

Michigan State University

Financial Report

1998 - 1999

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On the cover: The W.J. Beal Botanical Garden, the oldest continuously operated university botanical garden of its kind in the United States, celebrated its 125th anniversary in 1998. Begun by Professor William J. Beal, today's garden is an ongoing testament to MSU's commitment to active learning. Inset photo: New entrance signs to campus were erected in 1998. The design includes the MSU logotype, the Block "S," and incorporates a subtle motif of maple seeds and acorns along the bottom, which was first used on the Abbott Road entrance sign, a 1938 class gift.

This report presents the financial position and results of operations of Michigan State University for the fiscal year ended June 30, 1999. The financial report has been adopted by the Board of Trustees and is provided as part of the commitment by Michigan State University to report annually on its fiscal affairs. The financial statements and notes on pages 10 through 29 have been audited by Arthur Andersen LLP, Certified Public Accountants. The audit report appears on page 9.

During 1998–99, Michigan State continued its strength in academic programs and facilities. The university received nearly 23,000 applications for undergraduate admission this year, the highest number of applications in MSU’s history. The quality of the incoming class has remained strong, and MSU’s newest students will join a student body with tremendous academic opportunities—including one of the nation’s largest study abroad programs, undergraduate research programs with renowned faculty, and access to the latest educational technologies.

MSU is committed to world-class scholarship at the undergraduate and graduate levels. The university’s research awards increased 22 percent this year to a record \$232 million. Additionally, the number of research grants won by MSU faculty increased 7 percent and funding from federal grants increased by 25 percent. We are pleased with the growth in the level of research activity and commend the distinguished work of the university’s faculty.

This year also marked the ground breaking of a state-of-the-art facility to support faculty and student scholarship. In February, we broke ground on the \$93 million Biomedical and Physical Sciences Building. It will be one of the largest academic buildings on campus with six stories containing more than 200,000 net square feet of space, and will join facilities like our National Superconducting Cyclotron Laboratory and the National Center for Food Safety and Toxicology as jewels for MSU’s collaborative science and research initiatives.

Collaborative research is also the key to the State of Michigan’s exciting new Life Sciences Corridor, announced in Grand Rapids and Washington, D.C. this July. The initiative unites four premier research institutions in Michigan—Michigan State University, the University of Michigan, Wayne State University, and Grand Rapids’ new Van Andel Institute—to create an internationally-known region for life sciences research and development. The initiative calls for investing \$1 billion over 20 years from the tobacco settlement, with \$50 million committed for 1999–2000. The new Life Sciences Corridor promises important new discoveries in health, medicine, food safety, and other related areas; it will foster economic development and the attraction of high-tech business to the state. Michigan State is proud to play a key role.

Michigan State University approaches the next century with strength and momentum, still remaining true to its original land-grant values established in 1855. Even as it has grown into a comprehensive, internationally-known research institution, the university remains committed to educational access and to the delivery of knowledge into communities throughout our state and our world.



Fred L. Poston
Interim Vice President for Finance and Operations and Treasurer

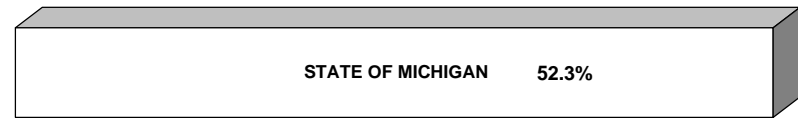
GENERAL FUND REVENUES 1998-99

MICHIGAN STATE UNIVERSITY

This fund is for general operation of the University and represents 50.5% of the total current funds revenues. These amounts are included in the total current funds revenues column and graph on page 3.

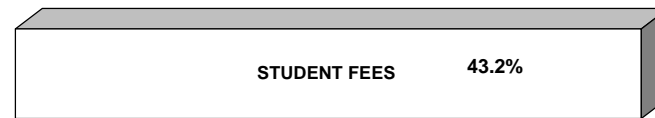
STATE OF MICHIGAN..... \$ 286,848,987

For carrying on the general instruction programs; excludes appropriations for Agricultural Experiment Station, Cooperative Extension Service, and capital outlay.



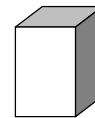
STUDENT FEES..... 237,075,050

Students are assessed variable fees based on residency status, class standing, and curriculum.



INDIRECT COST RECOVERIES..... 22,680,000

(Allocated to General Operations)



INDIRECT COST RECOVERIES 4.1%

RECEIPTS AND INTEREST..... 2,157,232

Includes departmental receipts from sales and services, application fees, and interest on invested funds.



RECEIPTS AND INTEREST 0.4%

GENERAL FUND TOTAL..... \$ 548,761,269

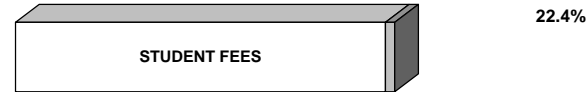
TOTAL CURRENT FUNDS REVENUES 1998-99

MICHIGAN STATE UNIVERSITY

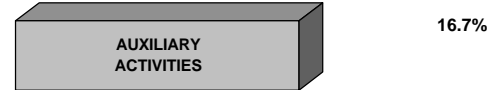
STATE OF MICHIGAN.....	\$	360,606,072
General University	286,848,987	
Experiment Station	30,268,300	
Cooperative Extension	26,033,458	
Sponsored Programs	17,455,327	



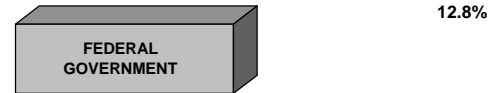
STUDENT FEES.....	242,994,761
General University	237,075,050
Health Center	5,919,711



AUXILIARY ACTIVITIES.....	181,707,270
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FEDERAL GOVERNMENT.....	139,625,843
Experiment Station	5,090,973
Cooperative Extension	9,989,189
Sponsored Programs	124,545,681



LOCAL AND PRIVATE GIFTS AND SPONSORED PROGRAMS.....	61,268,519
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OTHER REVENUES.....	101,423,558
Departmental Activities:	
General Fund	1,694,232
Designated Fund	75,286,944
Income from Investments:	
Endowment Fund	5,901,437
Other	17,322,964
Indirect Cost Recoveries	27,780
Decrease in Restricted Revenue Held for Future Expenditures	1,190,201



GENERAL FUND

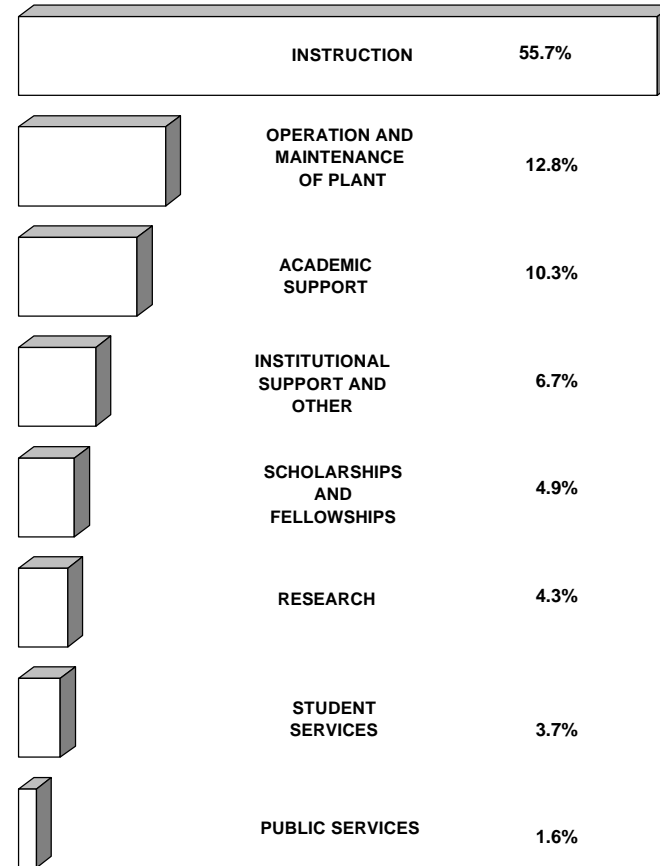
OTHER FUNDS

CURRENT FUNDS TOTAL.....	\$	1,087,626,023
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GENERAL FUND EXPENDITURES AND TRANSFERS 1998-99

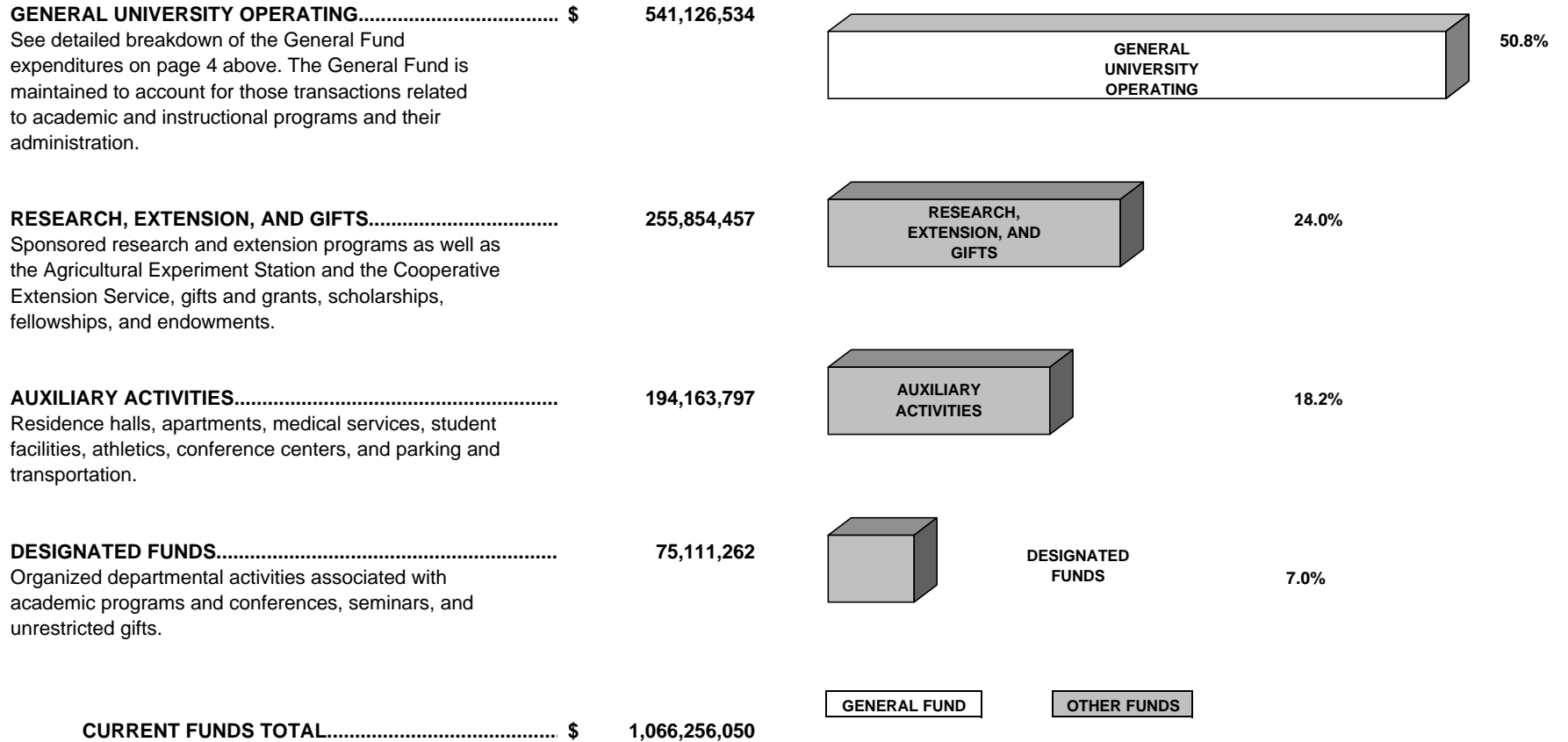
MICHIGAN STATE UNIVERSITY

INSTRUCTION.....	\$ 301,610,599
RESEARCH.....	23,134,212
(Exclusive of the Agricultural Experiment Station and research financed by grants and gifts for restricted use.)	
PUBLIC SERVICES.....	8,399,248
Radio and Television, Animal Health Diagnostic Laboratory, and other public services.	
ACADEMIC SUPPORT.....	55,955,493
Libraries, course development, computer facilities, academic administration, museums and galleries, and audio-visual.	
STUDENT SERVICES.....	19,755,933
Student admissions, counseling services, and other student activities.	
SCHOLARSHIPS AND FELLOWSHIPS.....	26,387,758
INSTITUTIONAL SUPPORT AND OTHER.....	36,456,210
Executive management, business operations, administrative computing, human resources, and protective services.	
OPERATION AND MAINTENANCE OF PLANT.....	69,427,081
GENERAL FUND TOTAL.....	\$ 541,126,534

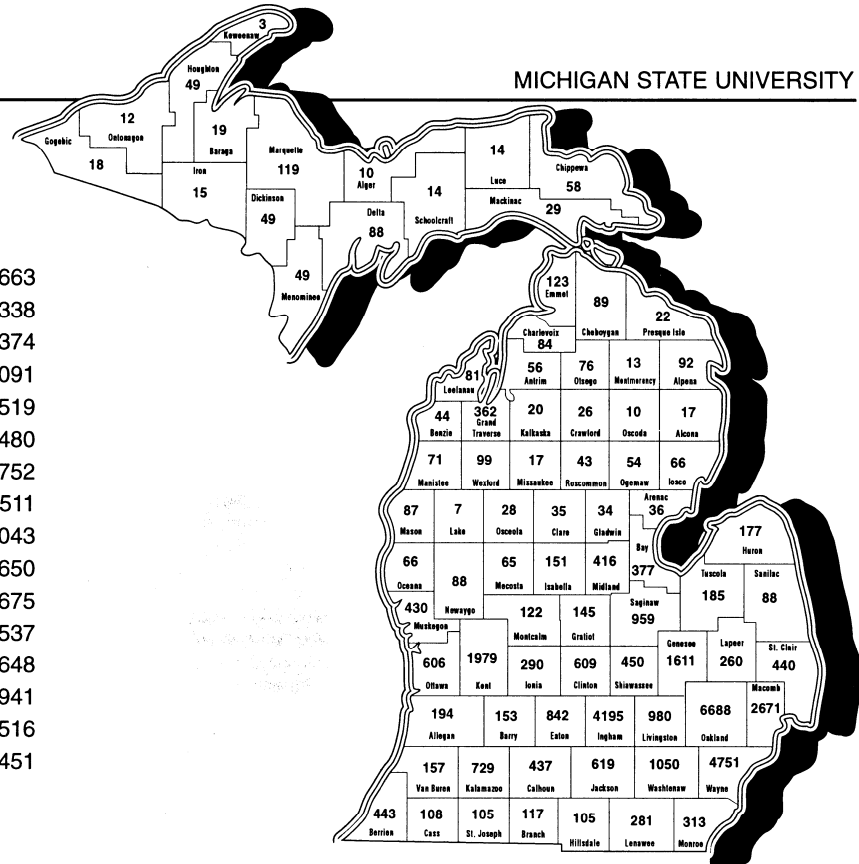


TOTAL CURRENT FUNDS EXPENDITURES AND TRANSFERS 1998-99

MICHIGAN STATE UNIVERSITY



ENROLLMENT



ENROLLMENT BY COLLEGES, FALL 1998

Agriculture and Natural Resources	3,663
Arts and Letters	3,338
Eli Broad College of Business	6,374
Communication Arts and Sciences	3,091
Education	2,519
Engineering	4,480
Human Ecology	1,752
Human Medicine	511
James Madison	1,043
Natural Science	5,650
Nursing	675
Osteopathic Medicine	537
Social Science	4,648
Veterinary Medicine	941
No Preference (major field not selected)	2,516
Unclassified	1,451

DEGREES GRANTED, 1998-99

Bachelors	6,687
Masters	1,842
Doctorates	404
Graduate Professionals	322
Educational Specialists	18
Teaching Certificates	1,044

ENROLLMENT BY GEOGRAPHIC LOCATION, FALL 1998

Michigan Residents (85.0%)	36,690
Other States (8.4%)	3,649
U.S. Possessions and Foreign Countries (6.6%)	2,850
TOTAL ENROLLMENT, FALL 1998	43,189
Undergraduate Enrollment (78%)	34,089
Graduate Enrollment (18%)	7,734
Graduate Professional Enrollment (4.0%)	1,366
TOTAL DEGREES GRANTED, 1998-99	9,273

FINANCIAL STATEMENTS 1998-99 MICHIGAN STATE UNIVERSITY

FINANCIAL STATEMENTS

Report of independent public accountants 9

General Fund statements of financial condition 10

Designated Fund statements of financial condition 11

Auxiliary Activities Fund statements of financial condition 12

Expendable Restricted Fund statements of financial condition 13

Statement of current funds revenues, expenditures and transfers and changes in fund balances 14-15

Student Loan Fund:

 Statements of financial condition 16

 Statement of changes in fund balance 17

Endowment Fund:

.....

Retirement and Insurance Fund:

 Statements of financial condition 22

 Statement of changes in fund balance 23

Agency Fund statements of financial condition 24

Notes to financial statements 25-29

Report of Independent Public Accountants

To the Board of Trustees of Michigan State University:

We have audited the accompanying statements of financial condition of Michigan State University (the "University") as of June 30, 1999 and 1998, and the related statement of current funds revenues, expenditures and transfers and changes in fund balances and statements of changes in fund balances of the noncurrent funds for the year ended June 30, 1999. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan State University as of June 30, 1999 and 1998, and the changes in fund balances and the current funds revenues, expenditures and transfers for the year ended June 30, 1999 in conformity with generally accepted accounting principles.

The Year 2000 supplementary information presented on page 129 in the Other Financial Information report is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin 98-1, as amended, are not sufficiently specific to permit meaningful results from the prescribed procedures. In addition, we do not provide assurance that the University is or will become Year 2000 compliant, that the University's remediation efforts will be successful in whole or in part, or that parties with which the University does business are or will be Year 2000 compliant.

Detroit, Michigan,
August 26, 1999

A handwritten signature in black ink that reads "Arthur Andersen LLP". The signature is written in a cursive, flowing style.

General Fund Statements of Financial Condition

Michigan State University

	June 30,	
	1999	1998
Assets:		
Operating cash and investments (Note 2)	\$ 1,228,459	\$ 9,971,212
Investments and marketable securities (Note 2)	42,317,340	74,332,887
Accounts receivable, less allowance for doubtful accounts of \$90,000 in both 1999 and 1998	54,369,662	2,270,304
Inventories	<u>2,382,366</u>	<u>2,159,453</u>
Total assets	<u>100,297,827</u>	<u>88,733,856</u>
Liabilities and deferred revenues:		
Accounts payable	3,784,736	3,250,052
Accrued personnel costs	30,992,784	28,247,230
Deferred student fees	<u>8,792,022</u>	<u>8,143,024</u>
Total liabilities and deferred revenues	<u>43,569,542</u>	<u>39,640,306</u>
Fund balance	<u>\$ 56,728,285</u>	<u>\$ 49,093,550</u>
Fund balance:		
Contractually committed	\$ 2,723,597	\$ 2,641,575
Commitments pending	27,199,254	19,469,352
Allocated for subsequent year budget	2,500,000	3,500,000
Departmental funds carried forward	17,238,522	16,725,341
Uncommitted	<u>7,066,912</u>	<u>6,757,282</u>
	<u>\$ 56,728,285</u>	<u>\$ 49,093,550</u>

See accompanying notes.

Designated Fund Statements of Financial Condition

Michigan State University

	June 30,	
	1999	1998
Assets:		
Operating cash and investments (Note 2)	\$ 2,546,286	\$ 6,994,610
Investments and marketable securities (Note 2)	80,491,388	61,384,033
Medical services and other receivables, less allowances for contractual adjustments and doubtful accounts of \$3,695,000 in 1999 and \$3,554,000 in 1998	5,131,555	4,886,292
Prepaid expenses	306,429	-
Total assets	<u>88,475,658</u>	<u>73,264,935</u>
Liabilities and deferred revenues:		
Accounts payable	1,695,884	1,525,288
Accrued self-insurance liabilities	11,282,599	10,110,060
Accrued personnel costs	3,754,843	3,454,968
Deferred revenues	1,963,626	1,505,616
Total liabilities and deferred revenues	<u>18,696,952</u>	<u>16,595,932</u>
Fund balance	<u>\$ 69,778,706</u>	<u>\$ 56,669,003</u>

See accompanying notes.

Auxiliary Activities Fund Statements of Financial Condition
Michigan State University

	June 30,	
	1999	1998
Assets:		
Operating cash and investments (Note 2)	\$ 4,960,331	\$ 41,086,808
Investments and marketable securities (Note 2)	41,954,971	2,594,346
Accounts receivable, less allowances for contractual adjustments and doubtful accounts of \$420,000 in 1999 and \$459,000 in 1998	5,122,405	4,447,434
Note receivable from Retirement and Insurance Fund	3,820,295	4,969,236
Inventories and prepaid expenses	8,136,029	7,152,215
Investment in joint ventures	5,634,510	5,245,320
Total assets	<u>69,628,541</u>	<u>65,495,359</u>
Liabilities and deferred revenues:		
Accounts payable	5,955,477	4,656,647
Accrued personnel costs	9,552,027	8,088,780
Deferred revenues	11,561,155	10,815,585
Total liabilities and deferred revenues	<u>27,068,659</u>	<u>23,561,012</u>
Fund balance	<u>\$ 42,559,882</u>	<u>\$ 41,934,347</u>

See accompanying notes.

Expendable Restricted Fund Statements of Financial Condition

Michigan State University

	June 30,	
	1999	1998
Assets:		
Operating cash and investments (Note 2)	\$ 60,491,739	\$ 74,190,928
Investments and marketable securities (Note 2)	3,694,682	4,535,945
Accounts receivable	33,872,399	19,456,995
Total assets	<u>98,058,820</u>	<u>98,183,868</u>
Liabilities:		
Accounts payable	2,554,264	2,116,175
Accrued personnel costs	4,723,424	4,096,360
Total liabilities	<u>7,277,688</u>	<u>6,212,535</u>
Fund balance	<u>\$ 90,781,132</u>	<u>\$ 91,971,333</u>

See accompanying notes.

Statement of Current Funds Revenues, Expenditures and Transfers and Changes in Fund Balances

Michigan State University

	Year ended June 30, 1999						Year ended June 30, 1998 Total
	General Fund	Designated Fund	Auxiliary Activities Fund	Total Unrestricted Current Funds	Expendable Restricted Fund	Total Current Funds	
Revenues:							
Student fees	\$ 237,075,050	\$ -	\$ 5,919,711	\$ 242,994,761	\$ -	\$ 242,994,761	\$ 233,442,873
State of Michigan appropriations:							
Current operations	286,848,987	-	-	286,848,987	-	286,848,987	278,916,598
Agricultural Experiment Station	-	-	-	-	30,268,300	30,268,300	29,681,275
Cooperative Extension Service	-	-	-	-	26,033,458	26,033,458	25,563,541
State of Michigan sponsored programs	-	-	-	-	17,455,327	17,455,327	10,842,344
Federally sponsored programs	-	-	-	-	139,625,843	139,625,843	128,948,973
Local and private gifts and sponsored programs	-	1,712,550	-	1,712,550	59,555,969	61,268,519	60,548,310
Income from investments:							
Endowment Fund	-	481,662	25,711	507,373	5,394,064	5,901,437	4,674,890
Other	463,000	7,424,732	7,136,640	15,024,372	2,298,592	17,322,964	24,636,254
Departmental activities	1,694,232	75,286,944	-	76,981,176	-	76,981,176	71,053,539
Auxiliary activities	-	-	181,707,270	181,707,270	-	181,707,270	173,651,331
Indirect cost recoveries	22,680,000	3,315,077	-	25,995,077	(25,967,297)	27,780	60,272
Decrease (increase) in restricted revenue held for future expenditures	-	-	-	-	1,190,201	1,190,201	(8,250,874)
Total revenues	548,761,269	88,220,965	194,789,332	831,771,566	255,854,457	1,087,626,023	1,033,769,326
Expenditures:							
Instruction and departmental research	297,750,833	22,489,714	-	320,240,547	18,908,765	339,149,312	324,460,029
Research	23,300,842	4,216,724	-	27,517,566	131,139,153	158,656,719	149,141,990
Public services	8,399,248	45,436,944	-	53,836,192	66,096,331	119,932,523	111,390,015
Academic support	53,555,493	507,754	-	54,063,247	1,896,284	55,959,531	52,421,815
Student services	19,705,933	1,605,918	-	21,311,851	358,693	21,670,544	21,381,991
Scholarships and fellowships	25,789,908	623,772	-	26,413,680	23,080,220	49,493,900	46,321,075
Institutional support (General Fund net of \$3,653,270 in 1999 and \$3,308,240 in 1998 for administrative charges)	43,933,403	2,755,092	-	46,688,495	302,967	46,991,462	46,205,642
Operation and maintenance of plant (General Fund net of \$7,377,370 in 1999 and \$7,138,705 in 1998 for utility charges to Auxiliary Activities Fund)	49,334,784	-	-	49,334,784	524,094	49,858,878	48,736,478
Auxiliary activities operations, less internal service rebillings of \$102,697,938 in 1999 and \$96,631,189 in 1998	-	-	168,345,002	168,345,002	-	168,345,002	157,953,358
Total expenditures	521,770,444	77,635,918	168,345,002	767,751,364	242,306,507	1,010,057,871	958,012,393

Statement of Current Funds Revenues, Expenditures and Transfers and Changes in Fund Balances (Continued)

Michigan State University

	Year ended June 30, 1999						Year ended June 30, 1998 Total
	General Fund	Designated Fund	Auxiliary Activities Fund	Total Unrestricted Current Funds	Expendable Restricted Fund	Total Current Funds	
Transfers out (in):							
Mandatory transfers for:							
Retirement of indebtedness	\$ 5,333,500	\$ -	\$ -	\$ 5,333,500	\$ -	\$ 5,333,500	\$ 5,633,500
Total mandatory transfers	5,333,500	-	-	5,333,500	-	5,333,500	5,633,500
Other transfers for:							
Plant improvement and retirement of indebtedness	22,085,880	(5,084,089)	27,933,098	44,934,889	6,437,569	51,372,458	55,185,644
Other	(8,063,290)	2,559,433	(2,114,303)	(7,618,160)	7,110,381	(507,779)	2,011,370
Total other transfers	14,022,590	(2,524,656)	25,818,795	37,316,729	13,547,950	50,864,679	57,197,014
Total transfers	19,356,090	(2,524,656)	25,818,795	42,650,229	13,547,950	56,198,179	62,830,514
Total expenditures and transfers	541,126,534	75,111,262	194,163,797	810,401,593	255,854,457	1,066,256,050	1,020,842,907
Revenues over (under) expenditures and transfers	7,634,735	13,109,703	625,535	\$ 21,369,973	-	\$ 21,369,973	\$ 12,926,419
Increase (decrease) in restricted revenue held for future expenditures	-	-	-		(1,190,201)		
Fund balance at beginning of year	49,093,550	56,669,003	41,934,347		91,971,333		
Fund balance at end of year	\$ 56,728,285	\$ 69,778,706	\$ 42,559,882		\$ 90,781,132		

See accompanying notes.

Student Loan Fund Statements of Financial Condition

Michigan State University

	June 30,	
	1999	1998
Assets:		
Operating cash and investments (Note 2)	\$ 8,186,778	\$ 7,122,643
Student loans receivable, less allowance for doubtful loans of \$3,675,000 in 1999 and \$3,425,000 in 1998	34,953,199	34,848,933
Deposit with loan guaranty agency	135,000	135,000
	<u>43,274,977</u>	<u>42,106,576</u>
Total assets	<u>\$ 43,274,977</u>	<u>\$ 42,106,576</u>
Fund balance:		
University student loan funds:		
Restricted	\$ 1,321,313	\$ 1,184,859
Designated	6,752,155	6,589,789
	<u>8,073,468</u>	<u>7,774,648</u>
Federal student loan funds:		
Federal portion	30,783,765	30,044,777
University portion	4,417,744	4,287,151
	<u>35,201,509</u>	<u>34,331,928</u>
Total fund balance	<u>\$ 43,274,977</u>	<u>\$ 42,106,576</u>

See accompanying notes.

Student Loan Fund Statement of Changes in Fund Balance

Michigan State University

	Year ended June 30, 1999				Year ended June 30, 1998 Total
	University Student Loan Funds		Federal Student Loan Funds	Total	
	Restricted	Designated			
Fund balance:					
Balance at beginning of year	\$ 1,184,859	\$ 6,589,789	\$ 34,331,928	\$ 42,106,576	\$ 40,649,616
Additions (deductions):					
Federal government contributions	-	-	329,425	329,425	342,929
Gifts and grants	161,777	15,395	-	177,172	48,307
Income from investments	7,393	296,938	47,093	351,424	577,978
Interest and fees on student loans	5,001	55,615	823,531	884,147	819,425
Transfers in (out)	(26,850)	(29,979)	(25,571)	(82,400)	103,556
Close out of federal loan program	-	-	(1,289)	(1,289)	(3,887)
Uncollectible loans recovered (written off)	(10,867)	(9,936)	-	(20,803)	(3,693)
Decrease (increase) in allowance for uncollec	-	-	(250,000)	(250,000)	-
Recovery (cancellation) for teaching service, military service and health professions employment	-	-	31,565	31,565	(59,895)
Cancellation for death, disability and bankruptcy	-	-	(69,641)	(69,641)	(75,845)
Administrative expenses and collection costs	-	(165,667)	(15,532)	(181,199)	(227,963)
Cumulative effect of accounting change	-	-	-	-	(63,952)
Balance at end of year	<u>\$ 1,321,313</u>	<u>\$ 6,752,155</u>	<u>\$ 35,201,509</u>	<u>\$ 43,274,977</u>	<u>\$ 42,106,576</u>

See accompanying notes.

Endowment Fund Statements of Financial Condition

Michigan State University

	June 30,	
	1999	1998
Assets:		
Operating cash and investments (Note 2)	\$ 6,212,355	\$ 12,164,447
Investments and marketable securities (Note 2)	264,611,769	222,966,859
Real estate and other investments	168,716	440,730
Land grant endowment held by State of Michigan	1,059,379	1,059,379
Total assets	272,052,219	236,631,415
Liabilities:		
Accrued liabilities	583,125	101,760
Fund balance	\$271,469,094	\$ 236,529,655
Fund balance:		
Endowment funds	\$165,775,313	\$ 146,494,359
Funds functioning as endowment:		
Restricted	80,501,125	68,360,828
Designated	20,634,637	17,484,144
	101,135,762	85,844,972
Term endowment funds:		
Restricted	2,286,912	2,130,945
Designated	1,000,000	1,000,000
	3,286,912	3,130,945
Life income funds	211,728	-
Land grant endowment fund	1,059,379	1,059,379
Total fund balance	\$271,469,094	\$ 236,529,655

See accompanying notes.

Endowment Fund Statement of Changes in Fund Balance

Michigan State University

	Year ended June 30, 1999								Year Ended June 30, 1998 Total
	Endowment Funds	Funds Functioning as Endowment		Term Endowment Funds		Life Income Funds	Land Grant Endowment Fund	Total	
		Restricted	Designated	Restricted	Designated				
Fund balance at beginning of year	\$ 146,494,359	\$ 68,360,828	\$ 17,484,144	\$ 2,130,945	\$ 1,000,000	\$ -	\$ 1,059,379	\$ 236,529,655	\$ 148,123,956
Additions:									
Gifts	10,719,247	7,666,345	2,207	-	-	211,728	-	18,599,527	17,039,416
Income from investments	11,511,354	5,956,846	1,646,001	191,531	90,410	-	-	19,396,142	31,825,681
	<u>22,230,601</u>	<u>13,623,191</u>	<u>1,648,208</u>	<u>191,531</u>	<u>90,410</u>	<u>211,728</u>	<u>-</u>	<u>37,995,669</u>	<u>48,865,097</u>
Transfers in (out):									
Spending policy	(2,533,723)	(1,357,533)	(378,809)	(42,342)	(20,903)	-	-	(4,333,310)	(4,220,238)
Other	3,227,981	1,580,114	2,362,755	58,855	10,565	-	-	7,240,270	4,883,312
	<u>694,258</u>	<u>222,581</u>	<u>1,983,946</u>	<u>16,513</u>	<u>(10,338)</u>	<u>-</u>	<u>-</u>	<u>2,906,960</u>	<u>663,074</u>
Deductions:									
Distribution to beneficiary funds	3,643,905	1,705,475	481,661	52,077	25,711	-	-	5,908,829	4,680,960
Amount payable to beneficiaries	-	-	-	-	54,361	-	-	54,361	101,760
	<u>3,643,905</u>	<u>1,705,475</u>	<u>481,661</u>	<u>52,077</u>	<u>80,072</u>	<u>-</u>	<u>-</u>	<u>5,963,190</u>	<u>4,782,720</u>
Cumulative effect of accounting change	-	-	-	-	-	-	-	-	43,660,248
Fund balance at end of year	<u>\$ 165,775,313</u>	<u>\$ 80,501,125</u>	<u>\$ 20,634,637</u>	<u>\$ 2,286,912</u>	<u>\$ 1,000,000</u>	<u>\$ 211,728</u>	<u>\$ 1,059,379</u>	<u>\$ 271,469,094</u>	<u>\$ 236,529,655</u>

See accompanying notes.

Plant Fund Statement of Financial Condition

Michigan State University

June 30, 1999

	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total	June 30, 1998 Total
Assets:						
Operating cash and investments (Note 2)	\$ -	\$ 62,130,007	\$ -	\$ -	\$ 62,130,007	\$ 61,365,726
Cash with debt service trustees (Note 2)	-	-	192,175	-	192,175	3,329
Accounts receivable	2,201,981	-	-	-	2,201,981	12,821,868
Note receivable within Plant Fund	18,374,231	10,033,396	2,411,228	-	30,818,855	6,255,148
Unamortized bond origination costs	-	-	1,389,950	-	1,389,950	4,962,402
Investment in plant (Note 5):						
Land	-	-	-	15,516,523	15,516,523	15,252,642
Buildings	-	-	-	1,000,759,142	1,000,759,142	968,987,609
Equipment and other	-	-	-	345,692,202	345,692,202	305,515,474
Construction in progress	-	-	-	37,978,170	37,978,170	29,363,061
Accumulated depreciation	-	-	-	(662,445,499)	(662,445,499)	(615,994,984)
Total assets	20,576,212	72,163,403	3,993,353	737,500,538	834,233,506	788,532,275
Liabilities:						
Accounts payable and retainages	4,072,543	2,556,987	-	-	6,629,530	8,838,174
Notes payable within Plant Fund	4,783,157	2,411,228	366,595	23,257,875	30,818,855	6,255,148
Bonds payable (Note 3)	-	-	1,389,950	100,300,050	101,690,000	104,280,000
Total liabilities	8,855,700	4,968,215	1,756,545	123,557,925	139,138,385	119,373,322
Fund balance	\$ 11,720,512	\$ 67,195,188	\$ 2,236,808	\$ 613,942,613	\$ 695,095,121	\$ 669,158,953
Fund balance:						
Investment in Plant	\$ -	\$ -	\$ -	\$ 613,942,613	\$ 613,942,613	\$ 600,177,075
Restricted	3,933,477	5,376,669	2,236,808	-	11,546,954	8,234,745
Designated	7,787,035	61,818,519	-	-	69,605,554	60,747,133
	\$ 11,720,512	\$ 67,195,188	\$ 2,236,808	\$ 613,942,613	\$ 695,095,121	\$ 669,158,953

See accompanying notes.

Plant Fund Statement of Changes in Notes and Bonds Payable and Fund Balance

Michigan State University

	Year Ended June 30, 1999					Year Ended
	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total	June 30, 1998 Total
Notes and bonds payable:						
Balance outstanding at beginning of year	\$ 2,626,019	\$ -	\$ 4,962,402	\$102,946,727	\$ 110,535,148	\$ 111,284,129
Additions (deductions):						
Proceeds from borrowings:						
Bonds	-	-	157,551	75,672,449	75,830,000	2,626,019
Internal notes	2,157,138	2,411,228	366,595	21,128,746	26,063,707	-
Notes and bonds retired:						
Bonds	-	-	(3,730,003)	(74,689,997)	(78,420,000)	(1,875,000)
Internal notes	-	-	-	(1,500,000)	(1,500,000)	(1,500,000)
Balance outstanding at end of year	<u>\$ 4,783,157</u>	<u>\$ 2,411,228</u>	<u>\$ 1,756,545</u>	<u>\$123,557,925</u>	<u>\$ 132,508,855</u>	<u>\$ 110,535,148</u>
Fund balance:						
Balance at beginning of year	\$ 2,826,705	\$ 62,537,766	\$ 3,617,407	\$600,177,075	\$ 669,158,953	\$ 634,218,790
Additions (deductions):						
State and State Building Authority appropriations	5,221,646	-	-	-	5,221,646	1,777,890
Gifts and other sources	1,481,457	1,772,538	1,789,015	-	5,043,010	10,666,117
Income from investments	-	2,334,132	356,921	-	2,691,053	3,463,263
Transfers in (out):						
General Fund	10,273,721	11,812,159	5,333,500	-	27,419,380	29,669,165
Designated Fund	92,656	(5,176,745)	-	-	(5,084,089)	2,078,209
Auxiliary Activities Fund	3,378,080	24,555,018	-	-	27,933,098	27,322,338
Expendable Restricted Fund	1,157,091	5,280,478	-	-	6,437,569	1,749,432
Expenditures from current funds for capital additions	-	-	-	41,391,852	41,391,852	28,078,724
Expenditures for capital additions	(33,641,654)	(15,059,409)	132,628	48,568,435	-	-
Interest expense	-	-	(3,648,313)	-	(3,648,313)	(4,333,499)
Notes and bonds retired	-	-	(5,627,464)	5,627,464	-	-
Intrafund transfers in (out)	19,260,692	(2,459,193)	4,327,247	(21,128,746)	-	-
Repairs, maintenance and other expenditures not capitalized	207,100	(19,241,530)	(183,088)	-	(19,217,518)	(18,555,098)
Disposal of plant assets	1,463,018	839,974	-	(5,306,442)	(3,003,450)	(576,076)
Advance refunding of debt	-	-	(3,861,045)	(5,109,916)	(8,970,961)	-
Depreciation	-	-	-	(50,277,109)	(50,277,109)	(45,872,895)
Cumulative effect of accounting change	-	-	-	-	-	(527,407)
Balance at end of year	<u>\$ 11,720,512</u>	<u>\$ 67,195,188</u>	<u>\$ 2,236,808</u>	<u>\$613,942,613</u>	<u>\$ 695,095,121</u>	<u>\$ 669,158,953</u>

See accompanying notes.

Retirement and Insurance Fund Statements of Financial Condition
Michigan State University

	June 30,	
	1999	1998
Assets:		
Investments and marketable securities (Note 2)	\$ 63,234,440	\$ 63,222,585
Life insurance funding deposit	2,503,829	2,288,762
TIAA group annuity deposit	5,028,308	4,396,337
Other investments	670,548	504,937
Total assets	<u>71,437,125</u>	<u>70,412,621</u>
Liabilities:		
Accrued personnel costs	721,505	641,987
Note payable to Auxiliary Fund	<u>3,820,295</u>	<u>4,969,236</u>
Total liabilities	<u>4,541,800</u>	<u>5,611,223</u>
Fund balance	<u>\$ 66,895,325</u>	<u>\$ 64,801,398</u>
Fund balance:		
Retirement fund	\$ 64,391,496	\$ 62,512,636
Insurance fund	<u>2,503,829</u>	<u>2,288,762</u>
	<u>\$ 66,895,325</u>	<u>\$ 64,801,398</u>

See accompanying notes.

Retirement and Insurance Fund Statement of Changes in Fund Balance

Michigan State University

	Year ended June 30, 1999			Year ended June 30, 1998
	Retirement Fund	Insurance Fund	Total	Total
Fund balance at beginning of year	\$ 62,512,636	\$ 2,288,762	\$ 64,801,398	\$ 49,034,711
Additions:				
Employer contributions	158,237	766,128	924,365	2,462,375
Income from investments	10,301,953	97,489	10,399,442	11,001,330
	<u>10,460,190</u>	<u>863,617</u>	<u>11,323,807</u>	<u>13,463,705</u>
Deductions:				
Benefit expenditures and fees	5,162,563	648,550	5,811,113	6,556,384
Transfer to income reserve	3,418,767	-	3,418,767	-
	<u>8,581,330</u>	<u>648,550</u>	<u>9,229,880</u>	<u>6,556,384</u>
Cumulative effect of accounting change	-	-	-	8,859,366
Fund balance at end of year	<u>\$ 64,391,496</u>	<u>\$ 2,503,829</u>	<u>\$ 66,895,325</u>	<u>\$ 64,801,398</u>

See accompanying notes.

Agency Fund Statements of Financial Condition

Michigan State University

	June 30,	
	1999	1998
Assets:		
Operating cash and investments (Note 2)	\$ 30,172,098	\$ 29,303,765
Investments and marketable securities (Note 2)	7,101,701	5,800,229
Accounts receivable	2,278,863	907,139
Total assets	<u>\$ 39,552,662</u>	<u>\$ 36,011,133</u>
Liabilities:		
Accounts payable	\$ 1,643,259	\$ 1,604,346
Payroll taxes and other payroll deductions	19,871,303	17,416,438
Deposits held for others	18,038,100	16,990,349
Total liabilities	<u>\$ 39,552,662</u>	<u>\$ 36,011,133</u>

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

Michigan State University

1. Basis of presentation and summary of significant accounting policies

Basis of presentation - The financial statements have been prepared in accordance with the accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, *Audits of Colleges and Universities*.

The current funds consist of the General, Designated (use restricted by University policy), Auxiliary Activities and Expendable Restricted (use restricted by donor or supporting agency) funds. These funds are used to account for transactions related to the instructional and academic programs (including restricted purpose contracts and grants, research, extension and departmental programs) and the auxiliary activities which provide services to the student body, faculty, staff and public.

The non-current funds and their functions are described as follows: (1) the Student Loan Fund is used to account for transactions related to loans to students; (2) the Endowment Fund is used to account for gifts which allow only the income thereon to be expended and includes similar funds under Board control; (3) the Plant Fund contains the transactions related to investment in plant, indebtedness incurred in the financing thereof and reserves for plant improvement; (4) the Retirement and Insurance Fund contains transactions primarily related to pension, life insurance and certain other termination benefits; (5) the Agency Fund is used to account for the federal direct lending program, amounts withheld from payrolls, employer portions of payroll taxes and various payroll benefits and for amounts held in custody for students, University-related organizations and others.

The financial statements of all controlled organizations are included in the University's financial statements; organizations which are not controlled by the University, such as the Michigan State University Foundation and booster organizations, are not included in the University's financial statements.

The Statement of Current Funds Revenues, Expenditures and Transfers and Changes in Fund Balances is a statement of financial activities of the current funds related to the current reporting period. It does not purport to present the results of operations or net income or loss for the period.

Summary of significant accounting policies

Accrual accounting - The financial statements have been prepared on the accrual basis, except for the following, which are common practices in colleges and universities: (1) revenue and expenditures of an academic semester are reported in the fiscal year in which the respective courses are predominantly conducted, (2) Expendable Restricted Fund revenue is recognized only to the extent expended, (3) gifts, grants and pledges are recognized when received or when billable, (4) interest income is recognized when received, and (5) interest expense is recognized when paid.

Investment in Plant - Physical properties are stated at cost or, when donated, at fair market value at date of gift. Depreciation is computed using the straight-line method, with a full-year expense in the year of acquisition and none in the year of disposal. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. Amounts expended from current funds for equipment or other capital additions are included in expenditures or transfers of such funds and are capitalized in the Plant Fund. The costs of maintenance and repairs are expensed as incurred; significant renewals and improvements are capitalized.

Inventories - Inventories are stated at the lower of average cost or market, except for fuel inventory which is costed using the last-in, first-out method.

Income taxes - The University is classified as a political subdivision of the State of Michigan under Internal Revenue Code Section 115(a) and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income.

2. Operating cash and investments, and marketable securities

Operating cash and investments - The University uses the "pooled cash" method of accounting for substantially all of its operating cash and investments, which as of June 30, 1999 and 1998 were as follows:

	1999	1998
Cash	\$ (2,542,000)	\$ (3,078,000)
Investments	126,524,000	137,423,000
Equity in pooled cash and investments	<u>51,946,000</u>	<u>107,855,000</u>
	<u>\$175,928,000</u>	<u>\$242,200,000</u>

The amounts reported as investments for both years consisted of fixed income investments. Of the bank balances for cash and investments, \$195,000 of the total \$5,463,000 in 1999 and \$258,000 of the total \$4,470,000 in 1998 were covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized, as the University is precluded by state law from collateralizing its deposits.

Investment policies for operating cash and investments, as set forth by the Board of Trustees, authorize the University to invest in dollar-denominated, fixed-income instruments such as: obligations of the U.S. Government or its agencies; securities of United States and foreign issuers including corporations and quasi-government entities; mortgage pass-through and collateralized mortgage obligations; asset-backed securities; money market instruments, repurchase and reverse-repurchase

Notes to Financial Statements (Continued)

Michigan State University

agreements, floating-rate instruments, U.S. money market funds, bank short-term investment funds; and commingled, global, and international funds offered by the University's investment manager. All securities will be purchased to maintain a minimum average portfolio quality rating of AA.

The yields on investments were 5.5% in 1999 and 5.6% in 1998.

Investments and marketable securities - Policies regarding investments and marketable securities, as set forth by the Board of Trustees, authorize the University to invest in bonds, except convertibles, rated A or better, commercial paper normally rated no lower than the second highest grade of Moody's or Standard & Poor's, certificates of deposit issued by either U.S. chartered banks with a debt rating of A or better, or foreign chartered banks meeting management's standards.

The University holds investments in various limited partnership funds which are not publicly traded; fair market value in these investments are estimated considering market prices for similar investments, the results of valuation techniques, and fundamental analysis. In the case of non-publicly traded real estate funds, fair values are based on annual appraisals by independent real estate appraisers.

Investments held in pools not registered with the SEC are managed and monitored by an independent consulting firm retained by the University. In all such pools, the fair value of the position of the pool is equal to the value of the pool shares as determined by the investment firm.

The investments are categorized below to give an indication of the level of risk assumed by the University as of June 30, 1999 and 1998. Category A includes insured or registered securities held in the University's name. Category B includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, in the University's name. Category C includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the University's name.

	1999 Category			
	A	B	C	Total
U.S. Government securities	\$ -	\$ 195,000	\$ 11,323,000	\$ 11,518,000
Notes and bonds	-	-	1,872,000	1,872,000
Equities	-	-	<u>135,294,000</u>	<u>135,294,000</u>
	<u>\$ -</u>	<u>\$ 195,000</u>	<u>\$ 148,489,000</u>	<u>\$ 148,684,000</u>

	1998 Category			
	A	B	C	Total
U.S. Government securities	\$ -	\$ 1,803,000	\$ 20,553,000	\$ 22,356,000
Notes and bonds	-	-	2,203,000	2,203,000
Equities	-	-	<u>151,184,000</u>	<u>151,184,000</u>
	<u>\$ -</u>	<u>\$ 1,803,000</u>	<u>\$ 173,940,000</u>	<u>\$ 175,743,000</u>

In addition to the above, the University has pooled investments held by several trust companies that are managed by independent investment managers. These investments totaled \$354,722,000 and \$259,097,000 as of June 30, 1999 and 1998, respectively. The University also held miscellaneous assets of \$9,623,000 and \$8,690,000 at June 30, 1999 and 1998, respectively. Miscellaneous assets consist substantially of reserves with plan administrators for benefit payments and real estate.

Investment performance - The University pools substantially all of its long-term investments and marketable securities in its Common Investment Fund. Due to legal and operating requirements, certain other investments are invested separately or in the University's Base Cash Pool. The total return (includes ordinary income as well as realized and unrealized gains and losses) on investments and marketable securities, net of certain Plant Fund investments, for the years ended June 30, 1999 and 1998 were as follows:

	1999	1998
Common Investment Fund	10.2%	16.7%
Base Cash Pool	3.3%	10.8%
Other	6.2%	6.4%

Notes to Financial Statements (Continued)

Michigan State University

3. Bonds payable

Bonds payable included in the Plant Fund at June 30, 1999 and 1998 are summarized as follows:

	<u>1999</u>	<u>1998</u>
General Revenue Bonds, Series 1998A-1	\$ 20,970,000	\$ -
General Revenue Bonds, Series 1998A-2	51,935,000	-
General Revenue Bonds, Series 1996A	28,785,000	29,985,000
General Revenue Bonds, Series 1992A	<u>-</u>	<u>74,295,000</u>
	<u>\$ 101,690,000</u>	<u>\$ 104,280,000</u>

The Series 1998A-1 bonds, secured by General Revenues, bear interest at rates varying from 4.00% to 5.00% and mature serially through 2009.

The Series 1998A-2 bonds, secured by General Revenues, bear interest based on a weekly rate determined by the remarketing agent and are amortized through mandatory sinking fund redemptions from 2009 through 2023. In connection with the issuance of the Series 1998A-2 bonds, the University also entered into a swap transaction. This has the effect of creating fixed rate bonds that bear interest at 4.6% through 2009. The Series 1998A-2 bonds may be converted to a permanent fixed rate provided certain conditions are met.

The Series 1996A bonds, secured by General Revenues, bear interest at rates varying from 4.15% to 6.00% and mature serially through 2026.

The Series 1992A bonds, secured by General Revenues, were defeased July 1, 1998 (see footnote 9).

Scheduled maturities of Plant Fund bonds payable are \$2,950,000 in 2000, \$3,055,000 in 2001, \$3,165,000 in 2002, \$2,970,000 in 2003, \$3,095,000 in 2004 and \$86,455,000 thereafter.

4. Retirement benefits

The University has a defined contribution base retirement plan administered through the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), Fidelity Investments and The Vanguard Group for all qualified employees. All regular employees are eligible to participate based on the service requirements specific to their employee group. Participants maintain individual contracts with the base retirement vendors and are fully vested.

Participating employees contribute 5% of their pay and the University contributes 10%. Participants may elect to contribute additional amounts to the plan, within specified limits, which are not matched by University contributions. Contributions under the plan, excluding the participants' additional contributions, for the years ended June 30, were as follows:

	<u>1999</u>	<u>1998</u>
University contributions	\$ 40,368,000	\$ 38,460,000
Employee contributions	20,184,000	19,230,000

In addition, the University has a single-employer, defined benefit plan covering approximately 1,500 employees hired prior to January 1, 1973. This plan is closed to new entrants and is fully funded in the Retirement Fund. The benefits are based on years of service and the employee's compensation during the last three years of employment. There were no pension costs in either 1999 or 1998.

The University also funds and provides from the Retirement Fund, termination benefits upon retirement; resulting from certain other separation benefits.

The University contributes monthly health care and dental premiums for retired employees in accordance with the various employee group contracts. Substantially all of the University's employees may become eligible for those benefits if they meet normal vesting requirements while still working for the University. The number of eligible retirees was approximately 3,300 in both 1999 and 1998. The University recognizes the cost of providing those benefits by expensing them on a current basis. Those costs totaled \$10,599,000 for 1999 and \$9,929,000 for 1998.

5. Commitments

At June 30, 1999 the University had initiated plans and incurred certain contractual commitments related to the construction of various facilities. The costs to complete the projects are estimated to be \$128,000,000 and are to be funded from state and

Notes to Financial Statements (Continued)

Michigan State University

State Building Authority (SBA) appropriations, private gifts or other University funds. Certain University facilities, including the Engineering Building addition, the Engineering Research Complex, the Crop and Soil Sciences Research Facility, the Theodore B. Simon Power Plant Unit 4 addition, the Revitalization of the Michigan Animal Agriculture Facilities and the Biomedical and Physical Sciences Building have been, or are scheduled to be, financed in whole or in part by SBA bond issues which are secured by a pledge of rentals to be received from the State of Michigan pursuant to lease agreements between the SBA, the State of Michigan, and the University. During the lease terms, the SBA will hold title to the respective buildings, the State of Michigan will make all lease payments to the SBA and the University will pay all operating and maintenance costs. At the expiration of the individual leases, the SBA has agreed to sell each building to the University for one dollar.

At June 30, 1999, the University had entered into various limited partnerships with investment managers of oil and gas, venture capital, private equity and real estate groups. As of June 30, 1999, \$27,104,000 of the initial \$36,600,000 investment commitment remains outstanding.

6. Contingencies

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related injuries to employees; and natural disasters. Effective July 1, 1987, the University entered into an arrangement with several other Michigan public universities to form a separate corporation which provides comprehensive general liability, errors and omissions, property and vehicle liability coverages. The deductible amounts for each member are actuarially determined on an annual basis. The corporation provides coverage for claims in excess of agreed upon deductibles and purchases commercial coverage for claims in excess of established annual limits for each line of coverage. Recommended reserves for both the corporation and each member are actuarially determined on an annual basis. Members may fund their respective reserves, as they deem appropriate. The University has notified the corporation of its intent to withdraw from participation effective July 1, 2000. Upon its withdrawal, the University will use a combination of self-insurance and commercial insurance to manage these risks.

The University is self-insured for various professional liability claims with funding based on actuarial valuations. For professional medical liability claims related to incidents arising subsequent to February 1981, the University is indemnified by the State of Michigan for any losses in excess of the actuarially determined funded reserves. The liability is reported at the present value of \$6,116,000 as of June 30, 1999. The discount rate used was 5%.

The University is also self-insured for various employee benefits. Claims expenditures and liabilities are reported when it is probable that a loss has

occurred and the amount of that loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported. Worker's compensation liability, which will be settled by fixed payments over an extended period of time, is reported at the present value of \$1,946,000. The discount rate used was 8%.

At June 30, 1999, these self-insured general, professional and employee benefit liabilities totaled \$13,538,000. Changes in the total reported liabilities during fiscal 1999 and 1998 were as follows:

	<u>1999</u>	<u>1998</u>
Balance at beginning of year	\$ 12,918,000	\$ 12,331,000
Claims incurred and changes in estimates	39,360,000	24,279,000
Claim payments	<u>(38,739,000)</u>	<u>(23,692,000)</u>
Balance at the end of year	<u>\$ 13,539,000</u>	<u>\$ 12,918,000</u>

The University purchases commercial insurance for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

In the normal course of its activities, the University has been a party in various legal actions. Historically, the University has not experienced significant losses from such actions. After taking into consideration legal counsel's evaluation of pending actions, the University is of the opinion that the outcome thereof will not have a material effect on the financial statements.

7. Gift pledges

The University had outstanding gift pledges approximating \$73,000,000 at June 30, 1999, and \$50,000,000 at June 30, 1998. These pledges are not recognized in the accompanying financial statements.

Notes to Financial Statements (Continued)

Michigan State University

8. Michigan State University Foundation

Michigan State University Foundation is an independent corporation formed for the purpose of receiving funds for the sole benefit of the University. At June 30, 1999, the stated value of the net assets of the Foundation approximated \$225,788,000. These assets are not included in the financial statements of the University. Contributions to and payments on behalf of the University approximated \$10,837,000 in 1999 and \$9,286,000 in 1998.

9. Defeasance of Debt

During the year ended June 30, 1999, the University used \$75,830,000 of the Series 1998A bonds and \$3,861,000 of University funds to defease in substance \$74,295,000 of bonds of the Plant Fund by depositing U.S. Government securities in an irrevocable trust with an escrow agent to provide for all future debt service payments of those bonds. The related assets and liabilities are not included in the financial statements of the University. The undiscounted cash flow to service the new debt decreased \$11,170,000. The economic gain resulting from this transaction amounted to \$9,633,000. As of June 30, 1999, \$72,930,000 of bond principal remains outstanding and is scheduled to be paid off during the fiscal year ending June 30, 2003.

Report prepared by Publications and Design, Division of University Relations, under the direction of Fred Poston, Interim Vice President for Finance and Operations and Treasurer; Kathryn Lindahl, Assistant Vice President for Finance and Operations; David B. Brower, Controller; Glen J. Klein, Senior Manager, Financial and Cash Management; and Vincent Schimizzi, Manager of Financial Analysis.

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