

MICHIGAN STATE
UNIVERSITY

FINANCIAL REPORT

1999-2000

This report presents the financial position and results of operations of Michigan State University for the fiscal year ended June 30, 2000. 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. KPMG LLP, Certified Public Accountants, has audited the financial statements and notes on pages 10 through 29. The audit report appears on page 9.

Michigan State University continues to attract distinguished students by offering outstanding academic programs, numerous research opportunities for both graduate and undergraduate students, abundant outreach experiences, and a study abroad program that leads the nation offering more than 140 programs. Twenty-two percent of our graduating seniors have studied abroad at least once. The 1999 entering freshman class of 6,528 students had an average high school GPA of 3.44; more than half were ranked in the top 25 percent of their high school class. In 1999-2000, Michigan State conferred 9,568 degrees: 6,897 undergraduate, 1,893 masters, 463 Ph.D., and 315 professional degrees. MSU not only draws top quality students but also culminates the education process by returning quality graduates—graduates prepared to serve as leaders of the 21st century—back to communities within our state, nation, and world.

In February 2000, the donation of Pharmacia & Upjohn's Brook Lodge facility, including 60 acres of developed property and 577 acres of undeveloped land, valued at more than \$6 million, was accepted by MSU. The property will serve as an environmental and conference resource for southwest Michigan. Marking the fifth straight year of record-setting growth, donors contributed over \$120 million in cash and planned gift commitments to Michigan State University, with cash gift commitments breaking the \$100 million mark for the first time ever.

Construction continues on the Biomedical and Physical Sciences Building, a state-of-the-art facility that will be one of the largest academic buildings on campus. Completion is expected in December 2001. Eustace Hall has been completely renovated to preserve the heritage and maintain the building's listing on the National Register of Historic Places. Renamed Eustace-Cole Hall, to honor Jeffery N. and Kathryn Cole, who provided financial support for the restoration/renovation project, the building was rededicated in October 1999. Today it provides a modern facility for an Honors College that has doubled in size, reflecting the increasing quality of undergraduate students at MSU. The addition to Agriculture Hall is now complete and in use. Landscaping, road construction, and parking facilities are being reconfigured all across campus to provide students, faculty, staff, and visitors with aesthetically beautiful and convenient access to all facilities and events at MSU. In March, the Board of Trustees approved adoption of Component I of the 2020 Vision master plan to ensure a safe, beautiful, and accessible campus for the future.

MSU received national attention and recognition in 1999–2000 by winning the Citrus Bowl on January 1, 2000, and by earning the NCAA men's basketball championship in April 2000. Alumni around the world proudly joined local green and white fans to watch MSU student athletes publicly demonstrate Spartan spirit, commitment, perseverance, and achievement.

In his annual address, President Peter McPherson spoke of the land-grant tradition of public service which continues to frame the work of the university in its 21st-century teaching, research, and outreach roles ensuring MSU as an "engaged university" that contributes to the public good. The people and facilities of Michigan State remain committed to successfully taking that mission to the next step on campus, within Michigan, and into a global arena.



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

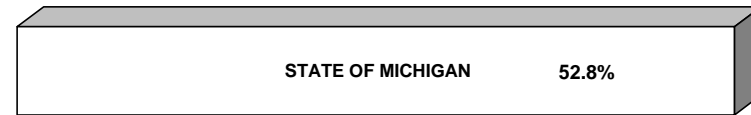
GENERAL FUND REVENUES 1999-2000

MICHIGAN STATE UNIVERSITY

This fund is for general operation of the University and represents 50.0% of the total current funds revenues. These amounts are included in the total current funds revenues column and graph on page 3.

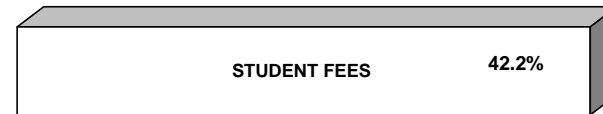
STATE OF MICHIGAN..... \$ 303,826,465

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

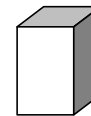


STUDENT FEES..... 242,680,711

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



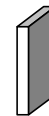
INDIRECT COST RECOVERIES..... 23,960,300
(Allocated to General Operations)



INDIRECT COST RECOVERIES 4.2%

RECEIPTS AND INTEREST..... 4,803,770

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



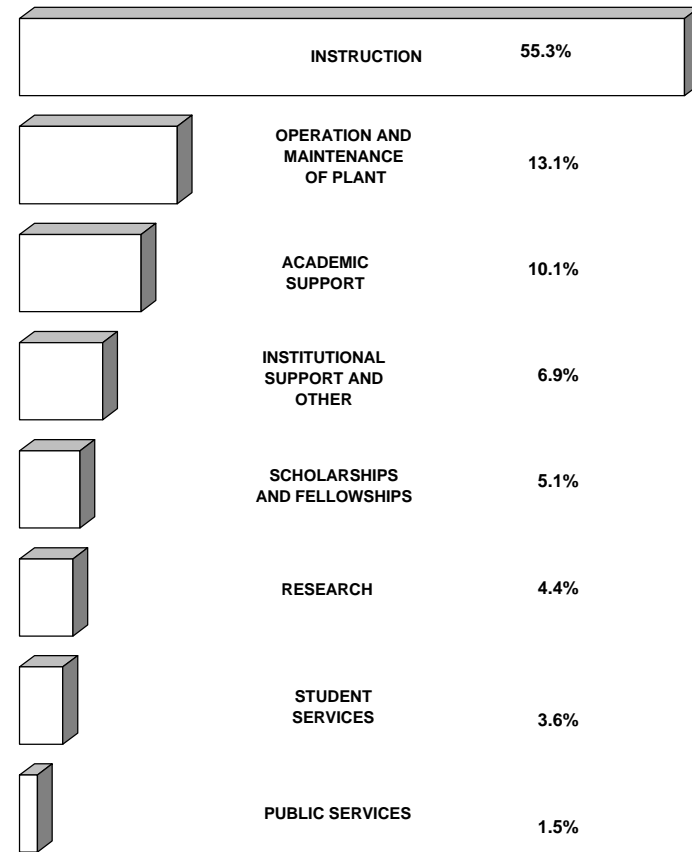
RECEIPTS AND INTEREST 0.8%

GENERAL FUND TOTAL..... \$ 575,271,246

GENERAL FUND EXPENDITURES AND TRANSFERS 1999-2000

MICHIGAN STATE UNIVERSITY

| | |
|---|-----------------------|
| INSTRUCTION..... | \$ 316,660,362 |
| RESEARCH..... | 25,356,475 |
| (Exclusive of the Agricultural Experiment Station and research financed by grants and gifts for restricted use.) | |
| PUBLIC SERVICES..... | 8,503,100 |
| Radio and Television, Animal Health Diagnostic Laboratory, and other public services. | |
| ACADEMIC SUPPORT..... | 57,833,052 |
| Libraries, course development, computer facilities, academic administration, museums and galleries, and audio-visual. | |
| STUDENT SERVICES..... | 20,556,617 |
| Student admissions, counseling services, and other student activities. | |
| SCHOLARSHIPS AND FELLOWSHIPS..... | 28,753,457 |
| INSTITUTIONAL SUPPORT AND OTHER..... | 39,565,283 |
| Executive management, business operations, administrative computing, human resources, and protective services. | |
| OPERATION AND MAINTENANCE OF PLANT..... | 74,977,452 |
| GENERAL FUND TOTAL..... | \$ 572,205,798 |



FINANCIAL STATEMENTS [1999-2000](#) MICHIGAN STATE UNIVERSITY

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Report of Independent Public Accountants

To the Board of Trustees of Michigan State University:

We have audited the accompanying financial statements of Michigan State University (the University), as of and for the year ended June 30, 2000, as listed in the table of contents. 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 audit. The financial statements of the University as of and for the year ended June 30, 1999 were audited by other auditors, whose report therein dated August 26, 1999 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2000, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2000 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report (included herein on page 30) is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

Detroit, Michigan,
August 31, 2000

General Fund Statements of Financial Condition
Michigan State University

| | June 30, | |
|--|----------------------|----------------------|
| | 2000 | 1999 |
| Assets: | | |
| Operating cash and investments (Note 2) | \$ 15,320,121 | \$ 1,228,459 |
| Investments and marketable securities (Note 2) | 30,914,286 | 42,317,340 |
| Accounts receivable, less allowance for doubtful accounts of \$90,000 in both 2000 and 1999 | 56,676,136 | 54,369,662 |
| Inventories | <u>2,160,952</u> | <u>2,382,366</u> |
| Total assets | <u>105,071,495</u> | <u>100,297,827</u> |
| Liabilities and deferred revenues: | | |
| Accounts payable | 5,077,426 | 3,784,736 |
| Accrued personnel costs | 30,935,087 | 30,992,784 |
| Deferred student fees | <u>9,265,249</u> | <u>8,792,022</u> |
| Total liabilities and deferred revenues | <u>45,277,762</u> | <u>43,569,542</u> |
| Fund balance | <u>\$ 59,793,733</u> | <u>\$ 56,728,285</u> |
| Fund balance: | | |
| Contractually committed | \$ 2,728,290 | \$ 2,723,597 |
| Commitments pending | 31,583,634 | 27,199,254 |
| Allocated for subsequent year budget | 2,500,000 | 2,500,000 |
| Departmental funds carried forward | 19,290,608 | 17,238,522 |
| Uncommitted | <u>3,691,201</u> | <u>7,066,912</u> |
| | <u>\$ 59,793,733</u> | <u>\$ 56,728,285</u> |

See accompanying notes.

Designated Fund Statements of Financial Condition

Michigan State University

| | June 30, | |
|--|----------------------|----------------------|
| | 2000 | 1999 |
| Assets: | | |
| Operating cash and investments (Note 2) | \$ 19,458,718 | \$ 2,546,286 |
| Investments and marketable securities (Note 2) | 79,431,550 | 80,491,388 |
| Medical services and other receivables, less allowances for contractual adjustments and doubtful accounts of \$4,564,000 in 2000 and \$3,695,000 in 1999 | 5,641,520 | 5,131,555 |
| Prepaid expenses | 818,951 | 306,429 |
| Total assets | <u>105,350,739</u> | <u>88,475,658</u> |
| Liabilities and deferred revenues: | | |
| Accounts payable | 1,442,311 | 1,695,884 |
| Accrued self-insurance liabilities | 10,224,155 | 11,282,599 |
| Accrued personnel costs | 3,023,032 | 3,754,843 |
| Deferred revenues | 1,078,399 | 1,963,626 |
| Total liabilities and deferred revenues | <u>15,767,897</u> | <u>18,696,952</u> |
| Fund balance | <u>\$ 89,582,842</u> | <u>\$ 69,778,706</u> |

See accompanying notes.

Auxiliary Activities Fund Statements of Financial Condition

Michigan State University

| | June 30, | |
|---|----------------------|----------------------|
| | 2000 | 1999 |
| Assets: | | |
| Operating cash and investments (Note 2) | \$ 8,279,652 | \$ 4,960,331 |
| Investments and marketable securities (Note 2) | 40,749,767 | 41,954,971 |
| Accounts receivable, less allowances for contractual adjustments and doubtful accounts of \$110,000 in 2000 and \$420,000 in 1999 | 4,988,083 | 5,122,405 |
| Note receivable from Retirement and Insurance Fund | - | 3,820,295 |
| Inventories and prepaid expenses | 8,236,032 | 8,136,029 |
| Investment in joint ventures (Note 9) | 6,071,730 | 5,634,510 |
| Total assets | <u>68,325,264</u> | <u>69,628,541</u> |
| Liabilities and deferred revenues: | | |
| Accounts payable | 6,061,239 | 5,955,477 |
| Accrued personnel costs | 9,026,022 | 9,552,027 |
| Deferred revenues | 12,493,615 | 11,561,155 |
| Total liabilities and deferred revenues | <u>27,580,876</u> | <u>27,068,659</u> |
| Fund balance | <u>\$ 40,744,388</u> | <u>\$ 42,559,882</u> |

See accompanying notes.

Expendable Restricted Fund Statements of Financial Condition
Michigan State University

| | June 30, | |
|--|----------------------|----------------------|
| | 2000 | 1999 |
| Assets: | | |
| Operating cash and investments (Note 2) | \$ 15,071,310 | \$ 60,491,739 |
| Investments and marketable securities (Note 2) | 68,138,261 | 3,694,682 |
| Accounts receivable | 31,583,025 | 33,872,399 |
| Total assets | <u>114,792,596</u> | <u>98,058,820</u> |
| Liabilities: | | |
| Accounts payable | 2,743,877 | 2,554,264 |
| Accrued personnel costs | 4,987,804 | 4,723,424 |
| Total liabilities | <u>7,731,681</u> | <u>7,277,688</u> |
| Fund balance | <u>\$107,060,915</u> | <u>\$ 90,781,132</u> |

See accompanying notes.

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

Michigan State University

| | Year ended June 30, 2000 | | | | | | Year ended June 30, 1999 Total |
|---|--------------------------|--------------------|---------------------------------|--|----------------------------------|---------------------------|--------------------------------------|
| | General Fund | Designated Fund | Auxiliary Activities Fund | Total Unrestricted Current Funds | Expendable Restricted Fund | Total Current Funds | |
| Revenues: | | | | | | | |
| Student fees | \$242,680,711 | \$ - | \$ 5,447,567 | \$ 248,128,278 | \$ - | \$ 248,128,278 | \$ 242,994,761 |
| State of Michigan appropriations: | | | | | | | |
| Current operations | 303,826,465 | - | - | 303,826,465 | - | 303,826,465 | 286,848,987 |
| Agricultural Experiment Station | - | - | - | - | 31,497,154 | 31,497,154 | 30,268,300 |
| Cooperative Extension Service | - | - | - | - | 27,092,562 | 27,092,562 | 26,033,458 |
| State of Michigan sponsored programs | - | - | - | - | 23,363,086 | 23,363,086 | 17,455,327 |
| Federally sponsored programs | - | - | - | - | 151,064,090 | 151,064,090 | 139,625,843 |
| Local and private gifts and sponsored programs | - | 1,748,053 | - | 1,748,053 | 73,877,449 | 75,625,502 | 61,268,519 |
| Income from investments: | | | | | | | |
| Endowment Fund | - | 522,077 | 12,345 | 534,422 | 5,517,809 | 6,052,231 | 5,901,437 |
| Other | 2,797,126 | 8,295,280 | 3,929,308 | 15,021,714 | 4,313,690 | 19,335,404 | 17,322,964 |
| Departmental activities | 2,006,644 | 94,245,713 | - | 96,252,357 | - | 96,252,357 | 76,981,176 |
| Auxiliary activities | - | - | 184,189,083 | 184,189,083 | - | 184,189,083 | 181,707,270 |
| Indirect cost recoveries | 23,960,300 | 4,305,682 | - | 28,265,982 | (28,246,010) | 19,972 | 27,780 |
| Decrease (increase) in restricted revenue held for future expenditures | - | - | - | - | (16,279,783) | (16,279,783) | 1,190,201 |
| Total revenues | 575,271,246 | 109,116,805 | 193,578,303 | 877,966,354 | 272,200,047 | 1,150,166,401 | 1,087,626,023 |
| Expenditures: | | | | | | | |
| Instruction and departmental research | 312,682,349 | 22,821,131 | - | 335,503,480 | 17,906,237 | 353,409,717 | 339,149,312 |
| Research | 24,859,490 | 3,748,242 | - | 28,607,732 | 149,809,487 | 178,417,219 | 158,656,719 |
| Public services | 8,503,100 | 58,579,284 | - | 67,082,384 | 71,851,937 | 138,934,321 | 119,932,523 |
| Academic support | 55,473,052 | 374,696 | - | 55,847,748 | 3,651,777 | 59,499,525 | 55,959,531 |
| Student services | 20,556,617 | 1,410,226 | - | 21,966,843 | 575,906 | 22,542,749 | 21,670,544 |
| Scholarships and fellowships | 27,960,774 | 851,156 | - | 28,811,930 | 23,156,631 | 51,968,561 | 49,493,900 |
| Institutional support (General Fund net of \$3,833,229 in 2000 and \$3,653,270 in 1999 for administrative charges) | 46,156,588 | 4,393,009 | - | 50,549,597 | 332,963 | 50,882,560 | 46,991,462 |
| Operation and maintenance of plant (General Fund net of \$6,928,656 in 2000 and \$7,377,370 in 1999 for utility charges to Auxiliary Activities Fund) | 53,989,395 | - | - | 53,989,395 | 579,529 | 54,568,924 | 49,858,878 |
| Auxiliary activities operations, less internal service rebillings of \$106,687,010 in 2000 and \$102,697,938 in 1999 | - | - | 170,884,862 | 170,884,862 | - | 170,884,862 | 168,345,002 |
| Total expenditures | 550,181,365 | 92,177,744 | 170,884,862 | 813,243,971 | 267,864,467 | 1,081,108,438 | 1,010,057,871 |

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

| | Year ended June 30, 2000 | | | | | | Year ended June 30, 1999 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 | \$ - | \$ 101,749 | \$ 5,435,249 | \$ - | \$ 5,435,249 | \$ 5,333,500 |
| Total mandatory transfers | 5,333,500 | - | 101,749 | 5,435,249 | - | 5,435,249 | 5,333,500 |
| Other transfers for: | | | | | | | |
| Plant improvement and retirement of indebtedness | 22,064,151 | (1,475,589) | 24,469,273 | 45,057,835 | 3,072,389 | 48,130,224 | 51,372,458 |
| Other | (5,373,218) | (1,389,486) | (62,087) | (6,824,791) | 1,263,191 | (5,561,600) | (507,779) |
| Total other transfers | 16,690,933 | (2,865,075) | 24,407,186 | 38,233,044 | 4,335,580 | 42,568,624 | 50,864,679 |
| Total transfers | 22,024,433 | (2,865,075) | 24,508,935 | 43,668,293 | 4,335,580 | 48,003,873 | 56,198,179 |
| Total expenditures and transfers | 572,205,798 | 89,312,669 | 195,393,797 | 856,912,264 | 272,200,047 | 1,129,112,311 | 1,066,256,050 |
| Revenues over (under) expenditures and transfers | 3,065,448 | 19,804,136 | (1,815,494) | \$ 21,054,090 | - | \$ 21,054,090 | \$ 21,369,973 |
| Increase (decrease) in restricted revenue held for future expenditures | - | - | - | - | 16,279,783 | - | - |
| Fund balance at beginning of year | 56,728,285 | 69,778,706 | 42,559,882 | - | 90,781,132 | - | - |
| Fund balance at end of year | \$ 59,793,733 | \$ 89,582,842 | \$ 40,744,388 | - | \$ 107,060,915 | - | - |

See accompanying notes.

Student Loan Fund Statements of Financial Condition
Michigan State University

| | June 30, | |
|---|----------------------|----------------------|
| | 2000 | 1999 |
| Assets: | | |
| Operating cash and investments (Note 2) | \$ 8,663,402 | \$ 8,186,778 |
| Student loans receivable, less allowance for doubtful loans of \$3,900,000 in 2000 and \$3,675,000 in 1999 | 35,927,289 | 34,953,199 |
| Deposit with loan guaranty agency | 135,000 | 135,000 |
| | <u>\$ 44,725,691</u> | <u>\$ 43,274,977</u> |
| Total assets | | |
| Fund balance: | | |
| University student loan funds: | | |
| Restricted | \$ 1,529,728 | \$ 1,321,313 |
| Designated | 7,008,153 | 6,752,155 |
| | <u>8,537,881</u> | <u>8,073,468</u> |
| Federal student loan funds: | | |
| Federal portion | 31,634,998 | 30,783,765 |
| University portion | 4,552,812 | 4,417,744 |
| | <u>36,187,810</u> | <u>35,201,509</u> |
| Total fund balance | <u>\$ 44,725,691</u> | <u>\$ 43,274,977</u> |

See accompanying notes.

Student Loan Fund Statement of Changes in Fund Balance

Michigan State University

| | Year ended June 30, 2000 | | | | Year ended June 30, 1999 Total |
|---|----------------------------------|---------------------|----------------------------------|----------------------|--------------------------------------|
| | University Student Loan Funds | | Federal Student Loan Funds | Total | |
| | Restricted | Designated | | | |
| Fund balance: | | | | | |
| Balance at beginning of year | \$ 1,321,313 | \$ 6,752,155 | \$ 35,201,509 | \$ 43,274,977 | \$ 42,106,576 |
| Additions (deductions): | | | | | |
| Federal government contributions | - | - | 280,152 | 280,152 | 329,425 |
| Gifts and grants | 217,987 | 20,926 | - | 238,913 | 177,172 |
| Income from investments | 6,785 | 352,568 | 38,346 | 397,699 | 351,424 |
| Interest and fees on student loans | 5,201 | 50,094 | 834,381 | 889,676 | 884,147 |
| Transfers in (out) | 8,446 | 72,401 | 82,371 | 163,218 | (82,400) |
| Close out of federal loan program | - | - | (1,015) | (1,015) | (1,289) |
| Uncollectible loans recovered (written off) | (5,004) | (15,524) | - | (20,528) | (20,803) |
| Decrease (increase) in allowance for uncollectible loans | (25,000) | (50,000) | (150,000) | (225,000) | (250,000) |
| Recovery (cancellation) for teaching service, military service and health professions employment | - | - | 29,733 | 29,733 | 31,565 |
| Cancellation for death, disability and bankruptcy | - | - | (112,123) | (112,123) | (69,641) |
| Administrative expenses and collection costs | - | (174,467) | (15,544) | (190,011) | (181,199) |
| Balance at end of year | <u>\$ 1,529,728</u> | <u>\$ 7,008,153</u> | <u>\$ 36,187,810</u> | <u>\$ 44,725,691</u> | <u>\$ 43,274,977</u> |

See accompanying notes.

Endowment Fund Statements of Financial Condition

Michigan State University

| | June 30, | |
|--|----------------|----------------|
| | 2000 | 1999 |
| Assets: | | |
| Operating cash and investments (Note 2) | \$ 7,755,475 | \$ 6,212,355 |
| Investments and marketable securities (Note 2) | 302,308,854 | 264,611,769 |
| Real estate and other investments | 157,590 | 168,716 |
| Land grant endowment held by State of Michigan | 1,059,379 | 1,059,379 |
| Total assets | 311,281,298 | 272,052,219 |
| Liabilities: | | |
| Accrued liabilities | 618,342 | 583,125 |
| Fund balance | \$ 310,662,956 | \$ 271,469,094 |
| Fund balance: | | |
| Endowment funds | \$ 191,852,948 | \$ 165,775,313 |
| Funds functioning as endowment: | | |
| Restricted | 92,231,436 | 80,501,125 |
| Designated | 22,931,834 | 20,634,637 |
| | 115,163,270 | 101,135,762 |
| Term endowment funds: | | |
| Restricted | 1,895,905 | 2,286,912 |
| Designated | 317,189 | 1,000,000 |
| | 2,213,094 | 3,286,912 |
| Life income funds | 374,265 | 211,728 |
| Land grant endowment fund | 1,059,379 | 1,059,379 |
| Total fund balance | \$ 310,662,956 | \$ 271,469,094 |

See accompanying notes.

Endowment Fund Statement of Changes in Fund Balance

Michigan State University

| | Year ended June 30, 2000 | | | | | | | | Year Ended June 30, 1999 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 | \$ 165,775,313 | \$ 80,501,125 | \$ 20,634,637 | \$ 2,286,912 | \$ 1,000,000 | \$ 211,728 | \$ 1,059,379 | \$ 271,469,094 | \$ 236,529,655 |
| Additions: | | | | | | | | | |
| Gifts | 12,572,081 | 3,760,379 | 50,709 | - | - | 151,054 | - | 16,534,223 | 18,599,527 |
| Income from investments | 20,538,525 | 10,556,152 | 2,714,061 | 228,538 | 491,822 | 11,483 | - | 34,540,581 | 19,396,142 |
| | 33,110,606 | 14,316,531 | 2,764,770 | 228,538 | 491,822 | 162,537 | - | 51,074,804 | 37,995,669 |
| Transfers in (out): | | | | | | | | | |
| Spending policy | (3,870,332) | (2,120,797) | (568,055) | (17,987) | (17,248) | - | - | (6,594,419) | (4,333,310) |
| Other | 606,755 | 1,259,497 | 622,559 | (571,278) | (1,145,040) | - | - | 772,493 | 7,240,270 |
| | (3,263,577) | (861,300) | 54,504 | (589,265) | (1,162,288) | - | - | (5,821,926) | 2,906,960 |
| Deductions: | | | | | | | | | |
| Distribution to beneficiary funds | 3,769,394 | 1,724,920 | 522,077 | 30,280 | 12,345 | - | - | 6,059,016 | 5,908,829 |
| Amount payable to beneficiaries | - | - | - | - | - | - | - | - | 54,361 |
| | 3,769,394 | 1,724,920 | 522,077 | 30,280 | 12,345 | - | - | 6,059,016 | 5,963,190 |
| Fund balance at end of year | \$ 191,852,948 | \$ 92,231,436 | \$ 22,931,834 | \$ 1,895,905 | \$ 317,189 | \$ 374,265 | \$ 1,059,379 | \$ 310,662,956 | \$ 271,469,094 |

See accompanying notes.

Plant Fund Statement of Financial Condition

Michigan State University

June 30, 2000

| | Unexpended | Renewals and Replacements | Retirement of Indebtedness | Investment in Plant | Total | June 30, 1999 Total |
|---|---------------------|---------------------------|----------------------------|-----------------------|-----------------------|-----------------------|
| Assets: | | | | | | |
| Operating cash and investments (Note 2) | \$ - | \$91,041,382 | \$ 735,761 | \$ - | \$ 91,777,143 | \$ 62,130,007 |
| Other investments (Note 2) | 163,470 | - | 194,475 | - | 357,945 | 192,175 |
| Accounts receivable | 20,313,396 | - | - | - | 20,313,396 | 2,201,981 |
| Note receivable within Plant Fund | 26,804,218 | 23,355,870 | 2,330,166 | - | 52,490,254 | 30,818,855 |
| Unamortized bond origination costs | - | - | 1,754,400 | - | 1,754,400 | 1,389,950 |
| Investment in plant (Note 6): | | | | | | |
| Land | - | - | - | 17,766,523 | 17,766,523 | 15,516,523 |
| Buildings | - | - | - | 1,050,006,850 | 1,050,006,850 | 1,000,759,142 |
| Equipment and other | - | - | - | 369,532,569 | 369,532,569 | 345,692,202 |
| Construction in progress | - | - | - | 73,369,505 | 73,369,505 | 37,978,170 |
| Accumulated depreciation | - | - | - | (708,220,958) | (708,220,958) | (662,445,499) |
| Total assets | 47,281,084 | 114,397,252 | 5,014,802 | 802,454,489 | 969,147,627 | 834,233,506 |
| Liabilities: | | | | | | |
| Accounts payable and retainages | 8,298,957 | 5,133,065 | 4,001 | - | 13,436,023 | 6,629,530 |
| Notes payable within Plant Fund | 18,888,121 | 2,330,166 | - | 31,271,967 | 52,490,254 | 30,818,855 |
| Bonds payable (Note 3) | 18,259,638 | 12,909,801 | 2,879,403 | 125,856,158 | 159,905,000 | 101,690,000 |
| Total liabilities | 45,446,716 | 20,373,032 | 2,883,404 | 157,128,125 | 225,831,277 | 139,138,385 |
| Fund balance | \$ 1,834,368 | \$94,024,220 | \$2,131,398 | \$ 645,326,364 | \$ 743,316,350 | \$ 695,095,121 |
| Fund balance: | | | | | | |
| Investment in Plant | \$ - | \$ - | \$ - | \$ 645,326,364 | \$ 645,326,364 | \$ 613,942,613 |
| Restricted | 1,723,679 | 7,104,352 | 1,936,923 | - | 10,764,954 | 11,546,954 |
| Designated | 110,689 | 86,919,868 | 194,475 | - | 87,225,032 | 69,605,554 |
| | \$ 1,834,368 | \$94,024,220 | \$2,131,398 | \$ 645,326,364 | \$ 743,316,350 | \$ 695,095,121 |

See accompanying notes.

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

Michigan State University

Year Ended June 30, 2000

| | Unexpended | Renewals and Replacements | Retirement of Indebtedness | Investment in Plant | Total | Year Ended June 30, 1999 Total |
|---|----------------------|---------------------------|----------------------------|-----------------------|-----------------------|--------------------------------|
| Notes and bonds payable: | | | | | | |
| Balance outstanding at beginning of year | \$ 4,783,157 | \$ 2,411,228 | \$ 1,756,545 | \$ 123,557,925 | \$ 132,508,855 | \$ 110,535,148 |
| Additions (deductions): | | | | | | |
| Proceeds from borrowings: | | | | | | |
| Bonds | 35,359,283 | 23,738,000 | 2,067,717 | - | 61,165,000 | 75,830,000 |
| Internal notes | 14,104,964 | - | - | 11,694,690 | 25,799,654 | 26,063,707 |
| Expenditures for capital additions | (17,099,645) | (10,828,199) | (575,887) | 28,503,731 (A) | - | - |
| Notes and bonds retired: | | | | | | |
| Bonds | - | - | (2,377) | (2,947,623) | (2,950,000) | (78,420,000) |
| Internal notes | - | (81,062) | (366,595) | (3,680,598) | (4,128,255) | (1,500,000) |
| Balance outstanding at end of year | <u>\$ 37,147,759</u> | <u>\$ 15,239,967</u> | <u>\$ 2,879,403</u> | <u>\$ 157,128,125</u> | <u>\$ 212,395,254</u> | <u>\$ 132,508,855</u> |
| Fund balance: | | | | | | |
| Balance at beginning of year | \$ 11,720,512 | \$ 67,195,188 | \$ 2,236,808 | \$ 613,942,613 | \$ 695,095,121 | \$ 669,158,953 |
| Additions (deductions): | | | | | | |
| State and State Building Authority appropriations | 19,447,048 | 5,745,800 | - | - | 25,192,848 | 5,221,646 |
| Gifts and other sources | 4,288,281 | 2,467,771 | 1,741,896 | 6,059,000 | 14,556,948 | 5,043,010 |
| Income from investments | 9,794 | 2,448,934 | 129,265 | (310,678) (A) | 2,277,315 | 2,691,053 |
| Transfers in (out): | | | | | | |
| General Fund | 1,142,462 | 20,921,689 | 5,333,500 | - | 27,397,651 | 27,419,380 |
| Designated Fund | 100,000 | (1,575,589) | - | - | (1,475,589) | (5,084,089) |
| Auxiliary Activities Fund | 1,331,378 | 23,137,895 | 101,749 | - | 24,571,022 | 27,933,098 |
| Expendable Restricted Fund | 153,856 | 2,918,533 | - | - | 3,072,389 | 6,437,569 |
| Endowment Fund | - | 90,000 | - | - | 90,000 | - |
| Expenditures from current funds for capital additions | - | - | - | 32,723,691 | 32,723,691 | 41,391,852 |
| Expenditures for capital additions | (42,369,497) | (13,819,432) | - | 56,188,929 (A) | - | - |
| Interest expense | - | - | (4,724,511) | - | (4,724,511) | (3,648,313) |
| Notes and bonds retired | - | - | (5,076,752) | 5,076,752 | - | - |
| Intrafund transfers in (out) | 6,019,194 | 1,645,998 | 2,478,029 | (10,143,221) | - | - |
| Repairs, maintenance and other expenditures not capitalized | (8,660) | (17,875,026) | (88,586) | - | (17,972,272) | (19,217,518) |
| Disposal of plant assets | - | 722,459 | - | (3,650,240) | (2,927,781) | (3,003,450) |
| Advance refunding of debt | - | - | - | - | - | (8,970,961) |
| Depreciation | - | - | - | (54,560,482) | (54,560,482) | (50,277,109) |
| Balance at end of year | <u>\$ 1,834,368</u> | <u>\$ 94,024,220</u> | <u>\$ 2,131,398</u> | <u>\$ 645,326,364</u> | <u>\$ 743,316,350</u> | <u>\$ 695,095,121</u> |

(A) Net Plant Fund expenditures for capital additions: \$84,381,982

See accompanying notes.

Retirement and Insurance Fund Statements of Financial Condition

Michigan State University

| | June 30, | |
|--|---------------|---------------|
| | 2000 | 1999 |
| Assets: | | |
| Operating cash and investments (Note 2) | \$ 2,456,795 | \$ - |
| Investments and marketable securities (Note 2) | 61,774,581 | 63,234,440 |
| Life insurance funding deposit | 2,458,836 | 2,503,829 |
| TIAA group annuity deposit | 2,660,200 | 5,028,308 |
| Other investments | 800,728 | 670,548 |
| Total assets | 70,151,140 | 71,437,125 |
| Liabilities: | | |
| Accrued personnel costs | 1,322,690 | 721,505 |
| Note payable to Auxiliary Fund | - | 3,820,295 |
| Total liabilities | 1,322,690 | 4,541,800 |
| Fund balance | \$ 68,828,450 | \$ 66,895,325 |
| Fund balance: | | |
| Retirement fund | \$ 66,369,614 | \$ 64,391,496 |
| Insurance fund | 2,458,836 | 2,503,829 |
| | \$ 68,828,450 | \$ 66,895,325 |

See accompanying notes.

Retirement and Insurance Fund Statement of Changes in Fund Balance

Michigan State University

| | Year ended June 30, 2000 | | | Year ended June 30, 1999 |
|-----------------------------------|--------------------------|---------------------|----------------------|-----------------------------|
| | Retirement Fund | Insurance Fund | Total | Total |
| Fund balance at beginning of year | \$ 64,391,496 | \$ 2,503,829 | \$ 66,895,325 | \$ 64,801,398 |
| Additions: | | | | |
| Employer contributions | 371,812 | 766,128 | 1,137,940 | 924,365 |
| Income from investments | 7,229,063 | 117,158 | 7,346,221 | 10,399,442 |
| | <u>7,600,875</u> | <u>883,286</u> | <u>8,484,161</u> | <u>11,323,807</u> |
| Deductions: | | | | |
| Benefit expenditures and fees | 5,629,865 | 928,279 | 6,558,144 | 5,811,113 |
| Transfer to (from) income reserve | (7,108) | - | (7,108) | 3,418,767 |
| | <u>5,622,757</u> | <u>928,279</u> | <u>6,551,036</u> | <u>9,229,880</u> |
| Fund balance at end of year | <u>\$ 66,369,614</u> | <u>\$ 2,458,836</u> | <u>\$ 68,828,450</u> | <u>\$ 66,895,325</u> |

See accompanying notes.

Agency Fund Statements of Financial Condition
Michigan State University

| | June 30, | |
|--|----------------------|----------------------|
| | 2000 | 1999 |
| Assets: | | |
| Operating cash and investments (Note 2) | \$ 32,278,111 | \$ 30,172,098 |
| Investments and marketable securities (Note 2) | 7,788,326 | 7,101,701 |
| Accounts receivable | 3,572,503 | 2,278,863 |
| | <u>\$ 43,638,940</u> | <u>\$ 39,552,662</u> |
| Total assets | | |
| Liabilities: | | |
| Accounts payable | \$ 1,016,952 | \$ 1,643,259 |
| Payroll taxes and other payroll deductions | 22,784,386 | 19,871,303 |
| Deposits held for others | 19,837,602 | 18,038,100 |
| | <u>\$ 43,638,940</u> | <u>\$ 39,552,662</u> |
| Total liabilities | | |

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

Michigan State University

1. Organization, basis of presentation and summary of significant accounting policies

Organization – Michigan State University was founded in 1855 as the Agricultural College of the State of Michigan. It was the first institution of higher learning in the nation to teach scientific agriculture and was the nation's first land-grant university. Michigan State has grown into a comprehensive research university providing undergraduate, graduate, and professional degree programs. While the University is a political subdivision of the State of Michigan, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

Basis of presentation - The financial statements have been prepared in accordance with generally accepted accounting principles for publicly owned colleges and universities and is presented in accordance with the reporting model as prescribed in 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. Amounts for 1999 shown in the statements of changes in fund balance for all non-current funds are for comparison purposes only.

The financial statements of all controlled organizations are required to be 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. There are no controlled organizations included in the University's financial statement for 2000 or 1999.

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. Amounts for 1999 are shown for comparison purposes only.

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, (5) interest expense is recognized when paid, and (6) investments are stated at fair value in accordance with GASB Statement #31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

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. Assets are depreciated over the estimated useful lives as follows:

| Assets | Years |
|---|----------|
| Buildings, Site Improvements and Infrastructure | 10 to 40 |
| Machinery and Tools | 4 to 10 |
| Office Equipment and Furnishings | 7 to 10 |
| Scientific Equipment and Other | 7 to 10 |

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 accounted for by 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.

Compensated absences – University employees earn vacation and sick leave benefits based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or

Notes to Financial Statements (Continued)

Michigan State University

termination). Certain limitations have been placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding these limitations are forfeited. Unpaid vacation and sick pay has been recorded in the current funds as applicable.

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, 2000 and 1999 were as follows:

| | 2000 | 1999 |
|---------------------------------------|-----------------------|-----------------------|
| Cash | \$ (3,952,000) | \$ (2,542,000) |
| Investments | 177,454,000 | 126,524,000 |
| Equity in pooled cash and investments | <u>27,559,000</u> | <u>51,946,000</u> |
| | <u>\$ 201,061,000</u> | <u>\$ 175,928,000</u> |

The amount reported as investments for 2000 and 1999 consisted of fixed income instruments. Of the bank balances for cash and investments, \$200,000 of the total \$4,056,000 in 2000 and \$195,000 of the total \$5,463,000 in 1999 were covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized, as banks holding deposits of the University are legally prohibited from collateralizing these 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, 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 5.0% in 2000 and 5.5% in 1999.

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, 2000 and 1999. 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.

| | 2000 Category | | | |
|----------------------------|---------------|-------------------|-----------------------|-----------------------|
| | A | B | C | Total |
| U.S. Government securities | \$ - | \$ 190,000 | \$ 6,651,000 | \$ 6,841,000 |
| Notes and bonds | - | - | 1,755,000 | 1,755,000 |
| Equities | - | - | <u>145,010,000</u> | <u>145,010,000</u> |
| | <u>\$ -</u> | <u>\$ 190,000</u> | <u>\$ 153,416,000</u> | <u>\$ 153,606,000</u> |
| | 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> |

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 \$437,500,000 and \$354,722,000 as of June 30, 2000 and 1999, respectively. Investment income in pooled accounts is allocated to funds based on each fund's proportional value of investments.

The University also held miscellaneous assets of \$7,495,000 and \$9,623,000 at June 30, 2000 and 1999, 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

Notes to Financial Statements (Continued)

Michigan State University

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, 2000 and 1999 were as follows:

| | <u>2000</u> | <u>1999</u> |
|------------------------|-------------|-------------|
| Common Investment Fund | 11.7% | 10.2% |
| Base Cash Pool | 3.9% | 3.3% |
| Other | 10.6% | 6.2% |

3. Bonds payable

Bonds payable included in the Plant Fund at June 30, 2000 and 1999 are summarized as follows:

| | <u>2000</u> | <u>1999</u> |
|---------------------------------------|-----------------------|-----------------------|
| General Revenue Bonds, Series 2000A | \$ 61,165,000 | \$ - |
| General Revenue Bonds, Series 1998A-1 | 19,260,000 | 20,970,000 |
| General Revenue Bonds, Series 1998A-2 | 51,935,000 | 51,935,000 |
| General Revenue Bonds, Series 1996A | <u>27,545,000</u> | <u>28,785,000</u> |
| | <u>\$ 159,905,000</u> | <u>\$ 101,690,000</u> |

In April 2000, the University issued \$61,165,000 of General Revenue bonds, Series 2000A, the proceeds of which are to be used to fund a portion of certain capital projects. The bonds, secured by General Revenues, bear interest based on a weekly rate determined by the remarketing agent and are amortized through mandatory redemptions from fiscal 2006 through 2031. The Series 2000A bonds may be converted to a permanent fixed rate provided certain conditions are met.

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, 2000, \$71,500,000 of bond principal remains outstanding and is scheduled to be paid off during the fiscal year ending June 30, 2003.

The Series 1998A-1 bonds, secured by General Revenues, bear interest at rates varying from 4.00% to 5.00% and mature serially through fiscal 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 fiscal 2010 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 fiscal 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 fiscal 2026.

Scheduled fiscal year maturities of Plant Fund bonds payable are \$3,055,000 in 2001, \$3,165,000 in 2002, \$2,970,000 in 2003, \$3,095,000 in 2004, \$2,725,000 in 2005 and \$144,895,000 thereafter.

Interest expense was \$4,725,000 for 2000, net of capitalized interest of \$576,000, and \$3,648,000 for 1999.

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 base salary or wages and the University contributes 10% of the employee's base salary or wages subject to applicable Internal Revenue Service limits. Participants may elect to contribute additional amounts to a supplemental plan, within specified limits, which are not matched by University contributions. Plan provisions and contribution requirements of plan members and the University are established and may be amended by the Board of Trustees in accordance with University policies, union contracts, or plan provisions. Contributions under the base plan, excluding the participants' supplemental contributions, for the years ended June 30, were as follows:

| | <u>2000</u> | <u>1999</u> |
|--------------------------|---------------|---------------|
| University contributions | \$ 43,362,000 | \$ 40,368,000 |
| Employee contributions | 21,681,000 | 20,184,000 |

In addition, the University has a single-employer, defined benefit plan covering approximately 1,400 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 required annual contributions and no pension costs for each of the three preceding years ended June 30, 2000.

Notes to Financial Statements (Continued)

Michigan State University

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. Substantially all of the University's employees may become eligible for those benefits if they meet normal retirement requirements while still working for the University. The number of eligible retirees was approximately 3,400 in 2000 and 3,300 in 1999. The University recognizes the cost of providing those benefits on a pay-as-you-go basis. Those costs totaled \$13,280,000 for 2000 and \$10,599,000 for 1999.

5. Grants and Contracts

The University receives grants and contracts from certain federal, state, and local agencies to fund research and other activities. Revenues from government grants and contracts are recognized as the related costs are incurred. Direct costs are accounted for in the restricted funds and indirect costs are accounted for in the unrestricted current funds. The University records indirect costs related to such grants and contracts at predetermined rates that are negotiated with the University's federal cognizant agency. Both direct and indirect costs charged to the grants or contracts are subject to audit and approval by the granting agencies. University management believes any adjustments of costs resulting from such examination by the granting agency would be insignificant.

6. Commitments

At June 30, 2000 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 \$90,000,000 and are to be funded from state and State Building Authority (SBA) appropriations, federal appropriations, private gifts, bond proceeds or other University funds. Certain University facilities, including the Engineering Building addition, the Engineering Research Complex, the Crop and Soil Sciences Research Facility, the Veterinary Medical Center addition, 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, 2000, 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, 2000, \$33,622,000 of the initial \$54,000,000 investment commitment remains outstanding.

7. Contingencies and Risk Management

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 that provides comprehensive general liability and errors and omissions liability coverage. The University will withdraw from participation effective July 1, 2000. Upon withdrawal, the University will use a combination of self-insurance and commercial insurance to manage these risks. While a participant, 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 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 \$5,105,000 as of June 30, 2000. 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 6%.

Notes to Financial Statements (Continued)

Michigan State University

At June 30, 2000, these self-insured general, professional and employee benefit liabilities totaled \$12,395,000 which is recorded in the Designated Fund. Changes in the total reported liabilities during fiscal 2000 and 1999 were as follows:

| | 2000 | 1999 |
|--|----------------------|----------------------|
| Balance at beginning of year | \$ 13,539,000 | \$ 12,918,000 |
| Claims incurred and changes in estimates | 42,802,000 | 39,360,000 |
| Claim payments | <u>(43,946,000)</u> | <u>(38,739,000)</u> |
| Balance at the end of year | <u>\$ 12,395,000</u> | <u>\$ 13,539,000</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.

8. Gift Pledges

The University had outstanding gift pledges approximating \$76,000,000 at June 30, 2000, and \$73,000,000 at June 30, 1999. These pledges are not recognized in the accompanying financial statements.

9. Related Organizations and Joint Ventures

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, 2000, the stated value of the net assets of the Foundation approximated \$283,769,000. These assets are not included in the financial statements of the University. Contributions to and payments on behalf of the University approximated \$17,003,000 in 2000 and \$10,837,000 in 1999.

Additionally, the University is a party to joint ventures with three separate enterprises. The joint venture, Mid-Michigan MRI with Sparrow Health System, operates a magnetic resonance imaging facility. The University has a 50% equity

share of cumulative 3MRI net income. The University Rehabilitation Alliance, Inc., a joint venture with Peckham Vocational Industries of Lansing, is an enterprise for the treatment of persons with brain injury. The University's equity share in this joint venture is 50%. The University has a 33% equity investment in the Radiation Oncology Alliance, a joint venture with Michigan Affiliated Health Care System and the University of Michigan. Copies of financial statements for the above joint ventures can be obtained by a written request to: Office of the Controller, Michigan State University, Room 305 John A. Hannah Administration Building, East Lansing, Michigan 48824-1046.

10. Future Accounting Pronouncements

The University will be required to implement the provisions of Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, effective with the fiscal year ended June 30, 2001 and Statement No. 35, Basic Financial Statements and Management Discussion and Analysis for Colleges and Universities, effective with the fiscal year ended June 30, 2002. These statements will have a significant impact on the presentation of the University's financial statements.

Report prepared by Marketing & Creative Services, Division of University Relations, under the direction of Fred Poston, 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.

MSU is an affirmative-action, equal-opportunity institution.
The Michigan State University IDEA is Institutional Diversity: Excellence in Action.

**Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards**

Report of Independent Public Accountants

To the Board of Trustees of Michigan State University:

We have audited the financial statements of Michigan State University (the University) as of and for the year ended June 30, 2000, and have issued our report thereon dated August 31, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, the Department of Health and Human Services and federal grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan,
August 31, 2000