ALUMNI ASSOCIATION

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

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

June 30, 2023 and 2022

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Report of Independent Auditors

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

Opinion

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, 2023 and 2022, and the related statements of activities and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

PricewaterhouseCoopers L.L.P.

PricewaterhouseCoopers LLP
October 2, 2023

THE ALUMNI ASSOCIATION OF
THE UNIVERSITY OF MICHIGAN

Statement of Financial Position

	June 30, 2023	June 30, 2022
Assets		
Cash	$ 120,000	$ 119,970
Accounts receivable, net	1,680,921	1,881,541
Pledges receivable, net	3,269,559	2,936,359
Inventories and prepaid expenses	714,478	527,605
Investments on deposit with the University	150,999,409	155,558,789
Capital assets, net	15,044,750	15,549,817
Total Assets	$ 171,829,117	$ 176,574,081
Liabilities and Net Assets		
Accounts payable	$ 329,593	$ 394,003
Accrued compensation payable	2,216,104	1,240,085
Deposits of affiliates	82,789	81,260
Deferred revenue	4,506,852	4,476,167
Scholarships payable	4,471,928	4,345,041
Note payable	4,852,268	6,065,335
Total Liabilities	16,459,534	16,601,891
Net Assets:		
Without donor restrictions	97,371,774	104,504,071
With donor restrictions	57,997,809	55,468,119
Total Net Assets	155,369,583	159,972,190
Total Liabilities and Net Assets	$ 171,829,117	$ 176,574,081

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, 2023	2022
Changes in Net Assets Without Donor Restrictions		
Operating Revenues and Gains:		
Alumni and student memberships	$ 3,317,335	$ 3,818,962
Alumni gifts and bequests	1,826,556	1,987,886
Net investment income	5,080,944	4,560,487
Program and service fees, alumni and students	4,981,085	2,066,256
University support	750,000	750,000
Advertising and sponsorship	477,041	313,966
Alumni travel commissions	359,854	213,151
Athletic tour	595,289	759,835
Credit card royalties	925,742	927,699
Merchandise sales and other	350,039	312,523
Gifts-in-kind	703,694	682,030
Net assets released from donor restrictions	132,243	117,356
Total Operating Revenues and Gains	19,499,822	16,510,151
Operating Expenses:		
Program services	11,344,527	9,891,468
Administrative and general	6,147,740	4,503,069
Fundraising	4,282,601	3,945,657
Total Operating Expenses	21,774,868	18,340,194
Decrease in Net Assets Without Donor Restrictions from Operations	(2,275,046)	(1,830,043)
Other Changes in Net Assets Without Donor Restrictions:		
Net unrealized (loss) gain on investments on deposit with the University	(3,333,020)	7,536,404
Net assets placed into restriction	(1,524,231)	(1,184,543)
Total Other Changes, Net	(4,857,251)	6,351,861
(Decrease) Increase in Net Assets Without Donor Restrictions	(7,132,297)	4,521,818
Changes in Net Assets With Donor Restrictions		
Alumni gifts and bequests	2,664,543	2,289,975
Net unrealized (loss) gain on investments on deposit with the University	(1,785,375)	3,862,705
Net investment income	258,534	237,674
Net assets placed into restriction	1,524,231	1,184,543
Net assets released from donor restrictions	(132,243)	(117,356)
Increase in Net Assets With Donor Restrictions	2,529,690	7,457,541
(Decrease) Increase in Net Assets	(4,602,607)	11,979,359
Net Assets, Beginning of Year	159,972,190	147,992,831
Net Assets, End of Year	$ 155,369,583	$ 159,972,190

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, 2023	2022
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (4,602,607)	$ 11,979,359
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	1,077,068	1,043,726
Net unrealized loss (gain) on investments on deposit with the University	5,118,395	(11,399,109)
Alumni gifts and bequests restricted for long-term purposes	(2,664,543)	(2,289,975)
Investment earnings restricted for long-term purposes	(258,534)	(237,674)
Changes in operating assets and liabilities:		
Accounts receivable, net	200,620	(422,100)
Pledges receivable, net	(333,200)	(424,252)
Inventories and prepaid expenses	(186,873)	509,386
Accounts payable	(64,412)	167,767
Accrued compensation payable	976,019	(518,357)
Scholarships payable	126,887	279,709
Deposits of affiliates	1,529	42,623
Deferred revenue	30,685	2,372,104
Net Cash (Used In) Provided by Operating Activities	(578,966)	1,103,207
Cash Flows from Investing Activities		
Net increase in investments on deposit with the University	(559,016)	(2,262,767)
Purchases of capital assets	(571,998)	(939,792)
Net Cash Used In Investing Activities	(1,131,014)	(3,202,559)
Cash Flows from Financing Activities		
Alumni gifts and bequests restricted for long-term purposes	2,664,543	2,289,975
Proceeds from note payable		6,065,335
Principal payments on note payable	(1,213,067)	(6,523,661)
Investment earnings restricted for long-term purposes	258,534	237,674
Net Cash Provided by Financing Activities	1,710,010	2,069,322
Net Increase (Decrease) in Cash	30	(30,030)
Cash, Beginning of Year	119,970	150,000
Cash, End of Year	$ 120,000	$ 119,970

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, 2023 and 2022

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.

Adoption of New Accounting Standard: 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 Association adopted ASC 842 on July 1, 2022, but it did not have an impact to the financial statements.

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.

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 receivable. 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 $144,816 and $181,216 at June 30, 2023 and 2022, 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.

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.

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 October 2, 2023, the date the financial statements were issued.

Note 2—Investments

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

	2023	2022
University Investment Pool	$ 4,381,972	$ 6,690,666
University Endowment Fund	146,617,437	148,868,123
	$ 150,999,409	$ 155,558,789

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, 2023 and 2022, the Long Term Portfolio consisted of cash equivalents (3 percent and 2 percent), fixed income securities (5 percent and 6 percent), U.S. and non-U.S. equities (4 percent and 3 percent), commingled funds (14 percent and 15 percent) and nonmarketable alternative investments (74 percent and 74 percent).

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

Note 2—Investments—Continued

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

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

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

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.

Note 2—Investments—Continued

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

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

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.

Note 3—Endowment Funds

The Association's endowment consists of 262 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 the 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

Note 3—Endowment Funds—Continued

The composition of endowment net assets by type of fund at June 30, 2023 and 2022 is as follows:

	2023	**2022**
Donor-restricted funds:		
Endowment principal restricted for investment	$ 34,450,271	$ 30,590,845
Cumulative change in market value of principal	20,087,379	21,872,754
Total donor-restricted funds	54,537,650	52,463,599
Board-designated funds:		
Quasi-endowment	92,079,787	96,404,524
Total board-designated funds	92,079,787	96,404,524
Total endowment net assets	$ 146,617,437	$ 148,868,123

Change in endowment net assets for the years ended June 30, 2023 and 2022 is as follows:

	2023	**2022**
With donor restrictions:		
Investment returns, net	$ 110,872	$ 5,518,854
Contributions	2,332,454	1,587,226
Amounts appropriated for expenditure	(1,893,506)	(1,659,138)
Endowment assets placed into donor restriction	1,524,231	1,184,543
Total change in endowment net assets with donor restrictions	2,074,051	6,631,485
Without donor restrictions:		
Investment returns, net	(9,035)	10,888,911
Contributions	200,000	633,436
Amounts appropriated for expenditure	(2,991,471)	(3,383,931)
Endowment assets placed into donor restriction	(1,524,231)	(1,184,543)
Total change in endowment net assets without donor restrictions	(4,324,737)	6,953,873
Total change in endowment net assets	$ (2,250,686)	$ 13,585,358

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 either June 30, 2023 or June 30, 2022.

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, 2023 and 2022 are as follows:

	2023	**2022**
Total assets	$ 171,829,117	$ 176,574,081
Less non-financial assets:		
Inventories and prepaid expenses	714,478	527,605
Capital assets, net	15,044,750	15,549,817
Total financial assets	156,069,889	160,496,659
Less assets unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions:		
Long-term portion of pledge receivable	2,323,499	1,212,119
Restricted by donor with time or purpose restrictions	57,997,809	55,468,119
Financial assets available to meet cash needs for general expenditures within one year	$ 95,748,581	$ 103,816,421

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.

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 $704,000 and $682,000 for the years ended June 30, 2023 and 2022, respectively, is recorded as both gifts-in-kind revenue and as administrative and internal services expense in the accompanying financial statements. This valuation is based upon the estimated fair value of the services provided and the rate per occupied square foot of the Alumni Center. Funds internally designated by management for future capital renovations and equipment of the Alumni Center totaled $1,479,000 and $1,120,000 at June 30, 2023 and 2022, 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 $11,869,000 and $9,497,000 for the years ended June 30, 2023 and 2022, respectively. In addition, the Association purchased supplies, data processing, telephone and other business services from the University, amounting to $282,000 and $368,000 for the years ended June 30, 2023 and 2022, respectively.

The Association maintains an affiliation agreement with the University which expires in 2025. 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, 2023 and 2022.

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 note bore interest at 4 percent and established the Association's endowment fund held in the UEF as collateral. There was no outstanding balance at June 30, 2022 due to refinancing of the note with another institution in December 2021.

Note 6—Pledges Receivable

The composition of pledges receivable at June 30, 2023 and 2022 is summarized as follows:

	2023	2022
Pledges outstanding	$ 3,508,555	$ 3,110,769
Less:		
Allowance for uncollectible pledges	156,517	139,282
Unamortized discount to present value	82,479	35,128
Total pledges receivable, net	$ 3,269,559	$ 2,936,359

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

2024	$ 1,185,055
2025	738,716
2026	969,600
2027	400,184
2028	165,000
2029 and after	50,000
	$ 3,508,555

At June 30, 2023, the Association has received pledges that do not fully meet the criteria for recognition in the statement of financial position of $26,000 which are expected to be collected through 2025.

Note 7—Capital Assets

Capital assets at June 30, 2023 and 2022 are summarized as follows:

	2023	2022
Land and improvements	$ 499,752	$ 499,752
Buildings and improvements	24,681,597	24,572,675
Equipment and fixtures	5,958,968	5,495,889
	31,140,317	30,568,316
Less accumulated depreciation	16,095,567	15,018,499
	$ 15,044,750	$ 15,549,817

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 $560,000 and $587,000 for the years ended June 30, 2023 and 2022, respectively.

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 $4,471,928 and $4,345,041 at June 30, 2023 and 2022, respectively.

Payments for scholarships outstanding at June 30, 2023 are expected to be paid in the following years ended June 30:

2024	$ 1,843,450
2025	$ 1,465,000
2026	$ 922,500
2027	$ 466,250

Note 10—Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2023 and 2022 are summarized as follows:

	2023	**2022**
General operations	$ 15,446,015	$ 15,877,653
Scholarships	40,294,093	37,364,875
Michigania	1,845,184	1,802,300
Association affiliates	412,517	423,291
	$ 57,997,809	$ 55,468,119

Note 11—Note Payable

On December 7, 2021, the Association refinanced its affiliation advance agreement with the University with another financial institution. Under the terms of the agreement, the institution loaned the Association $6,065,335 which matures in installments through 2027. The note bears interest at a fixed rate of 2.737 percent and establishes the Association's unrestricted endowment fund held in the UEF as collateral. The collateral must maintain a minimum liquidity ratio of no less than 5 to 1, meaning that the outstanding principal due, together with all of the unpaid interest, shall not exceed 20 percent of the fair market value of the collateral. The outstanding balance of the note was $4,852,268 at June 30, 2023.

Payments for the note outstanding at June 30, 2023 are expected to be paid in the following years ended June 30:

2024	$ 1,213,067
2025	1,213,067
2026	1,213,067
2027	1,213,067
	$ 4,852,268

On December 7, 2021, the Association also entered into a revolving line of credit with a maximum borrowing capacity of $3,000,000. The agreement expires December 1, 2023 with no option for renewal and shares the same collateral requirements as the note agreement. The amount outstanding under the agreement bears interest at a rate per annum which is equal to the sum of the Daily Bloomberg Short-term Bank Yield Index rate plus 1.75 percent. There was no liability outstanding on the line of credit at June 30, 2023.

Note 12—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, 2023 and 2022 are as follows:

	2023			
	Program Services	Administrative and General	Fundraising	Total
Advertising and promotions	$ 577,511	$ 67,791	$ 917,702	$ 1,563,004
Depreciation	750,744	326,324	-	1,077,068
Facilities	542,582	278,216	138,657	959,455
Food and beverages	539,596	10,053	18,005	567,654
Information technology	204,662	341,375	4,649	550,686
Insurance	110,207	133,104	-	243,311
Interest expense	55,455	93,491	-	148,946
Maintenance and repairs	176,033	4,781	78	180,892
Office	454,629	331,088	48,272	833,989
Postage	14,707	1,984	174,758	191,449
Professional development	24,164	66,628	3,867	94,659
Professional fees	4,526	99,403	17,094	121,023
Program events and supplies	971,708	27,546	31,042	1,030,296
Salaries and benefits	4,058,976	4,054,752	2,788,137	10,901,865
Scholarship awards	1,833,698	-	9,752	1,843,450
Temporary payroll	829,287	81,620	23,706	934,613
Travel and hosting	196,042	229,584	106,882	532,508
	$ 11,344,527	$ 6,147,740	$ 4,282,601	$ 21,774,868

Note 12—Functional Classification of Expenses—Continued

	2022			
	Program Services	Administrative and General	Fundraising	Total
Advertising and promotions	$ 335,660	$ 166,509	$ 905,229	$ 1,407,398
Depreciation	737,065	306,661	-	1,043,726
Facilities	523,090	245,622	146,684	915,396
Food and beverages	345,409	4,143	1,254	350,806
Information technology	165,998	251,462	4,884	422,344
Insurance	103,968	20,401	-	124,369
Interest expense	83,737	127,412	-	211,149
Maintenance and repairs	159,588	5,836	361	165,785
Office	468,947	326,252	3,423	798,622
Postage	1,284	2,591	178,748	182,623
Professional development	41,700	119,746	5,209	166,655
Professional fees	753	143,054	3,520	147,327
Program events and supplies	619,500	69,186	24,573	713,259
Salaries and benefits	3,426,273	2,598,896	2,614,405	8,639,574
Scholarship awards	2,021,209	-	9,440	2,030,649
Temporary payroll	763,958	42	4,124	768,124
Travel and hosting	93,329	115,256	43,803	252,388
	$ 9,891,468	$ 4,503,069	$ 3,945,657	$ 18,340,194