



**FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 and 2020
with
REPORT OF INDEPENDENT AUDITORS**

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

June 30, 2021 and 2020

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Report of Independent Auditors

To the Board of Directors and Business and Financial Affairs Committee of the Alumni Association of the University of Michigan

We have audited the accompanying financial statements of the Alumni Association of the University of Michigan (the "Association"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and of cash flows for the years then ended.

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 an opinion 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 Association'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 Association'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alumni Association of the University of Michigan as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 23, 2021

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Statement of Financial Position

		June 30,	
		2021	2020
Assets			
Cash and cash equivalents	\$	150,000	\$ 159,700
Accounts receivable, net		1,459,441	770,378
Pledges receivable, net		2,512,107	3,959,057
Inventories and prepaid expenses		1,036,991	4,705,515
Investments on deposit with the University		141,896,913	102,705,223
Capital assets, net		15,653,752	12,372,813
Total Assets		\$ 162,709,204	\$ 124,672,686
Liabilities and Net Assets			
Accounts payable	\$	226,236	\$ 288,234
Accrued compensation payable		1,758,442	1,003,229
Deposits of affiliates		38,637	64,729
Deferred revenue		2,104,063	788,257
Scholarships payable		4,065,332	3,931,845
University affiliation loan		6,523,663	4,000,000
Total Liabilities		14,716,373	10,076,294
Net Assets:			
Without donor restrictions		99,982,253	83,703,444
With donor restrictions		48,010,578	30,892,948
Total Net Assets		147,992,831	114,596,392
Total Liabilities and Net Assets		\$ 162,709,204	\$ 124,672,686

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

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Statement of Activities

	Year Ended June 30,	
	2021	2020
Changes in Net Assets Without Donor Restrictions		
Operating Revenues and Gains:		
Alumni and student memberships	\$ 3,709,293	\$ 3,198,738
Alumni gifts and bequests	1,600,893	1,393,503
Net investment income	4,294,514	4,297,991
Program and service fees, alumni and students	170,261	3,784,086
University support	750,000	750,000
Advertising and sponsorship	182,614	317,907
Alumni travel commissions	51,908	433,025
Athletic tour	-	178,312
Credit card royalties	921,700	922,700
Merchandise sales and other	450,777	803,097
Gifts-in-kind	748,091	758,028
Net assets released from donor restrictions	819,560	-
Total Operating Revenues and Gains	13,699,611	16,837,387
Operating Expenses:		
Program services	7,277,815	9,874,675
Administrative and general	5,063,190	4,586,972
Fundraising	3,429,744	4,378,037
Total Operating Expenses	15,770,749	18,839,684
Decrease in Net Assets Without Donor Restrictions from Operations	(2,071,138)	(2,002,297)
Other Changes in Net Assets Without Donor Restrictions:		
Net unrealized gain (loss) on investments on deposit with the University	22,237,442	(3,847,759)
Net assets placed into restriction	(3,887,495)	(2,703,416)
Total Other Changes, Net	18,349,947	(6,551,175)
Increase (Decrease) in Net Assets Without Donor Restrictions	16,278,809	(8,553,472)
Changes in Net Assets With Donor Restrictions		
Alumni gifts and bequests	3,577,030	3,136,956
Net unrealized gain (loss) on investments on deposit with the University	10,322,268	(1,487,014)
Net investment income	150,397	97,351
Net assets placed into restriction	3,887,495	2,703,416
Net assets released from donor restrictions	(819,560)	-
Increase in Net Assets With Donor Restrictions	17,117,630	4,450,709
Increase (Decrease) in Net Assets	33,396,439	(4,102,763)
Net Assets, Beginning of Year	114,596,392	118,699,155
Net Assets, End of Year	\$ 147,992,831	\$ 114,596,392

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

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Statement of Cash Flows

	Year Ended June 30,	
	2021	2020
Cash Flows from Operating Activities		
Increase (Decrease) in net assets	\$ 33,396,439	\$ (4,102,763)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	963,544	861,441
Net unrealized (gain) loss on investments on deposit with the University	(32,559,710)	5,334,773
Alumni gifts and bequests restricted for long-term purposes	(3,577,030)	(3,136,956)
Investment earnings restricted for long-term purposes	(150,397)	(97,351)
Changes in operating assets and liabilities:		
Accounts receivable, net	(689,063)	(96,968)
Pledges receivable, net	1,446,950	213,373
Inventories and prepaid expenses	3,668,524	3,945,413
Accounts payable	(61,998)	24,542
Accrued compensation payable	755,213	(54,795)
Scholarships payable	133,487	(64,756)
Deposits of affiliates	(26,092)	(14,014)
Deferred revenue	1,315,806	(3,412,285)
Net Cash Provided by (Used in) Operating Activities	4,615,673	(600,346)
Cash Flows from Investing Activities		
Net increase in investments on deposit with the University	(6,631,980)	(2,740,711)
Purchases of capital assets	(4,244,483)	(4,042,722)
Net Cash Used In Investing Activities	(10,876,463)	(6,783,433)
Cash Flows from Financing Activities		
Alumni gifts and bequests restricted for long-term purposes	3,577,030	3,136,956
Proceeds from University affiliation loan	3,000,000	4,000,000
Principal payments on affiliation loan	(476,337)	-
Investment earnings restricted for long-term purposes	150,397	97,351
Net Cash Provided by Financing Activities	6,251,090	7,234,307
Net Decrease in Cash and Cash Equivalents	(9,700)	(149,472)
Cash and Cash Equivalents, Beginning of Year	159,700	309,172
Cash and Cash Equivalents, End of Year	\$ 150,000	\$ 159,700

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

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements

June 30, 2021 and 2020

Note 1—Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: The Alumni Association of the University of Michigan (the “Association”) is a separate nonprofit organization affiliated with the University of Michigan (the “University”) and is exempt from income taxes under Internal Revenue Code Section 501(c)(3). The Association’s mission is to develop, maintain and strengthen the relationship between the University and its graduates, through communications and through programs and services that connect alumni with the University and with each other.

Net assets are categorized as:

- **Without donor restrictions** - Net assets that are not subject to externally imposed stipulations. This net asset category principally consists of fees for service and related expenses associated with the core activities of the Association. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.
- **With donor restrictions** - Net assets subject to externally imposed stipulations that will be met either by actions of the Association or the passage of time. Included in this category are net assets to be maintained permanently by the Association, in which the donor has stipulated the corpus of the gift be held in perpetuity and that only the income be made available for program operations.

Accounting Standards Issued But Not Yet Adopted: In 2016, the Financial Accounting Standards Board established Topic 842, *Leases*, by issuing Accounting Standards Update 2016-02 and related subsequent amendments thereafter. This pronouncement requires entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing transactions. The standard is effective for fiscal years beginning after December 15, 2021, and is not expected to have a material impact to the financial statements of the Association.

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

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

Summary of Significant Accounting Policies: The accompanying financial statements have been prepared on the accrual basis. The Association adheres to accounting principles generally accepted in the United States of America in reporting expenses by their functional classification.

For purposes of the statement of cash flows, the Association considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable, both general receivables and membership receivables, are recorded net of an allowance for uncollectable accounts receivable. The allowance is maintained at a level to absorb losses inherent in the accounts receivables. Management determines the adequacy of the allowance by applying estimated loss ratios based on recent loss experience. However, actual loss ratios will vary from those projected amounts. The allowance related to accounts receivable was \$144,606 and \$74,970 at June 30, 2021 and 2020, respectively.

The Association 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.

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. The fair value of pledges receivable approximates their financial statement carrying amount.

Inventories are stated at the lower of cost (first-in, first-out basis) or market. Capital assets are recorded at cost or, if donated, at appraised value at the date of donation. Depreciation is provided on a straight-line method over the estimated useful lives of the respective assets, which range from five to forty years.

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

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

Investments on deposit with the University represent deposits in the University Investment Pool (“UIP”), a short-term commingled pool managed by the University that can be readily liquidated to pay contractual liabilities, and investments in the University Endowment Fund (“UEF”), a commingled pool invested entirely in the Long Term Portfolio, a diversified, equity-oriented investment pool managed by the University. 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.

Deferred revenue consists primarily of cash received from contracts, sponsorships, alumni and other agreements which have not yet been earned under the terms of the arrangement.

Revenues are reported as increases in net assets without donor restrictions unless use of the resources are limited by donor conditions. Contributions and endowment income with donor restrictions that are met in the same year as received or earned are reported as revenues without donor restrictions. Contributions, endowment income, and unrealized investment activity with donor restrictions that are not met in the same year as received or earned are reported as donor restricted revenues and are reclassified to net assets without donor restrictions when an expense is incurred that satisfies the donor restrictions.

Alumni and student memberships, received in annual and life member portions, are recognized as contributions in the year promised or received. Memberships and UEF earnings are used to fund the ongoing costs associated with providing programming to all alumni.

Credit card royalties are recognized under a contract that expires in 2026 in which the Association allows the use of its image and logo in a credit card program. Under the terms of this contract, revenue is recognized based on the average guaranteed royalty amount of \$915,000 per year for each of the 10 years of the contract. Additional royalty amounts paid under the terms of the contract are recognized the year in which they are earned.

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

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

Program and service fees from alumni and students are primarily contract revenues from the Association's family camp in Boyne City, Michigan. Deposits and up-front payments are recorded as deferred revenue upon receipt. Revenue is recognized upon completion of the Association's performance obligation as families complete their stay at camp.

Net investment income represents distributions from pooled investments. Unrealized investment gains and losses are reported separately as nonoperating activity. Unrealized gains or losses and net investment income on investments with donor restrictions are reported as changes in net assets with donor restrictions.

Expenses are reported as decreases in net assets without donor restrictions. Expirations of externally imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as net assets released from restrictions between the applicable classes of net assets.

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

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact the Association's financial position and its results of operations, including those related to its family summer camp activities. While the Association continues to develop and execute plans to mitigate these risks, the extent of the impact to the Association 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.

The Association has performed an evaluation of subsequent events through September 23, 2021, the date the financial statements were issued.

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 2—Investments

The Association’s investments on deposit with the University at June 30, 2021 and 2020 are summarized as follows:

	2021	2020
University Investment Pool	\$ 6,614,148	\$ 5,863,026
University Endowment Fund	135,282,765	96,842,197
	\$ 141,896,913	\$ 102,705,223

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

The University’s investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio, in which the UEF invests, sets general targets for both equities and fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories. At June 30, 2021 and 2020, the Long Term Portfolio consisted of cash equivalents (2 percent and 2 percent), fixed income securities (5 percent and 8 percent), U.S. and non-U.S. equities (4 percent and 4 percent), commingled funds (18 percent and 19 percent) and nonmarketable alternative investments (71 percent and 67 percent).

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

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 2—Investments—Continued

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

The Long Term Portfolio holds investments denominated in foreign currencies and forward foreign exchange contracts used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies. Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Long Term Portfolio's non-U.S. dollar exposure amounted to 9 and 11 percent of the portfolio at both June 30, 2021 and 2020, respectively.

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

The Association receives quarterly distributions from the UEF based on the University's endowment spending rule. The annual distribution rate is 4.5 percent of the one-quarter lagged seven year moving average fair value of fund shares. To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Monthly distributions are also made from the UIP to the Association 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.

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 2—Investments—Continued

Withdrawals may be made quarterly from the UEF, with notice given to the University one month prior to the end of preceding quarter, based upon University policy, generally after a five-year investment period. Withdrawals may be made from the UIP on a daily basis.

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (“ASC 820”) establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs, which should be maximized under ASC 820, reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity’s own assumptions about how market participants would value an asset or liability based on the best information available. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The three levels of inputs are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A significant portion of the underlying investments of the University’s commingled pools include nonmarketable alternative investments and certain commingled funds described earlier in this note that are priced by managers using Level 3 inputs or net asset value, due to the lack of observable market data. The proprietary valuation techniques and unobservable pricing assumptions used by these managers to estimate fair value may have a significant impact on the resulting fair value determination of these investments. However, the Association uses Level 2 inputs to measure the fair value of its investments in the University’s commingled pools described in Note 1 and within this note, since shares may be purchased or sold subject to holding and notice requirements at the fair value determined by the University.

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 3—Endowment Funds

The Association's endowment consists of 233 individual funds established for a variety of purposes. The Association invests its endowment funds, including both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments, in the UEF. In general, the purpose of board-designated endowments is to fund scholarships or support the Association's programming. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association is currently following the version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted by the State of Michigan in 2009. The Association has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies the following as permanent endowments within donor-restricted net assets.

The original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as described above is classified as funds functioning as endowment until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by the UPMIFA.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Association and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Association
- (7) The investment policies of the Association

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 3—Endowment Funds—Continued

The composition of endowment net assets by type of fund at June 30, 2021 and 2020 is as follows:

	2021	2020
Donor-restricted funds:		
Endowment principal restricted for investment	\$ 27,822,064	\$ 18,422,957
Cumulative change in market value of principal	18,010,050	7,687,781
Total donor-restricted funds	45,832,114	26,110,738
Board-designated funds:		
Quasi-endowment	89,450,651	70,731,459
Total board-designated funds	89,450,651	70,731,459
Total endowment net assets	<u>\$ 135,282,765</u>	<u>\$ 96,842,197</u>

Change in endowment net assets for the years ended June 30, 2021 and 2020 is as follows:

	2021	2020
With donor restrictions:		
Investment returns, net	\$ 11,667,091	\$ (479,569)
Contributions	5,501,967	2,872,624
Amounts appropriated for expenditure	(1,335,177)	(1,007,445)
Endowment assets placed into donor restriction	3,887,495	3,079,029
Total change in endowment net assets with donor restrictions	19,721,376	4,464,639
Without donor restrictions:		
Investment returns, net	25,270,673	(699,075)
Contributions	644,905	600,067
Amounts appropriated for expenditure	(3,308,891)	(5,768,179)
Endowment assets placed into donor restriction	(3,887,495)	(3,079,029)
Total change in endowment net assets without donor restrictions	18,719,192	(8,946,216)
Total change in endowment net assets	<u>\$ 38,440,568</u>	<u>\$ (4,481,577)</u>

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 3—Endowment Funds—Continued

The Association has the ability to appropriate amounts for spending from underwater endowment funds, consistent with the University’s policies governing the UEF, as is considered prudent under the UPMIFA. There were no endowments underwater at June 30, 2021. At June 30, 2020, funds with an original gift value of \$11,600,000 were underwater by \$357,000.

Note 4—Financial Assets and Liquidity

Contractual and donor-imposed restrictions or board-imposed limitations require funds to be used in a future period or for a specific purpose, and therefore, the Association must maintain sufficient resources to meet these responsibilities. The Board of Directors may withdraw from quasi-endowment balances in the event of financial distress or an immediate liquidity need.

The Association’s financial assets, reduced by amounts not available for general expenditures due to contractual or donor-imposed restrictions, at June 30 2021 and 2020 are as follows:

	2021	2020
Total assets	\$ 162,709,204	\$ 124,672,686
Less non-financial assets:		
Inventories and prepaid expenses	1,036,991	4,705,515
Capital assets, net	15,653,752	12,372,813
Total financial assets	<u>146,018,461</u>	<u>107,594,358</u>
Less assets unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions:		
Subject to appropriation and holding period requirements	28,195	28,195
Long-term portion of pledge receivable	805,250	2,460,286
Restricted by donor with time or purpose restrictions	<u>48,010,578</u>	<u>30,892,948</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 97,174,438</u>	<u>\$ 74,212,929</u>

There is a quasi-endowment fund established by the Board of Directors that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 5—Transactions with the University of Michigan

Although the Alumni Center was funded with private contributions and constructed for the Association's use, it was built on University land and therefore, is not included in these financial statements as an asset of the Association. The Alumni Center is owned and maintained by the Board of Regents of the University, which pays the operating costs of the center. The estimated fair value of the space used by the Association and related utilities and maintenance of \$748,000 and \$758,000 for the years ended June 30, 2021 and 2020, respectively, is recorded as both gifts-in-kind revenue and as administrative and internal services expense in the accompanying financial statements. Funds internally designated by management for future capital renovations and equipment of the Alumni Center totaled \$1,182,000 and \$4,845,000 as of June 30, 2021 and 2020, respectively, and are included in net assets without donor restrictions.

Staff members of the Association are treated as employees of the University. The Association reimburses the University for payroll, benefits, payroll taxes and payroll processing costs which totaled \$9,189,000 and \$9,622,000 for the years ended June 30, 2021 and 2020, respectively. In addition, the Association purchased supplies, data processing, telephone and other business services from the University, amounting to \$144,000 and \$360,000 for the years ended June 30, 2021 and 2020, respectively.

The Association entered into a five-year affiliation agreement with the University in December 2015 and extended the agreement for five more years in 2021. This agreement acknowledges the strong collaborative relationship between the two entities and sets forth a framework by which this relationship will function. As part of the agreement, the University provided monetary support to the Association in the amount of \$750,000 for each of the years ended June 30, 2021 and 2020.

On June 1, 2020, the Association entered into an affiliation advance agreement with the University. Under the terms of the agreement, the University loaned the Association \$7,000,000, maturing in installments through 2027. The loan bears interest at 4 percent and establishes the Association's endowment fund held in the UEF as collateral. The collateral must maintain a loan-to-value ratio of no greater than 50 percent, meaning that the outstanding principal due, together with all of the unpaid interest, shall not exceed 50 percent of the fair market value of the collateral. The outstanding balance of the loan was \$6,524,000 and \$4,000,000 at June 30, 2021 and 2020, respectively.

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 5—Transactions with the University of Michigan—Continued

Payments for the University affiliation loan outstanding at June 30, 2021 are expected to be paid in the following years ended June 30:

2022	\$ 981,688
2023	1,021,684
2024	1,063,309
2025	1,106,629
2026	1,151,715
2027	1,198,638
	<u>\$ 6,523,663</u>

Note 6—Pledges Receivable

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

	<u>2021</u>	<u>2020</u>
Pledges outstanding	\$ 2,685,727	\$ 4,224,460
Less:		
Allowance for uncollectible pledges	140,356	195,754
Unamortized discount to present value	33,264	69,649
Total pledges receivable, net	<u>\$ 2,512,107</u>	<u>\$ 3,959,057</u>

Payments on pledges receivable at June 30, 2021 are expected to be received in the following years ended June 30:

2022	\$ 1,880,477
2023	581,500
2024	173,750
2025	-
2026	-
2027 and after	50,000
	<u>\$ 2,685,727</u>

At June 30, 2021, the Association has received pledges that do not fully meet the criteria for recognition in the statement of financial position of \$62,000 which are expected to be collected through 2025.

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 7—Capital Assets

Capital assets at June 30, 2021 and 2020 are summarized as follows:

	2021	2020
Land and improvements	\$ 499,752	\$ 499,752
Buildings and improvements	23,614,791	15,056,693
Equipment and fixtures	5,417,213	6,109,545
Construction in progress	96,769	4,479,318
	29,628,525	26,145,308
Less accumulated depreciation	13,974,773	13,772,495
	\$ 15,653,752	\$ 12,372,813

Note 8—Retirement Plan

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

Eligible employees generally contribute 5 percent of their pay and the Association generally contributes an amount equal to 10 percent of employees’ pay to the plan after one year of employment with the University. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by Association contributions. Contributions made to the plan by the Association amounted to \$580,000 and \$596,000 for the years ended June 30, 2021 and 2020, respectively.

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 9—Alumni Diversity Scholarship Fund

In 2007, the Board of Directors created the LEAD scholarship to support the continued recruitment of a diverse student body. LEAD undergraduate awardees receive up to \$10,000 per year toward in-state tuition, or up to \$15,000 per year toward out-of-state tuition, renewable for a total of four years and LEAD graduate awardees receive up to \$25,000 per year renewable for a total of three years. Scholarship awards are recorded based on the present value of the payment stream using a risk-free interest rate. As a result of these scholarships, the Association recorded a liability of \$4,065,332 and \$3,931,845 at June 30, 2021 and 2020, respectively.

Payments for scholarships outstanding at June 30, 2021 are expected to be paid in the following years ended June 30:

2022	\$ 1,766,500
2023	\$ 1,307,750
2024	\$ 894,950
2025	\$ 515,000

Note 10—Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2021 and 2020 are summarized as follows:

	2021	2020
General operations	\$ 14,550,944	\$ 8,527,341
Scholarships	31,442,415	17,942,323
Michigan	1,620,737	1,053,644
Association affiliates	396,482	3,369,640
	\$ 48,010,578	\$ 30,892,948

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 11—Functional Classification of Expenses

Direct identifiable expenses are charged to one of three functions: Program services, administrative and general, or fundraising. Expenses related to more than one function are allocated to programs and supporting services and include depreciation and facilities, which are allocated on the basis of square footage, and salaries and benefits, which are allocated on the basis of estimated time and effort. Supporting services expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Association. Functional expenses, organized by their respective natural classification, for the years ended June 30, 2021 and 2020 are as follows:

	2021			
	Program Services	Administrative and General	Fundraising	Total
Advertising and promotions	\$ 66,746	\$ -	\$ 711,002	\$ 777,748
Depreciation	575,793	387,751	-	963,544
Facilities	409,452	484,922	162,691	1,057,065
Food and beverages	32,967	525	-	33,492
Information technology	324,193	165,644	191	490,028
Insurance	49,899	93,902	-	143,801
Interest expense	-	225,458	-	225,458
Maintenance and repairs	93,536	2,883	-	96,419
Office	370,851	246,971	45,519	663,341
Postage	994	4,016	112,371	117,381
Professional development	913	41,469	1,899	44,281
Professional fees	-	66,926	13,888	80,814
Program events and supplies	138,717	51,677	10,136	200,530
Salaries and benefits	3,288,701	3,287,879	2,338,091	8,914,671
Scholarship awards	1,696,237	-	7,781	1,704,018
Temporary payroll	221,236	-	22,543	243,779
Travel and hosting	7,580	3,167	3,632	14,379
	\$ 7,277,815	\$ 5,063,190	\$ 3,429,744	\$ 15,770,749

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements—Continued

Note 11—Functional Classification of Expenses—Continued

	2020			
	Program Services	Administrative and General	Fundraising	Total
Advertising and promotions	\$ 460,363	\$ 43,051	\$ 1,198,891	\$ 1,702,305
Depreciation	585,578	275,863	-	861,441
Facilities	716,160	473,963	184,500	1,374,623
Food and beverages	428,546	14,594	-	443,140
Information technology	624,506	180,774	13,770	819,050
Insurance	173,227	94,364	-	267,591
Interest expense	-	6,667	-	6,667
Maintenance and repairs	87,381	852	-	88,233
Office	305,422	266,452	51,252	623,126
Postage	5,795	5,018	233,593	244,406
Professional development	32,368	61,681	17,563	111,612
Professional fees	-	99,171	18,477	117,648
Program events and supplies	473,547	24,711	5,829	504,087
Salaries and benefits	3,634,092	2,918,757	2,486,628	9,039,477
Scholarship awards	1,607,563	-	7,615	1,615,178
Temporary payroll	503,911	5,282	15,754	524,947
Travel and hosting	236,216	115,772	144,165	496,153
	<u>\$ 9,874,675</u>	<u>\$ 4,586,972</u>	<u>\$ 4,378,037</u>	<u>\$ 18,839,684</u>