities allows a clearer view of the operations of the schools and colleges, as well as central administration. The following is a graphic illustration of University revenues by source, both operating and nonoperating, which are used to fund operating activities other than the health system and other clinical activities, for the year ended June 30, 2021 (amounts are presented in millions of dollars).

2021 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 increased 4 percent, or $67 million, to $1.9 billion in 2021, as compared to 3 percent, or $50 million, to $1.8 billion in 2020.

In 2021, the University's state educational appropriations increased 13 percent, or $42 million, to $373 million reflecting a return to pre-COVID-19 pandemic funding levels. In 2020, the University's state educational appropriations decreased 11 percent, or $39 million, to $331 million primarily as a result of the establishment of an allowance against the University's outstanding state educational appropriations receivable due to uncertainties associated with the COVID-19 pandemic.

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

(in millions)	2021	2020	2019
Student tuition and fees	$ 1,978.0	$ 1,944.2	$ 1,812.5
Less scholarship allowances	497.2	488.6	446.0
	$ 1,480.8	$ 1,455.6	$ 1,366.5

In 2021, net student tuition and fees revenue increased 2 percent, or $25 million, to $1.5 billion, which reflects an increase of 2 percent, or $34 million, in gross student tuition and fees revenue offset by an increase of 2 percent, or $9 million, in scholarship allowances. Tuition rate increases in 2021 were 1.9 percent for both resident and nonresident undergraduate students and most graduate students on the Ann Arbor campus, with a 1.9 and 3.9 percent tuition rate increase for most resident undergraduate students on the Dearborn and Flint campuses, respectively. During 2021, the University experienced moderate growth in the number of students, as well as a shift in mix from resident to nonresident students.

In 2020, net student tuition and fees revenue increased 7 percent, or $89 million, to $1.5 billion, which reflects an increase of 7 percent, or $132 million, in gross student tuition and fees revenue offset by an increase of 10 percent, or $43 million, in scholarship allowances. Tuition rate increases in 2020 were 1.9 percent for resident undergraduate students, 3.7 percent for nonresident undergraduate students and 3.2 percent for most graduate students on the Ann Arbor campus, with a 3.2 and 5.0 percent tuition rate increase for most resident undergraduate students on the Dearborn and Flint campuses, respectively. During 2020, 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 $184 million in 2021, as compared to $179 million in 2020 and $178 million in 2019.

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 remained stable at $1.3 billion in both 2021 and 2020 as the rate of increase during these periods was limited by capacity constraints within the University's research labs which were initiated in response to the COVID-19 pandemic.

Patient care revenues are principally generated within the University's hospitals and ambulatory care facilities. Patient care revenues increased 12 percent, or $583 million, to $5.4 billion in 2021, due primarily to growth in patient volume as well as an increase in revenue per patient case. Patient care revenues decreased 2 percent, or $77 million, to $4.8 billion in 2020, due primarily to a decrease in patient volume resulting from a temporary reduction in operations in response to the COVID-19 pandemic.

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

(in millions)	2021	2020	2019
University of Michigan Health System	$ 4,682.6	$ 4,152.6	$ 4,212.4
UM Health	507.0	464.3	472.5
Michigan Health Corporation	30.9	36.4	39.1
Other	130.6	114.6	121.1
	$ 5,351.1	$ 4,767.9	$ 4,845.1

The largest component of patient care revenues is generated by UMHS, a national leader in advanced patient care and comprehensive education of physicians and medical scientists. UMHS serves as the principal teaching facility for the University's Medical School and operates three hospitals with 1,043 licensed beds for acute care and psychiatric needs, as well as numerous ambulatory care centers, outpatient clinics and various other health care programs across the state. Substantially all physician services to UMHS patients are provided by the University's Medical School faculty. UMHS 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 Metropolitan Hospital, a community health care provider in west Michigan, which operates a hospital with 208 licensed beds for acute care, as well as neighborhood outpatient clinics and a growing network of specialty services. The University's affiliation with Metropolitan Hospital positions 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 follow:

	2021	2020	2019
Medicare	27%	27%	26%
Medicaid	12%	11%	12%
Blue Cross	38%	39%	38%
Other	23%	23%	24%

Federal economic relief funds represent amounts received from the federal government to provide economic assistance to entities that have been negatively impacted by the COVID-19 pandemic. The University recognized revenue of $135 million in both 2021 and 2020 associated with the Provider Relief Fund distributed by the U.S. Department of Health and Human Services. Revenue associated with the Higher Education Emergency Relief Fund distributed by the U.S. Department of Education totaled $77 million in 2021 as compared to $9 million in 2020. Revenue of $42 million associated with the Coronavirus Relief Fund distributed by the U.S. Department of the Treasury was recognized during 2021.

Net investment income totaled $5.1 billion in 2021 as compared to $323 million in 2020 and $810 million in 2019. During 2021 the financial markets experienced strong growth following the impact of the COVID-19 pandemic induced slowdown from the prior year. In 2021, the alternative assets returned 51 percent with venture capital and private equity assets leading the alternative asset class with returns of 78 and 51 percent, respectively. Within the marketable assets class, equities led with a return of 51 percent.

The investment environment in 2020 experienced a significant amount of volatility during the third and fourth quarters due to the impact of the COVID-19 pandemic. During 2020, the alternative asset class had the strongest performance and returned 6 percent for the year. The venture capital and private equity assets led the alternative asset class with returns of 19 percent and 11 percent, respectively.

State capital appropriations help the University improve its academic buildings. Recent capital outlays have supported renovations of 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. Private gifts for permanent endowment purposes totaled $136 million in 2021, as compared to $149 million and $176 million in 2020 and 2019, respectively. Capital gifts and grants totaled $15 million in 2021, as compared to $19 million and $30 million in 2020 and 2019, respectively. 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 64 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):

	2021		2020		2019	
Operating:						
Compensation and benefits	$ 6,137.5	64%	$ 6,049.9	64%	$ 5,769.0	63%
Supplies and services	2,614.4	27	2,574.6	27	2,523.8	28
Depreciation	566.8	6	566.7	6	567.8	6
Scholarships and fellowships	200.4	2	173.1	2	164.4	2
	9,519.1	99	9,364.3	99	9,025.0	99
Nonoperating:						
Interest, net	89.2	1	80.4	1	74.4	1
	$ 9,608.3	100%	$ 9,444.7	100%	$ 9,099.4	100%

The University is committed to recruiting and retaining outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. Compensation and benefits increased 1 percent, or $88 million, to $6.1 billion in 2021 as compared to 5 percent, or $281 million, to $6.0 billion in 2020. Of the 2021 increase, compensation increased less than 1 percent, or $11 million, to $4.6 billion, due primarily to temporary cost saving measures taken in response to the COVID-19 pandemic, and employee benefits increased 5 percent, or $77 million, to $1.5 billion, resulting from an increase in prescription drug costs as well as activity associated with the University's postemployment benefits obligations. For 2020, compensation increased 5 percent, to $4.6 billion, and benefits increased 5 percent, to $1.4 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 increased 2 percent, or $40 million, to $2.6 billion in 2021 as compared to an increase of 2 percent, or $51 million, to $2.6 billion in 2020. These increases reflect the growth in patient care related expenses, offset partially by cost containment measures taken in response to the COVID-19 pandemic.

In addition to their natural (object) 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):

	2021		2020		2019	
Operating:						
Instruction	$ 1,175.4	12%	$ 1,204.8	13%	$ 1,195.2	13%
Research	853.2	9	862.8	9	857.6	10
Public service	287.9	3	206.4	2	208.7	2
Institutional and academic support	849.5	9	779.9	8	767.0	8
Operations and maintenance of plant	271.9	3	324.1	3	351.6	4
Auxiliary enterprises:						
Patient care	5,114.3	53	4,975.4	53	4,661.5	51
Other	199.7	2	271.1	3	251.2	3
Depreciation	566.8	6	566.7	6	567.8	6
Scholarships and fellowships	200.4	2	173.1	2	164.4	2
	9,519.1	99	9,364.3	99	9,025.0	99
Nonoperating:						
Interest, net	89.2	1	80.4	1	74.4	1
	$ 9,608.3	100%	$ 9,444.7	100%	$ 9,099.4	100%

Instruction expenses decreased 2 percent, or $29 million, in 2021, and increased less than 1 percent, or $10 million, in 2020. This activity reflects the growth in the related revenue sources offset by cost containment efforts.

Research expenses decreased 1 percent, or $10 million, in 2021, as compared to an increase of less than 1 percent, or $5 million, in 2020. The relative stability in both 2021 and 2020, despite the on-going challenges associated with the COVID-19 pandemic, reflects 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 $1.58 billion in 2021, and $1.62 billion in both 2020 and 2019.

Patient care expenses increased 3 percent, or $139 million, in 2021, and 7 percent, or $314 million, in 2020, and reflect the impact of additional patient activity and capacity expansion. Increased medical supplies expense resulted from higher patient activity levels, the rising cost of pharmaceuticals and the additional cost of personal protective equipment acquired in response to the COVID-19 pandemic.

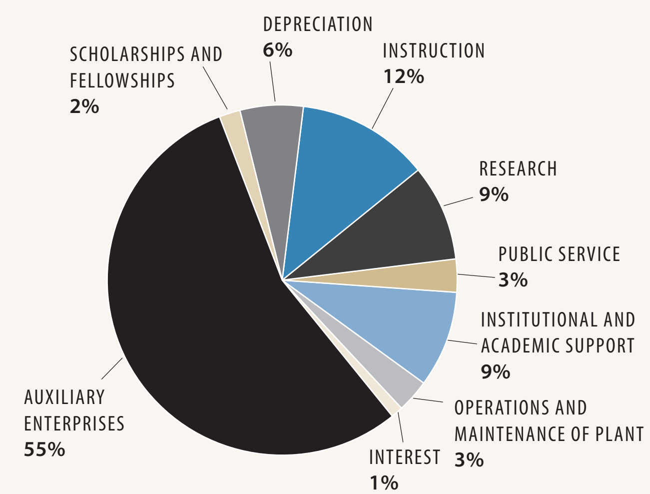
Scholarships and fellowships provided to students totaled $708 million in 2021, as compared to $685 million in 2020 and $635 million in 2019, an increase of 12 percent over the past two years. Tuition, housing and fees revenues are reported net of aid applied to students' accounts, while amounts paid directly to students are reported as scholarships and fellowships expense. Scholarships and fellowships for the years ended June 30 are summarized as follows:

(in millions)	2021	2020	2019
Paid directly to students	$ 200.4	$ 173.1	$ 164.4
Applied to tuition and fees	497.2	488.6	446.0
Applied to University Housing	10.3	23.1	24.2
	$ 707.9	$ 684.8	$ 634.6

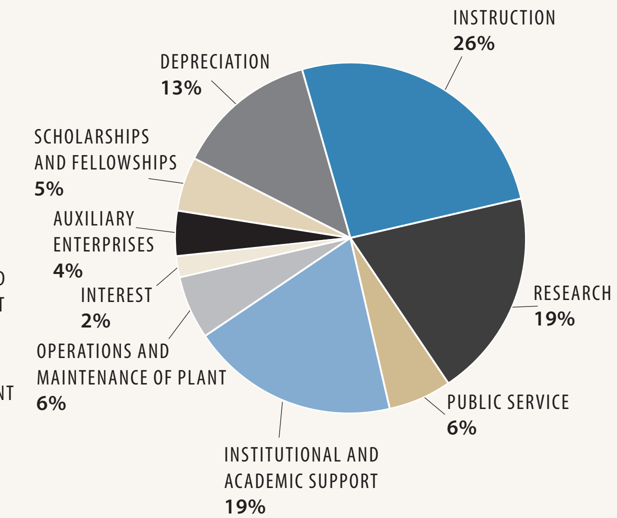
During 2021 and 2020, scholarships and fellowships expense included emergency financial aid grants distributed directly to students in accordance with the terms of the Higher Education Emergency Relief Fund of $26 million and $8 million, respectively.

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

2021 Expenses by Function



2021 Expenses by Function
Excluding Expenses from the University's
Patient Care Activities



CONSOLIDATED STATEMENT OF CASH FLOWS

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

(in millions)	2021	2020	2019
Cash received from operations	$ 8,081.4	$ 8,345.6	$ 7,965.9
Cash expended for operations	(8,412.8)	(8,440.6)	(8,283.8)
Net cash used in operating activities	(331.4)	(95.0)	(317.9)
Net cash provided by noncapital financing activities	900.9	1,705.4	767.7
Net cash used in capital and related financing activities	(569.8)	(602.3)	(597.2)
Net cash (used in) provided by investing activities	(271.3)	(130.0)	411.3
Net (decrease) increase in cash and cash equivalents	(271.6)	878.1	263.9
Cash and cash equivalents, beginning of year	1,275.4	397.3	133.4
Cash and cash equivalents, end of year	$ 1,003.8	$ 1,275.4	$ 397.3

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 on-going COVID-19 pandemic is expected to continue to impact the state's revenues, which provide the foundation for the University's annual appropriations. Although the State has worked to identify and initiate various cost saving measures in response to the pandemic, the University's budget for 2022 reflects the impact of these economic challenges at the state and local level, and therefore anticipates no change in the level of base state educational appropriations as compared to the prior year. The 2022 budget also anticipates a 1.4 percent tuition rate increase for Ann Arbor campus resident undergraduates and a 6.4 percent increase in centrally awarded financial aid. Nonresident undergraduate tuition rates as well as most graduate and professional rates will increase 1.8 percent. Resident undergraduate tuition rates for the Dearborn campus will increase 1.9 percent, while the Flint campus will see no increase in their resident undergraduate rates.

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 $1,130 million at June 30, 2021. Funding for these projects is anticipated to include $1,034 million from internal sources, gifts, grants and proceeds from borrowings, $44 million from the State Building Authority and $52 million from the utilization of unexpended bond proceeds.

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.

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact the University's financial position and its results of operations, including those related to instruction, research, patient care and other auxiliary activities. While the University continues to design and execute plans to mitigate these risks, the extent of the impact to the University will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time.

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

FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF NET POSITION

(in thousands)	June 30, 2021	2020
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,003,846	$ 1,275,401
Investments for operating activities	1,912,859	1,519,753
Investments for capital activities	627,926	301,721
Investments for student loan activities	70,481	69,866
Accounts receivable, net	970,600	583,857
Current portion of notes and pledges receivable, net	108,708	98,723
Current portion of other assets	183,656	151,859
Cash collateral held by agent	20,040	8,728
Total Current Assets	4,898,116	4,009,908
Noncurrent Assets:		
Unexpended bond proceeds	52,451	125,905
Endowment, life income and other investments	17,532,653	12,704,098
Notes and pledges receivable, net	260,554	275,714
Other assets	131,951	116,184
Capital assets, net	6,187,063	6,273,008
Total Noncurrent Assets	24,164,672	19,494,909
Total Assets	**29,062,788**	**23,504,817**
Deferred Outflows	**1,124,313**	**514,092**

(in thousands)	June 30, 2021	2020
Liabilities		
Current Liabilities:		
Accounts payable	312,367	333,934
Accrued compensation and other	746,422	550,605
Unearned revenue	557,109	586,252
Current portion of insurance and benefits reserves	269,789	144,827
Current portion of obligations for postemployment benefits	95,581	92,684
Commercial paper and current portion of bonds payable	235,875	215,658
Long-term bonds payable subject to remarketing, net	300,542	441,450
Collateral held for securities lending	20,040	8,728
Total Current Liabilities	2,537,725	2,374,138
Noncurrent Liabilities:		
Accrued compensation	103,563	88,952
Insurance and benefits reserves	170,059	158,604
Obligations for defined benefit pension plan, net	(6,322)	(1,247)
Obligations for postemployment benefits	4,316,565	3,384,804
Obligations under life income agreements	76,995	71,556
Government loan advances	55,585	64,989
Bonds payable	2,777,621	2,719,063
Other liabilities	194,568	160,209
Total Noncurrent Liabilities	7,688,634	6,646,930
Total Liabilities	**10,226,359**	**9,021,068**
Deferred Inflows	**453,562**	**470,841**
Net Position		
Net investment in capital assets	3,677,053	3,767,199
Restricted:		
Nonexpendable	2,625,459	2,483,225
Expendable	7,582,296	5,166,803
Unrestricted	5,622,372	3,109,773
Total Net Position	**$ 19,507,180**	**$ 14,527,000**

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

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(in thousands)	Year Ended June 30, 2021	2020
Operating Revenues		
Student tuition and fees	$ 1,977,983	$ 1,944,169
Less scholarship allowances	497,162	488,576
Net student tuition and fees	1,480,821	1,455,593
Federal grants and contracts	1,019,559	1,005,408
State and local grants and contracts	12,577	11,129
Nongovernmental sponsored programs	232,286	243,326
Sales and services of educational departments	140,594	127,353
Auxiliary enterprises:		
Patient care revenues (net of provision for bad debts of $140,672 in 2021 and $119,101 in 2020)	5,351,066	4,767,872
Student residence fees (net of scholarship allowances of $10,260 in 2021 and $23,138 in 2020)	50,334	114,648
Other revenues	115,029	228,034
Student loan interest income and fees	2,057	2,246
Total Operating Revenues	**8,404,323**	**7,955,609**
Operating Expenses		
Compensation and benefits	6,137,455	6,049,913
Supplies and services	2,614,367	2,574,614
Depreciation	566,848	566,694
Scholarships and fellowships	200,431	173,073
Total Operating Expenses	**9,519,101**	**9,364,294**
Operating Loss	(1,114,778)	(1,408,685)
Nonoperating Revenues (Expenses)		
State educational appropriations	373,230	331,330
Federal Pell grants	53,396	53,488
Federal economic relief funds	255,673	143,829
Private gifts for other than capital and endowment purposes	184,108	178,754
Net investment income	5,141,252	322,642
Interest expense	(94,705)	(86,035)
Federal subsidies for interest on Build America Bonds	5,529	5,584
Total Nonoperating Revenues, Net	**5,918,483**	**949,592**
Income (Loss) Before Other Revenues (Expenses)	4,803,705	(459,093)
Other Revenues (Expenses)		
State capital appropriations	32,062	13,853
Capital gifts and grants	14,639	18,682
Private gifts for permanent endowment purposes	136,402	148,932
Other	(6,628)	718
Total Other Revenues, Net	**176,475**	**182,185**
Increase (Decrease) in Net Position	4,980,180	(276,908)
Net Position, Beginning of Year	14,527,000	14,803,908
Net Position, End of Year	**$ 19,507,180**	**$ 14,527,000**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year Ended June 30, 2021	2020
Cash Flows from Operating Activities		
Student tuition and fees	$ 1,487,613	$ 1,448,009
Federal, state and local grants and contracts	1,016,803	1,035,664
Nongovernmental sponsored programs	238,827	256,097
Sales and services of educational departments and other	274,665	309,712
Patient care revenues	4,994,855	5,161,492
Student residence fees	50,936	114,183
Payments to employees	(4,543,478)	(4,548,764)
Payments for benefits	(1,142,841)	(1,240,427)
Payments to suppliers	(2,519,582)	(2,471,802)
Payments for scholarships and fellowships	(200,431)	(173,073)
Student loans issued	(6,430)	(6,523)
Student loans collected	15,662	18,234
Student loan interest and fees collected	2,057	2,246
Net Cash Used in Operating Activities	**(331,344)**	**(94,952)**
Cash Flows from Noncapital Financing Activities		
State educational appropriations	331,523	372,530
Federal Pell grants	53,396	53,488
Federal economic relief funds	249,737	142,164
Private gifts and other receipts	285,710	291,577
Proceeds from issuance of debt		850,025
Interest payments on debt	(16,830)	
Payments for bond refunding and related costs		(1,963)
Student direct lending receipts	312,147	317,320
Student direct lending disbursements	(311,608)	(316,410)
Amounts received for annuity and life income funds	5,979	6,370
Amounts paid to annuitants and life beneficiaries and related expenses	(9,118)	(9,702)
Net Cash Provided by Noncapital Financing Activities	**900,936**	**1,705,399**
Cash Flows from Capital and Related Financing Activities		
State capital appropriations	31,033	10,938
Private gifts and other receipts	37,788	36,347
Proceeds from issuance of capital debt	164,875	175,997
Principal payments on capital debt	(211,690)	(107,946)
Interest payments on capital debt	(91,237)	(101,409)
Federal subsidies for Build America Bonds interest	5,531	9,315
Payments for bond refunding and related costs		(273)
Purchases of capital assets	(507,859)	(626,564)
Proceeds from sales of capital assets	1,739	1,240
Net Cash Used in Capital and Related Financing Activities	**(569,820)**	**(602,355)**

FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF CASH FLOWS, CONTINUED

(in thousands)	Year Ended June 30, 2021	2020
Cash Flows from Investing Activities		
Interest and dividends on investments, net	24,323	49,260
Proceeds from sales and maturities of investments	8,341,799	5,472,203
Purchases of investments	(8,710,091)	(5,491,398)
Net decrease (increase) in unexpended capital debt proceeds	73,454	(35,092)
Net decrease (increase) in cash equivalents from noncurrent investments	8,232	(116,546)
Net decrease in fiduciary custodial funds and other	(9,044)	(8,397)
Net Cash Used in Investing Activities	**(271,327)**	**(129,970)**
Net (Decrease) Increase in Cash and Cash Equivalents	(271,555)	878,122
Cash and Cash Equivalents, Beginning of Year	1,275,401	397,279
Cash and Cash Equivalents, End of Year	**$ 1,003,846**	**$ 1,275,401**
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	$ (1,114,778)	$ (1,408,685)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	566,848	566,694
Changes in assets and liabilities:		
Accounts receivable, net	(331,111)	106,576
Other assets	(46,807)	(16,161)
Accounts payable	(11,484)	49,994
Accrued compensation and other	230,719	93,947
Unearned revenue	(27,462)	272,979
Insurance and benefits reserves	136,417	71,519
Obligations for defined benefit pension plan, net	(5,075)	1,671
Obligations for postemployment benefits	934,658	363,433
Changes in deferred outflows	(615,072)	(147,161)
Changes in deferred inflows	(48,197)	(49,758)
Net Cash Used in Operating Activities	**$ (331,344)**	**$ (94,952)**

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

STATEMENT OF FIDUCIARY NET POSITION

	June 30, 2021	June 30, 2020	September 30, 2020	September 30, 2019
(in thousands)	Custodial Funds		Pension Trust Funds	
Assets				
Receivables			$ 220	$ 827
Investments	$ 274,374	$ 213,617	77,486	75,590
Total Assets	**274,374**	**213,617**	**77,706**	**76,417**
Liabilities				
Due to individuals and organizations	50,578	49,858	142	52
Total Liabilities	**50,578**	**49,858**	**142**	**52**
Fiduciary Net Position				
Restricted for:				
Pension			77,564	76,365
Organizations	223,796	163,759		
Total Fiduciary Net Position	**$ 223,796**	**$ 163,759**	**$ 77,564**	**$ 76,365**

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

FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

	Year Ended June 30, 2021	Year Ended June 30, 2020	Year Ended September 30, 2020	Year Ended September 30, 2019
(in thousands)	Custodial Funds		Pension Trust Funds	
Additions				
Contributions:				
Organizations	$ 6,327	$ 3,522		
Employer			$ 60	$ 900
Total contributions	6,327	3,522	60	900
Net investment income (loss)	54,582	(9,106)	7,079	5,219
Total Additions	**60,909**	**(5,584)**	**7,139**	**6,119**
Deductions				
Benefits paid to participants			5,565	8,470
Administrative expenses			375	400
Withdrawals	872	4,850		
Total Deductions	**872**	**4,850**	**5,940**	**8,870**
Increase (Decrease) in Fiduciary Net Position	60,037	(10,434)	1,199	(2,751)
Fiduciary Net Position, Beginning of Year	163,759		76,365	
Adoption of GASB 84		174,193		79,116
Fiduciary Net Position, Beginning of Year, as Restated	163,759	174,193	76,365	79,116
Fiduciary Net Position, End of Year	**$ 223,796**	**$ 163,759**	**$ 77,564**	**$ 76,365**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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 63,500 students on its three campuses. The financial statements include the individual schools, colleges and departments, the University of Michigan Health System, 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 Metropolitan Hospital) 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.

During 2021, the University adopted GASB Statement No. 84, *Fiduciary Activities*, which required the University to remove fiduciary activities from its consolidated financial statements and present them within the statement of fiduciary net position and statement of changes in fiduciary net position. The University's fiduciary activities represent those resources for which the University acts as a trustee or custodian, including the Metropolitan Hospital pension plan trust which is considered a fiduciary component unit. The adoption of this statement resulted in a decrease in investments for operating activities and deposits of affiliates and others of $46,348,000, and a decrease in endowment, life income and other investments and deposits of affiliates and other of $174,193,000 at July 1, 2019.

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation, outstanding principal balances of debt and capital lease liabilities, unexpended bond proceeds and deferred outflows 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2021 and 2020. The University may also adjust the fair value of these investments based on market conditions, specific redemption terms and restrictions, risk considerations and other factors. As these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed.

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

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

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

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. 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 Metropolitan Hospital.

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 $261,396,000 and $302,298,000 at June 30, 2021 and 2020, 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 associated with the University's obligations for postemployment benefits, Metropolitan Hospital's defined benefit pension plan and irrevocable split-interest agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 $3,684,197,000 and $2,055,430,000 at June 30, 2021 and 2020, respectively, is recorded in restricted expendable net position. The University's endowment spending rule is further discussed in Note 2.

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 $62,596,000 and $94,292,000 in 2021 and 2020, respectively.

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

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.

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 2021 and 2020, the University received payments primarily from three programs, the Provider Relief Fund, the Higher Education Emergency Relief 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 $135,325,000 and $134,670,000 in 2021 and 2020, 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 $77,055,000 and $9,159,000 in 2021 and 2020, respectively.

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, private equity, real estate, natural resources and absolute return strategies.

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 entities 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 $1,003,846,000 and $1,275,401,000 at June 30, 2021 and 2020, 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 $72,126,000 and $84,860,000 at June 30, 2021 and 2020, respectively. The University does not require its deposits to be collateralized or insured.

Unexpended bond proceeds, which totaled $52,451,000 and $125,905,000 at June 30, 2021 and 2020, 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 $926,114,000 and $1,198,773,000 at June 30, 2021 and 2020, respectively. Level 2 securities, which primarily consist of U.S. agencies, totaled $5,500,000 and $59,000,000 at June 30, 2021 and 2020, respectively.

Investments: At June 30, 2021 and 2020, the University's investments, which are held by the University or its agents in the University's name, are summarized as follows:

(in thousands)	2021	2020
Cash equivalents, noncurrent	$ 276,168	$ 284,268
Equity securities	752,048	486,404
Fixed income securities	3,010,819	2,075,171
Commingled funds	3,190,302	2,589,411
Nonmarketable alternative investments	13,183,395	9,361,811
Other investments	5,561	11,990
	20,418,293	14,809,055
Less fiduciary custodial funds	274,374	213,617
	$ 20,143,919	$ 14,595,438

At June 30, 2021 and 2020, the fair value of the University's investments based on the inputs used to value them is summarized as follows:

			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

NOTE 2—CASH AND INVESTMENTS, CONTINUED

2020

(in thousands)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Cash equivalents, noncurrent	$ 284,268	-	-	-	$ 284,268
Equity securities:					
Domestic	88,599		$ 52,098		140,697
Foreign	344,722		985		345,707
	433,321	-	53,083	-	486,404
Fixed income securities:					
U.S. Treasury	1,405,695				1,405,695
U.S. government agency		$ 31,848			31,848
Corporate and other		626,043	11,585		637,628
	1,405,695	657,891	11,585	-	2,075,171
Commingled funds:					
Absolute return				$ 2,154,259	2,154,259
Domestic equities	9,494			144,541	154,035
Global equities	674			261,379	262,053
U.S. fixed income	3,061				3,061
Other	16,003				16,003
	29,232	-	-	2,560,179	2,589,411
Nonmarketable alternative investments:					
Venture capital				2,673,995	2,673,995
Absolute return				2,174,643	2,174,643
Private equity			279,200	1,701,552	1,980,752
Real estate			8,331	1,347,008	1,355,339
Natural resources			160,993	1,016,089	1,177,082
	-	-	448,524	8,913,287	9,361,811
Other investments	(6)	2,467	9,529	-	11,990
	$ 2,152,510	$ 660,358	$ 522,721	$ 11,473,466	14,809,055
					213,617
Less fiduciary custodial funds					$ 14,595,438

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.

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 3.2 years at June 30, 2021 compared to 3.6 years at June 30, 2020. 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, 2021 and 2020, which are used to adjust the duration of cash equivalents and the fixed income portion of the portfolios.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2—CASH AND INVESTMENTS, CONTINUED

The composition of fixed income securities at June 30, 2021 and 2020, along with credit quality and effective duration measures, is summarized as follows:

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

2020 (in thousands)	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 1,396,416				$ 1,396,416	2.1
U.S. Treasury inflation protected	9,279				9,279	8.0
U.S. government agency	31,848				31,848	1.7
Mortgage backed		$ 31,752	$ 299	$ 2,531	34,582	1.9
Asset backed		40,676			40,676	0.9
Corporate and other		527,843	14,431	20,096	562,370	7.8
	$ 1,437,543	$ 600,271	$ 14,730	$ 22,627	$ 2,075,171	3.6

Of the University's fixed income securities, 97 percent and 98 percent were rated investment grade or better at June 30, 2021 and 2020, respectively, and 73 percent and 75 percent of these securities consisted of either U.S. treasury and government agencies or non-U.S. government securities rated AAA/Aaa at June 30, 2021 and 2020, respectively.

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

Nonmarketable alternative investments consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner. The University's limited partnerships are diversified in terms of manager selection, industry and geographic focus. At June 30, 2021 and 2020, 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, 2021 is summarized as follows (amounts in thousands):

	Fair Value	Remaining Life	Outstanding Commitments	Redemption Terms	Redemption Notice
Commingled funds	$ 3,190,302	N/A	$ -	Daily, monthly, quarterly and annually, with varying notice periods	Lock-up provisions range from none to five years
Nonmarketable alternative investments	$ 13,183,395	1-12 years	$ 4,622,311	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, 2021 and 2020, 79 percent and 74 percent, respectively, are redeemable within one year, with 65 percent and 55 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 $1,777,448,000 or 9 percent of total investments at June 30, 2021, and $1,377,093,000 or 9 percent of total investments at June 30, 2020, and are summarized as follows:

(in thousands)	2021	2020
Euro	$ 885,763	$ 840,583
British pound sterling	279,092	173,115
Swedish krona	236,595	100,114
Canadian dollar	143,015	43,004
Japanese yen	135,042	129,016
Norwegian krone	51,616	63,875
Other	46,325	27,386
	$ 1,777,448	$ 1,377,093

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2—CASH AND INVESTMENTS, CONTINUED

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 $21,472,000 and $15,989,000 in securities loans outstanding at June 30, 2021 and 2020, 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, 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, while at June 30, 2020, collateral of $16,607,000 (104 percent of securities on loan) includes invested cash of $8,728,000 and U.S. government securities of $7,879,000.

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, 2021 and 2020 is summarized as follows:

(in thousands)	2021	2020
Patient care	$ 778,548	$ 439,345
Sponsored programs	177,384	153,470
State appropriations, educational and capital	71,804	70,732
Student accounts	38,445	43,327
Other	45,947	38,500
	1,112,128	745,374
Less allowance for uncollectible accounts receivable:		
Patient care	131,628	110,131
State educational appropriations		41,664
All other	9,900	9,722
	$ 970,600	$ 583,857

During 2020, the state of Michigan experienced a reduction to its overall revenues due to the economic impact of the COVID-19 pandemic, which created uncertainty regarding the timing and amount of the University's state appropriations payments. In July 2020, the State amended its 2020 appropriations bill to replace $41,664,000 of the University's state educational appropriations with Coronavirus Relief Funds. The University considered this amendment to be a recognized subsequent event relative to contingencies that existed at June 30, 2020, and therefore established a corresponding valuation allowance as of that date.

NOTE 4—NOTES AND PLEDGES RECEIVABLE

The composition of notes and pledges receivable at June 30, 2021 and 2020 is summarized as follows:

(in thousands)	2021	2020
Notes:		
Federal student loan programs	$ 54,341	$ 63,134
University student loan funds	14,233	14,777
Other	7,909	5,664
	76,483	83,575
Less allowance for uncollectible notes	3,100	3,134
Total notes receivable, net	73,383	80,441
Gift pledges:		
Capital	94,264	119,205
Operations	212,471	186,723
	306,735	305,928
Less:		
Allowance for uncollectible pledges	7,407	7,488
Unamortized discount to present value	3,449	4,444
Total pledges receivable, net	295,879	293,996
Total notes and pledges receivable, net	369,262	374,437
Less current portion	108,708	98,723
	$ 260,554	$ 275,714

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, 2021 are expected to be received in the following years ended June 30 (in thousands):

2022	$ 92,921
2023	57,687
2024	65,712
2025	32,844
2026	21,050
2027 and after	36,521
	$ 306,735

Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $129,158,000 and $140,439,000 at June 30, 2021 and 2020, 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, 2021 and 2020 is summarized as follows:

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	9,608,386	516,904	55,670	10,069,620
Construction in progress	635,515	(153,610)		481,905
Equipment	2,241,083	91,249	99,717	2,232,615
Library materials	699,201	25,471		724,672
	13,765,807	487,678	156,567	14,096,918
Less accumulated depreciation	7,492,799	566,848	149,792	7,909,855
	$ 6,273,008	$ (79,170)	$ 6,775	$ 6,187,063

2020

(in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 153,310		$ 92	$ 153,218
Land improvements	160,301	$ 3,666	341	163,626
Infrastructure	264,757	21		264,778
Buildings	9,412,876	224,134	28,624	9,608,386
Construction in progress	413,207	222,308		635,515
Equipment	2,242,493	143,259	144,669	2,241,083
Library materials	674,491	24,710		699,201
	13,321,435	618,098	173,726	13,765,807
Less accumulated depreciation	7,094,466	566,694	168,361	7,492,799
	$ 6,226,969	$ 51,404	$ 5,365	$ 6,273,008

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. The increase in construction in progress of $222,308,000 in 2020 represents the amount of capital expenditures for new projects of $501,330,000 net of assets placed in service of $279,022,000.

NOTE 6—LONG-TERM DEBT

Long-term debt at June 30, 2021 and 2020 is summarized as follows:

(in thousands)	2021	2020
Commercial paper:		
Tax-exempt, variable rate (0.11%)*	$ 149,305	$ 133,585
Taxable, variable rate (0.08%)*	4,220	1,720
General revenue bonds:		
Series 2020A, 4.00% to 5.00% through 2050	138,430	138,430
unamortized premium	35,589	37,469
Series 2020B, taxable, 1.004% to 2.562% through 2050	850,025	850,025
Series 2019A, 5.00% through 2036	132,140	140,470
unamortized premium	20,674	23,721
Series 2019B, taxable, 2.706% to 3.416% through 2029	13,765	15,280
Series 2019C, 4.00% through 2049	61,725	61,725
unamortized premium	5,443	5,696
Series 2018A, 4.00% to 5.00% through 2048	130,025	132,640
unamortized premium	15,915	16,941
Series 2017A, 4.00% to 5.00% through 2047	420,990	434,505
unamortized premium	60,910	66,527
Series 2015, 4.00% to 5.00% through 2046	280,950	287,170
unamortized premium	38,791	41,662
Series 2014A, 4.25% to 5.00% through 2044	70,425	72,375
unamortized premium	5,201	5,621
Series 2014B, taxable, 2.922% to 3.516% through 2024	2,945	3,890
Series 2013A, 2.50% to 5.00% through 2029	40,780	42,180
unamortized premium	1,005	1,209
Series 2012A, variable rate (0.02%)* through 2036	50,000	50,000
Series 2012B, variable rate (0.01%)* through 2042	65,000	65,000
Series 2012D-1, variable rate (0.01%)* through 2025 with partial swap to fixed through 2025	48,915	52,870
Series 2012D-2, variable rate (0.02%)* through 2030 with partial swap to fixed through 2026	49,025	53,750
Series 2012E**, variable rate (0.30%)* through 2033	82,020	94,015
Series 2010A, taxable Build America Bonds, 4.926% to 5.593% through 2040	163,110	163,110
Series 2010D, taxable Build America Bonds, 3.606% to 5.333% through 2041	148,205	149,755
Series 2009B, variable rate (0.10%)* through 2039	118,710	118,710
Series 2008A, variable rate (0.01%)* through 2038	57,085	57,085
Series 2008B, variable rate (0.02%)* through 2028 with partial swap to fixed through 2026	52,715	59,035
	3,314,038	3,376,171
Less:		
Commercial paper and current portion of bonds payable	235,875	215,658
Long-term bonds payable subject to remarketing, net	300,542	441,450
	$ 2,777,621	$ 2,719,063

* Denotes variable rate at June 30, 2021

** Denotes variable rate bonds not subject to remarketing

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6—LONG-TERM DEBT, CONTINUED

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, 2021 and 2020 is summarized as follows:

(in thousands)	2021	2020
Variable rate bonds payable subject to remarketing	$ 441,450	$ 456,450
Less:		
Current principal maturities	15,645	15,000
Long-term liquidity agreements:		
Unsecured lines of credit	125,263	
Long-term bonds payable subject to remarketing, net	$ 300,542	$ 441,450

The University's available lines of credit totaled $1,247,085,000 and were entirely unused at both June 30, 2021 and 2020.

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, significant terms and other information about the University's interest rate swaps is discussed in Note 7.

Long-term debt activity for the years ended June 30, 2021 and 2020 is summarized as follows:

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

2020

(in thousands)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 145,240		$ 9,935	$ 135,305
Bonds	2,329,697	$ 1,026,022	114,853	3,240,866
Other	91		91	-
	$ 2,475,028	$ 1,026,022	$ 124,879	$ 3,376,171

The University maintains a combination of variable and fixed rate debt supported by general revenues, with effective interest rates that averaged 2.5 percent and 2.9 percent in 2021 and 2020, 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.

During 2020, the University issued $988,455,000 of General Revenue Bonds with a net original issue premium of $37,567,000, which included $138,430,000 of fixed rate, tax-exempt bonds Series 2020A and $850,025,000 of fixed rate, taxable bonds Series 2020B. Total bond proceeds of $1,026,022,000 were utilized to refund existing bonds of $26,023,000 and provide $149,700,000 for capital projects, $848,063,000 for capital projects, refunding of debt and general purposes, and $2,236,000 for debt issuance costs.

Deferred outflows associated with the University's refunding activity totaled $4,064,000 and $6,078,000 at June 30, 2021 and 2020, respectively, which 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 2050. 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
2022	$ 220,430	$ 97,256	$ 317,686
2023	81,010	95,361	176,371
2024	95,170	92,725	187,895
2025	198,705	89,470	288,175
2026	99,510	85,184	184,694
2027-2031	590,455	360,003	950,458
2032-2036	515,230	267,940	783,170
2037-2041	791,295	172,355	963,650
2042-2046	182,325	75,876	258,201
2047-2050	356,380	35,712	392,092
Total payments	3,130,510	$ 1,371,882	$ 4,502,392
Plus unamortized premiums	183,528		
	$ 3,314,038		

* Interest on variable rate debt is estimated based on rates in effect at June 30, 2021; 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 2022 would decrease to $204,785,000, total principal payments due in 2023 would increase to $103,775,000, total principal payments due in 2024 would decrease to $67,850,000, total principal payments due in 2025 would increase to $366,408,000 and total principal payments due in 2026 would increase to $283,732,000. Accordingly, principal payments due in subsequent years would be reduced to $521,995,000 in 2027 through 2031, $376,390,000 in 2032 through 2036, $677,945,000 in 2037 through 2041 and $171,250,000 in 2042 through 2046. Principal payments due in 2047 through 2050 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.

NOTE 7—DERIVATIVE INSTRUMENTS, CONTINUED

Derivative instruments held by the University at June 30, 2021 and 2020 are summarized as follows:

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)

2020

(in thousands)	Notional Amount	Fair Value
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 29,957	$ (6)
Foreign currency forwards:		
Turkish lira	29,798	(8,074)
Brazil real	7,959	5,592
Norwegian krone	73,382	3,050
Indian rupee	30,362	(2,995)
Czech koruna	14,518	2,156
Mexican peso	10,890	(2,035)
All other currencies	542,244	4,431
	709,153	2,125
Other	14,082	(462)
	$ 753,192	$ 1,657
Floating-to-fixed interest rate swaps on debt	$ 52,760	$ (7,201)
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 71,795	$ (7,187)

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, 2021 and 2020, the fair value of floating-to-fixed interest rate swaps associated with the University's variable rate debt is ($9,721,000) and ($14,388,000), 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 $3,550,000 and $5,474,000 at June 30, 2021 and 2020, respectively.

The change in fair value of derivative instruments, which includes realized gains and losses on positions closed, for the years ended June 30, 2021 and 2020 is summarized as follows:

(in thousands)	2021	2020
Investment derivative instruments:		
Investment portfolios:		
Futures	$ 25,502	$ 25,144
Foreign currency forwards	13,688	53,557
Other	731	(28,758)
	$ 39,921	$ 49,943
Floating-to-fixed interest rate swaps on debt	$ 2,219	$ 234
Effective cash flow hedges:		
Floating-to-fixed interest rate swaps on debt	$ 2,448	$ (927)

The University's interest rate swaps, along with their associated variable rate debt and significant terms, are summarized below.

The floating-to-fixed interest rate swap associated with the Series 2008B General Revenue Bonds has a notional amount of $36,000,000 and $42,320,000 at June 30, 2021 and 2020, respectively, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. The University makes payments based on a fixed rate of 3.105 percent and receives variable rate payments from the swap counterparty based on 68 percent of the One-Month USD LIBOR, until the swap terminates in April 2026. The University has the option to terminate the swap upon five business days written notice and payment of the fair market compensation for the value of the swap. This swap is considered an effective hedge at June 30, 2021 and 2020 and has a fair value of ($3,017,000) and ($4,560,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 2012D-2 General Revenue Bonds has a notional amount of $24,760,000 and $29,475,000 at June 30, 2021 and 2020, respectively, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. The University makes payments based on a fixed rate of 3.229 percent and receives variable rate payments from the swap counterparty based on 68 percent of the One-Month USD LIBOR, until the swap terminates in December 2025. The University has the option to terminate the swap upon five business days written notice and payment of the fair market compensation for the value of the swap. This swap is considered an effective hedge at June 30, 2021 and 2020 and has a fair value of ($1,722,000) and ($2,627,000), respectively.

NOTE 7—DERIVATIVE INSTRUMENTS, CONTINUED

The first floating-to-fixed interest rate swap associated with the Series 2012D-1 General Revenue Bonds has a notional amount of $44,670,000 at both June 30, 2021 and 2020, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. The University makes payments based on a fixed rate of 4.705 percent and receives variable rate payments from the swap counterparty based on the floating Securities Industry and Financial Markets Association ("SIFMA") Municipal Index through the final maturity dates of the underlying bonds in December 2024. The counterparty has the option of terminating the swaps if for any 180-day period the average variable rate is more than 7.0 percent. During 2020, this swap was determined to be ineffective and was reclassified from an effective cash flow hedge to an investment derivative instrument. This swap has a fair value of ($4,886,000) and ($6,858,000) at June 30, 2021 and 2020, respectively.

The second floating-to-fixed interest rate swap associated with the Series 2012D-1 General Revenue Bonds has a notional amount of $4,145,000 and $8,090,000 at June 30, 2021 and 2020, respectively, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. The University makes payments based on a fixed rate of 4.685 percent and receives variable rate payments based on the floating SIFMA Municipal Index through the final maturity dates of a portion of the underlying bonds in December 2021. The counterparty has the option of terminating the swaps if for any 180-day period the average variable rate is more than 7.0 percent. During 2020, this swap was determined to be ineffective and was reclassified from an effective cash flow hedge to an investment derivative instrument. This swap has a fair value of ($96,000) and ($343,000) at June 30, 2021 and 2020, respectively.

Using rates in effect at June 30, 2021, 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
2022	$ 11,490	$ 19	$ 1,741	$ 13,250
2023	11,925	17	1,362	13,304
2024	12,410	15	971	13,396
2025	12,940	12	559	13,511
2026	12,045	10	157	12,212
2027-2030	40,930	13		40,943
	$ 101,740	$ 86	$ 4,790	$ 106,616

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 SIFMA and LIBOR may impact the synthetic fixed rate of the variable rate debt. At June 30, 2021 and 2020, 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 $7,477,000 and $366,000 at June 30, 2021 and 2020, 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 obligations for the years ended June 30, 2021 and 2020 are summarized as follows:

(in thousands)	**2021**	**2020**
Balance, beginning of year	$ 303,431	$ 231,912
Claims incurred and changes in estimates	948,519	825,721
Claim payments	(812,102)	(754,202)
Balance, end of year	439,848	303,431
Less current portion	269,789	144,827
	$ 170,059	$ 158,604

NOTE 9—PENSION PLAN

Metropolitan Hospital 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 Metropolitan Hospital 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. Metropolitan Hospital has elected to measure the net pension liability one year prior to the fiscal year end reporting date and amounts measured at June 30, 2020 and 2019 were determined based on an actuarial valuation at October 1, 2019 and 2018, 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, 2020 and 2019 measurement dates, the number of plan participants consisted of the following:

	2020	**2019**
Active participants	493	545
Vested terminated participants	810	867
Retirees, beneficiaries and disabled participants	465	405
	1,768	1,817

NOTE 9—PENSION PLAN, CONTINUED

Changes in the reported net pension liability for the years ended June 30, 2021 and 2020 are summarized as follows:

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)

2020

(in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance, beginning of year	$ 74,209	$ 77,127	$ (2,918)
Interest cost	4,957		4,957
Changes in assumptions	3,713		3,713
Differences between expected and actual plan experience	(124)		(124)
Benefit payments	(6,791)	(6,791)	-
Contributions from the employer		1,244	(1,244)
Net investment income:			
Expected investment earnings		5,205	(5,205)
Differences between expected and actual investment earnings		426	(426)
Balance, end of year	$ 75,964	$ 77,211	$ (1,247)

The plan fiduciary net position as a percentage of the total pension liability was 109 percent and 102 percent at June 30, 2021 and 2020, respectively.

Significant actuarial assumptions used at the June 30, 2020 and 2019 measurement dates are as follows:

	2020	2019
Discount rate	7.0%	6.5%
Inflation	2.0%	2.0%
Investment rate of return	7.0%	6.5%
Mortality table	Pri-2012, Scale MP-2019	RP-2014 Employee and Healthy Annuitant, Scale MP-2018

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 and 6.5 percent at June 30, 2020 and 2019, 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:

	2020		2019	
	Portfolio Allocation	Long-Term Expected Return	Portfolio Allocation	Long-Term Expected Return
U.S. large cap	25.0%	7.9%	25.0%	6.4%
U.S. mid cap	10.5%	8.6%	10.5%	7.2%
U.S. small cap	6.5%	9.1%	6.5%	7.8%
International developed	14.0%	6.2%	14.0%	5.1%
Emerging market	9.0%	5.7%	9.0%	5.2%
STRIPs	7.0%	4.6%	7.0%	4.5%
Corporate 10+ year	28.0%	4.6%	28.0%	4.9%

A one-percentage point change in the discount rate would impact the reported net pension liability at June 30, 2021 and 2020 as follows:

	2021		2020	
(in thousands)	1% Decrease	1% Increase	1% Decrease	1% Increase
Net pension liability	$ 7,463	$ (6,250)	$ 8,757	$ (7,292)

NOTE 9—PENSION PLAN, CONTINUED

The components of pension (income) expense for the years ended June 30, 2021 and 2020 are summarized as follows:

(in thousands)	2021	2020
Interest cost	$ 4,687	$ 4,957
Expected investment earnings	(4,797)	(5,205)
Amortization of deferred outflows and deferred inflows	(1,139)	817
	$ (1,249)	$ 569

Deferred outflows and deferred inflows related to the reported net pension liability at June 30, 2021 and 2020 are summarized as follows:

	2021		2020	
(in thousands)	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Changes in assumptions	$ 526	$ 2,021	$ 2,119	$ 44
Differences between expected and actual plan experience		966	217	70
Differences between expected and actual investment earnings	1,377	988	701	2,069
	1,903	3,975	3,037	2,183
Contributions made after measurement date	891		900	
	$ 2,794	$ 3,975	$ 3,937	$ 2,183

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

2022	$ (2,081)
2023	(361)
2024	142
2025	228
	$ (2,072)

The inputs used to determine the fair value of the plan's investments reported at June 30, 2021 and 2020 are summarized as follows:

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

2020				
(in thousands)	Level 1	Level 2	NAV	Total Fair Value
Equity securities	$ 52,917			$ 52,917
Fixed income securities		$ 22,818		22,818
Nonmarketable alternative investments			$ 1,476	1,476
	$ 52,917	$ 22,818	$ 1,476	$ 77,211

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.

NOTE 10—POSTEMPLOYMENT BENEFITS, CONTINUED

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, 2020 and 2019 were determined based on an actuarial valuation at January 1, 2020 and 2019, 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, 2020 and 2019 measurement dates, the number of plan participants consisted of the following:

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

2019

	Retiree Health and Welfare	Long-term Disability
Active employees	43,380	37,042
Retirees receiving benefits	10,785	
Surviving spouses	898	
Participants receiving disability benefits		560
	55,063	37,602

Changes in the reported total liability for postemployment benefits obligations for the years ended June 30, 2021 and 2020 are summarized as follows:

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

2020

(in thousands)	Retiree Health and Welfare	Long-term Disability	Total
Balance, beginning of year	$ 2,815,041	$ 299,014	$ 3,114,055
Service cost	102,097	32,018	134,115
Interest cost	111,804	12,219	124,023
Changes in assumptions	156,047	(1,270)	154,777
Differences between expected and actual plan experience	44,773	(6,543)	38,230
Benefit payments	(56,815)	(30,897)	(87,712)
Balance, end of year	3,172,947	304,541	3,477,488
Less current portion	61,750	30,934	92,684
	$ 3,111,197	$ 273,607	$ 3,384,804

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 $794,964,000 and $628,624,000 at June 30, 2021 and 2020, 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 total postemployment benefits liability by approximately $443,000,000 and $353,000,000 at June 30, 2021 and 2020, 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, 2021 and 2020 as a percentage of covered payroll of $4,255,709,000 and $4,214,627,000 were 104 percent and 83 percent, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10—POSTEMPLOYMENT BENEFITS, CONTINUED

Significant actuarial assumptions used at the June 30, 2020 and 2019 measurement dates are as follows:

	2020	2019
Discount rate*	2.21%	3.50%
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	7.25%/4.5%	7.5%/4.5%
Increase in compensation rate**	0.0%/0.0%/3.75%	4.00%
Mortality table***	PUB-2010 Teachers Head Count Table, Scale MP-2019	PUB-2010 Teachers Head Count Table, Scale MP-2018
Average future work life expectancy (years):		
Retiree health and welfare	9.04	9.03
Long-term disability	11.46	11.34

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

** Beginning with the June 30, 2020 measurement date, estimates are provided for faculty, staff and union employees

*** 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, 2021 and 2020 as follows:

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

2020

(in thousands)	1% Decrease	1% Increase
Discount rate:		
Retiree health and welfare	$ 692,685	$ (534,811)
Long-term disability	$ 10,615	$ (10,820)
Health care cost trend rates:		
Retiree health and welfare	$ (588,152)	$ 793,519
Long-term disability	$ (10,598)	$ 10,829

The components of postemployment benefits expense for the years ended June 30, 2021 and 2020 are summarized as follows:

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

2020

(in thousands)	Retiree Health and Welfare	Long-term Disability	Total
Service cost	$ 102,097	$ 32,018	$ 134,115
Interest cost	111,804	12,219	124,023
Amortization of deferred outflows and deferred inflows	508	2,446	2,954
	$ 214,409	$ 46,683	$ 261,092

Deferred outflows and deferred inflows related to the reported total liability for postemployment benefits obligations at June 30, 2021 and 2020 are summarized as follows:

	2021		2020	
(in thousands)	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Changes in assumptions	$ 905,690	$ 329,105	$ 300,209	$ 384,678
Differences between expected and actual plan experience	111,758	16,253	102,910	10,669
	1,017,448	345,358	403,119	395,347
Benefit payments made after measurement date	95,581		92,684	
	$ 1,113,029	$ 345,358	$ 495,803	$ 395,347

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):

2022	$ 85,678
2023	85,678
2024	85,678
2025	85,678
2026	73,656
2027 and beyond	255,722
	$ 672,090

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 plans 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, 2021 and 2020 are summarized as follows:

(in thousands)	2021	2020
University contributions	$ 264,244	$ 324,186
Employee contributions	$ 170,622	$ 169,014
Payroll covered under plan	$ 4,255,709	$ 4,214,627
Total payroll	$ 4,400,615	$ 4,389,523

NOTE 12—NET POSITION

The composition of net position at June 30, 2021 and 2020 is summarized as follows:

(in thousands)	2021	2020
Net investment in capital assets	$ 3,677,053	$ 3,767,199
Restricted:		
Nonexpendable:		
Permanent endowment corpus	2,625,459	2,483,225
Expendable:		
Net appreciation of permanent endowments	3,684,197	2,055,430
Funds functioning as endowment	2,973,422	2,259,664
Restricted for operations and other	924,677	851,709
Unrestricted	5,622,372	3,109,773
	$ 19,507,180	$ 14,527,000

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, 2021 and 2020, 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 $311,608,000 and $316,410,000 during the years ended June 30, 2021 and 2020, 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 $1,065,000 and $1,604,000 at June 30, 2021 and 2020, respectively, for DoED funding received subsequent to distribution.

NOTE 14—COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction and other projects unexpended at June 30, 2021 were $1,130,427,000. Of these expenditures, the University expects that $1,033,751,000 will be funded by internal sources, gifts, grants and proceeds from borrowings; $44,225,000 by the State Building Authority and the remaining $52,451,000 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, 2021, the University had committed, but not paid, a total of $4,622,311,000 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):

2022	$ 1,703,560
2023	1,078,304
2024	594,724
2025	464,645
2026	285,849
2027 and beyond	495,229
	$ 4,622,311

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 capital and operating leases for certain space and equipment, which expire at various dates through 2039. Outstanding commitments for these leases are expected to be paid in the following years ended June 30:

(in thousands)	Capital	Operating
2022	$ 8,310	$ 46,027
2023	8,392	40,038
2024	8,280	35,771
2025	8,482	31,992
2026	8,619	21,435
2027-2031	45,572	46,828
2032-2036	38,376	16,984
2037-2039	9,936	
	135,967	$ 239,075
Less amount representing interest	58,076	
Present value of minimum lease payments	$ 77,891	

Operating lease expenses totaled $48,247,000 and $49,215,000 in 2021 and 2020, respectively.

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 14—COMMITMENTS AND CONTINGENCIES, CONTINUED

The University has been served with complaints (or waived service) in cases brought by plaintiffs who allege that Robert Anderson, a former University doctor who died in 2008, sexually assaulted them decades ago. The extent of the impact to the University's financial position and results of operations arising from these complaints cannot be fully determined at this time.

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact the University's financial position and its results of operations, including those related to instruction, research, patient care and other auxiliary activities. While the University continues to design and execute plans to mitigate these risks, the extent of the impact to the University will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time.

Event Subsequent to the Original Issuance of the Financial Statements (Unaudited): On January 18, 2022, the University and attorneys for approximately 1,050 claimants who alleged abuse by the late University doctor Robert Anderson reached a settlement agreement that would resolve those survivors' claims against the University pending documentation and approval by the Board of Regents; the claimants, as recommended by their attorneys; and the federal court overseeing the process. The total amount for the settlement is $490,000,000. Of that total, $460,000,000 will be available to the approximately 1,050 claimants, and $30,000,000 would be reserved for future claimants who choose to participate in the settlement before July 31, 2023.

NOTE 15—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended June 30, 2021 and 2020 are summarized as follows:

2021

(in thousands)	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 1,092,866	$ 82,550			$ 1,175,416
Research	616,727	236,466			853,193
Public service	191,972	95,896			287,868
Academic support	310,667	49,516			360,183
Student services	107,156	24,979			132,135
Institutional support	191,449	165,771			357,220
Operations and maintenance of plant	93,937	177,968			271,905
Auxiliary enterprises	3,532,681	1,781,221			5,313,902
Depreciation			$ 566,848		566,848
Scholarships and fellowships				$ 200,431	200,431
	$ 6,137,455	$ 2,614,367	$ 566,848	$ 200,431	$ 9,519,101

2020

(in thousands)	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 1,074,171	$ 130,602			$ 1,204,773
Research	603,920	258,893			862,813
Public service	137,962	68,472			206,434
Academic support	294,759	65,199			359,958
Student services	106,563	25,959			132,522
Institutional support	209,173	78,203			287,376
Operations and maintenance of plant	91,458	232,618			324,076
Auxiliary enterprises	3,531,907	1,714,668			5,246,575
Depreciation			$ 566,694		566,694
Scholarships and fellowships				$ 173,073	173,073
	$ 6,049,913	$ 2,574,614	$ 566,694	$ 173,073	$ 9,364,294

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, 2021 and 2020 is as follows:

(in thousands)	2021	2020
Condensed Statement of Net Position		
Assets:		
Current assets	$ 126,853	$ 128,493
Noncurrent assets	296,484	265,182
Total assets	423,337	393,675
Deferred outflows	2,589	5,535
Liabilities:		
Current liabilities	87,493	86,184
Noncurrent liabilities	210,574	220,892
Total liabilities	298,067	307,076
Deferred inflows	6,288	4,662
Net position:		
Net investment in capital assets	61,043	31,229
Restricted:		
Nonexpendable	682	682
Expendable	14,853	14,252
Unrestricted	44,993	41,309
Total net position	$ 121,571	$ 87,472
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Operating revenues	$ 508,348	$ 465,138
Operating expenses other than depreciation expense	459,556	439,535
Depreciation expense	22,459	21,195
Operating income	26,333	4,408
Nonoperating (expenses) revenues, net	(2,855)	9,144
Other expenses, net	(2,379)	(4,572)
Net revenues before transfers	21,099	8,980
Transfers from other University units	13,000	
Increase in net position	34,099	8,980
Net position, beginning of year	87,472	78,492
Net position, end of year	$ 121,571	$ 87,472
Condensed Statement of Cash Flows		
Net cash provided by operating activities	$ 37,892	$ 71,492
Net cash provided by noncapital financing activities	2,463	36,339
Net cash used in capital and related financing activities	(56,575)	(44,128)
Net cash provided by (used in) investing activities	4,939	(1,220)
Net (decrease) increase in cash and cash equivalents	(11,281)	62,483
Cash and cash equivalents, beginning of year	68,660	6,177
Cash and cash equivalents, end of year	$ 57,379	$ 68,660

REQUIRED SUPPLEMENTARY INFORMATION

(UNAUDITED)

PENSION PLAN

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

	2021	2020	2019	2018	2017
Total Pension Liability					
Interest cost	$ 4,687	$ 4,957	$ 4,930	$ 5,013	$ 4,482
Changes in assumptions	(3,540)	3,713	(273)	(822)	(24,906)
Differences between expected and actual plan experience	(1,662)	(124)	1,361	(767)	2,067
Benefit payments	(7,714)	(6,791)	(4,489)	(4,712)	(4,089)
Net change in total pension liability	(8,229)	1,755	1,529	(1,288)	(22,446)
Total pension liability, beginning of year	75,964	74,209	72,680	73,968	96,414
Total pension liability, end of year	$ 67,735	$ 75,964	$ 74,209	$ 72,680	$ 73,968
Plan Fiduciary Net Position					
Benefit payments	$ (7,714)	$ (6,791)	$ (4,489)	$ (4,712)	$ (4,089)
Contributions from the employer	900	1,244	1,047	2,171	2,903
Net investment income:					
Expected investment earnings	4,797	5,205	5,234	4,848	3,166
Differences between expected and actual investment earnings	(1,137)	426	(1,168)	3,664	1,316
Net change in plan fiduciary net position	(3,154)	84	624	5,971	3,296
Plan fiduciary net position, beginning of year	77,211	77,127	76,503	70,532	67,236
Plan fiduciary net position, end of year	$ 74,057	$ 77,211	$ 77,127	$ 76,503	$ 70,532
Net pension liability, end of year	$ (6,322)	$ (1,247)	$ (2,918)	$ (3,823)	$ 3,436
Plan fiduciary net position as a percentage of the total pension liability	109%	102%	104%	105%	95%

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

PENSION PLAN, 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	(Deficient) Excess Contributions
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 respective 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 and BBA). 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 8 ½ 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	(see below)
Mortality	Tables prescribed by the Secretary of Treasury.

Interest rate

	First Segment Rate	Second Segment Rate	Third Segment Rate	Effective Rate
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%

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):

	2021	2020	2019	2018	2017
Service cost	$ 151,925	$ 134,115	$ 141,933	$ 143,787	$ 122,073
Interest cost	125,421	124,023	121,800	94,153	108,561
Changes in assumptions	731,220	154,777	(383,315)	(107,874)	255,041
Differences between expected and actual plan experience	18,776	38,230	17,535	52,721	14,028
Benefit payments	(92,684)	(87,712)	(87,638)	(77,374)	(72,302)
Net change	$ 934,658	$ 363,433	(189,685)	$ 105,413	$ 427,401
Total liability, end of year	$ 4,412,146	$ 3,477,488	$ 3,114,055	$ 3,303,740	$ 3,198,327
Covered employee payroll	$ 4,255,709	$ 4,214,627	$ 4,013,983	$ 3,792,553	$ 3,568,918
Total liability as a percentage of covered employee payroll	104%	83%	78%	87%	90%

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

2021	2.21%
2020	3.50%
2019	3.87%
2018	3.58%
2017	2.85%
2016	3.80%