

MICHIGAN STATE
UNIVERSITY

FINANCIAL REPORT

2000-2001

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This report presents the financial position and results of operations of Michigan State University for the fiscal year ended June 30, 2001. 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 KPMG LLP, Certified Public Accountants. The audit report appears on page 9.

Outstanding academic programs, research opportunities, and outreach experiences continue to attract excellent students to Michigan State University. Our study abroad program, offering 160 programs in 53 countries, is respected worldwide. The MSU faculty and staff are committed to academics and research, in addition to state and nationwide outreach initiatives.

This fall, all incoming freshmen are required to have a personal computer as part of their required supplies. To support the continual increase in the use of technology campus-wide, the fiber optic backbone, MSU's internal network is being upgraded in phases. The process is more than halfway completed. This year, MSU completed a five-year, nearly \$11.5 million high-speed Ethernet connection upgrade in the residence halls so that all rooms are now wired with Internet connections, as are many classrooms, study areas, and laboratories.

In May 2001, the university issued more than \$48.8 million of General Revenue Bonds, the proceeds of which will be used to fund a portion of certain capital projects, primarily the Shaw Parking Ramp project and the renovations of Shaw Hall and Jenison Fieldhouse. As of June 30, 2001, the university had under \$206 million of debt outstanding. MSU continues to maintain a solid financial position as evidenced by its current debt rating, which is the second highest debt rating category available by the major debt rating services.

Numerous projects were started and a number were completed during the past year. The Trowbridge Road extension, from Red Cedar to Farm Lane, will be completed for fall 2001 and it is expected that 15,000 motorists will begin using the new campus entrance daily. The new more accessible entrance provides for increased vehicular and pedestrian safety while preserving our tradition of green spaces. The new parking structure behind the Communications Arts and Sciences building is now available to park 1,000 vehicles and the 1,200 vehicle Shaw Ramp replacement is continuing. The partnership with the Capital Area Transit Authority has been very successful in providing a responsive transportation system for students, as well as faculty and staff.

Many of these initiatives reflect the groundwork for the university's master plan begun in 1999. The goal of the plan, entitled "2020 Vision: A Community Vision for the MSU Campus," is to create a decision-making framework which addresses the physical aspects of the campus and prepares for changes that will best serve the campus community for years to come. The first component of the plan focused on parking, transportation, and open space. The second component, now nearing completion, focuses on facilities, land use, and environment and incorporates decisions reached in component one. The initiative has been both highly collaborative and interactive, drawing on input across disciplines, colleges, work groups, faculty, staff, and students.

In President McPherson's 2000-2001 Progress Report he refers to two expectations for Michigan State University—developing vision and direction and improving the public image. I am pleased to report that the facilities, the funding, and the people of MSU are dedicated to maintaining a strong university that can serve not only as an institution of higher learning, but also as a beacon of service and contribution on behalf of society.

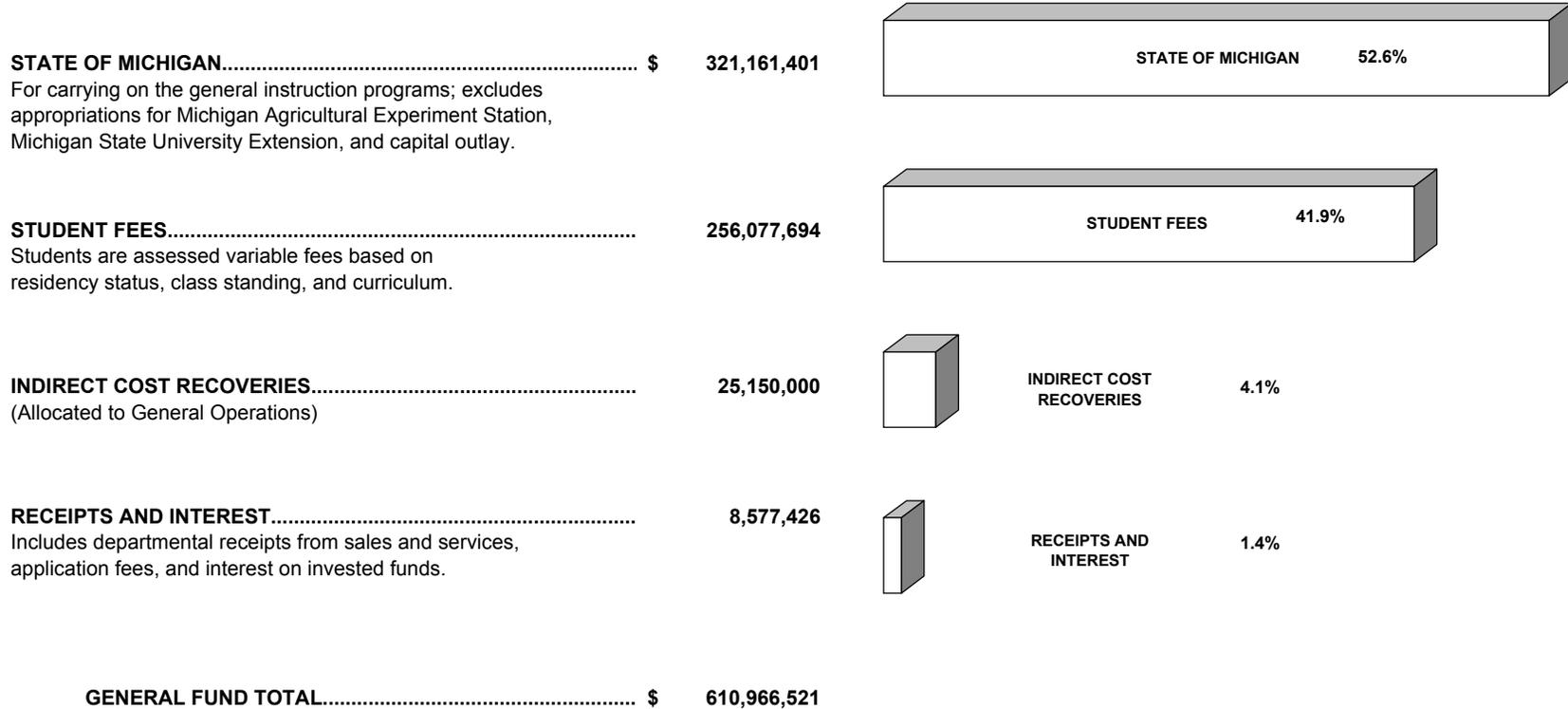


Fred L. Poston
Vice President for Finance and
Operations and Treasurer

GENERAL FUND REVENUES 2000-2001

MICHIGAN STATE UNIVERSITY

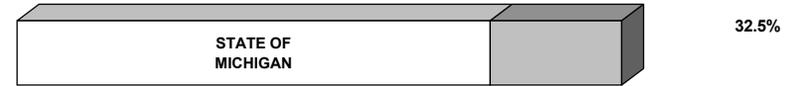
This fund is for general operation of the University and represents 48.4% of the total current funds revenues. These amounts are included in the total current funds revenues column and graph on page 3.



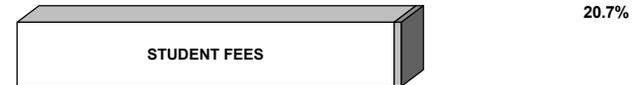
TOTAL CURRENT FUNDS REVENUES 2000-2001

MICHIGAN STATE UNIVERSITY

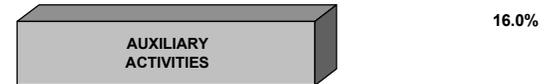
STATE OF MICHIGAN.....		\$ 410,373,289
General University	321,161,401	
Michigan Agricultural Experiment Station	36,305,012	
Michigan State University Extension	31,314,190	
Sponsored Programs	21,592,686	



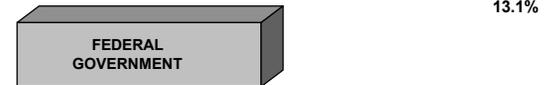
STUDENT FEES.....		261,016,569
General University	256,077,694	
Health Center	4,938,875	



AUXILIARY ACTIVITIES.....		202,111,477
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FEDERAL GOVERNMENT.....		165,645,670
Michigan Agricultural Experiment Station	5,161,267	
Michigan State University Extension	9,975,808	
Sponsored Programs	150,508,595	



LOCAL AND PRIVATE GIFTS AND SPONSORED PROGRAMS.....		77,191,148
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OTHER REVENUES.....		144,964,855
Departmental Activities:		
General Fund	1,996,363	
Designated Fund	106,054,401	
Income from Investments:		
Endowment Fund	8,702,995	
Other	28,214,195	
Indirect Cost Recoveries	(3,099)	



CURRENT FUNDS TOTAL.....		\$ 1,261,303,008
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GENERAL FUND EXPENDITURES AND TRANSFERS 2000-2001

MICHIGAN STATE UNIVERSITY

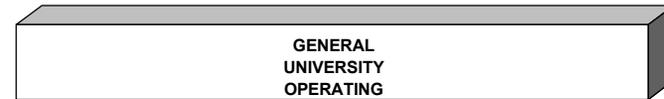
INSTRUCTION \$	334,775,152		INSTRUCTION 55.3%
RESEARCH (Exclusive of the Michigan Agricultural Experiment Station and research financed by grants and gifts for restricted use.)	26,314,080		OPERATION AND MAINTENANCE OF PLANT 13.1%
PUBLIC SERVICES Radio and Television, Animal Health Diagnostic Laboratory, and other public services.	9,074,573		ACADEMIC SUPPORT 10.1%
ACADEMIC SUPPORT Libraries, course development, computer facilities, academic administration, museums and galleries, and audio-visual.	60,923,395		INSTITUTIONAL SUPPORT AND OTHER 7.2%
STUDENT SERVICES Student admissions, counseling services, and other student activities.	21,309,964		SCHOLARSHIPS AND FELLOWSHIPS 5.0%
SCHOLARSHIPS AND FELLOWSHIPS	30,159,837		RESEARCH 4.3%
INSTITUTIONAL SUPPORT AND OTHER Executive management, business operations, administrative computing, human resources, and protective services.	43,244,878		STUDENT SERVICES 3.5%
OPERATION AND MAINTENANCE OF PLANT	79,162,356		PUBLIC SERVICES 1.5%
GENERAL FUND TOTAL \$	604,964,235		

TOTAL CURRENT FUNDS EXPENDITURES AND TRANSFERS 2000-2001

MICHIGAN STATE UNIVERSITY

GENERAL UNIVERSITY OPERATING..... \$ 604,964,235

See detailed breakdown of the General Fund expenditures on page 4 above. The General Fund is maintained to account for those transactions related to academic and instructional programs and their administration.



47.3%

RESEARCH, EXTENSION, AND GIFTS..... 299,684,029

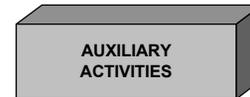
Sponsored research and extension programs as well as the Michigan Agricultural Experiment Station and the Michigan State University Extension, gifts and grants, scholarships, fellowships, and endowments.



23.5%

AUXILIARY ACTIVITIES..... 210,516,012

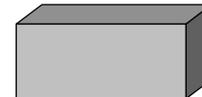
Residence halls, apartments, medical services, student facilities, athletics, conference centers, and parking and transportation.



16.5%

DESIGNATED FUNDS..... 162,369,303

Organized departmental activities associated with academic programs and conferences, seminars, and unrestricted gifts.



12.7%

CURRENT FUNDS TOTAL..... \$ 1,277,533,579

GENERAL FUND

OTHER FUNDS

FINANCIAL STATEMENTS 2000-01 MICHIGAN STATE UNIVERSITY

FINANCIAL STATEMENTS

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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, 2001](#), 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.

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, 2001](#), and the changes in its fund balances and its current funds revenues, expenditures and transfers, and changes in its plant fund notes and bonds payable 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, 2001](#) 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.

As discussed in note 9 to the financial statements, during the year ended June 30, 2001 the University adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

KPMG LLP

Detroit, Michigan,
[August 31, 2001](#)

General Fund Statements of Financial Condition

Michigan State University

	June 30,	
	2001	2000
Assets:		
Operating cash and investments (Note 2)	\$ 15,291,261	\$ 15,320,121
Investments and marketable securities (Note 2)	35,704,133	30,914,286
Accounts receivable, less allowance for doubtful accounts of \$90,000 in both 2001 and 2000	60,567,703	56,676,136
Inventories	1,539,219	2,160,952
Total assets	<u>113,102,316</u>	<u>105,071,495</u>
Liabilities and deferred revenues:		
Accounts payable	4,209,638	5,077,426
Accrued personnel costs	33,360,938	30,935,087
Deferred student fees	9,735,721	9,265,249
Total liabilities and deferred revenues	<u>47,306,297</u>	<u>45,277,762</u>
Fund balance	<u>\$ 65,796,019</u>	<u>\$ 59,793,733</u>
Fund balance:		
Contractually committed	\$ 2,232,534	\$ 2,728,290
Commitments pending	33,740,279	31,583,634
Allocated for subsequent year budget	2,500,000	2,500,000
Departmental funds carried forward	23,369,987	19,290,608
Uncommitted	3,953,219	3,691,201
	<u>\$ 65,796,019</u>	<u>\$ 59,793,733</u>

See accompanying notes.

Designated Fund Statements of Financial Condition

Michigan State University

	June 30,	
	2001	2000
Assets:		
Operating cash and investments (Note 2)	\$ 33,730,392	\$ 19,458,718
Investments and marketable securities (Note 2)	22,935,879	79,431,550
Medical services, pledges and other receivables, less allowances for contractual adjustments and doubtful accounts of \$5,230,000 in 2001 and \$4,564,000 in 2000 (Note 9)	8,758,459	5,641,520
Prepaid expenses	2,738,065	818,951
Total assets	<u>68,162,795</u>	<u>105,350,739</u>
Liabilities and deferred revenues:		
Accounts payable	1,571,947	1,442,311
Accrued self-insurance liabilities	10,273,407	10,224,155
Accrued personnel costs	3,691,784	3,023,032
Deferred revenues	1,276,449	1,078,399
Total liabilities and deferred revenues	<u>16,813,587</u>	<u>15,767,897</u>
Fund balance	<u>\$ 51,349,208</u>	<u>\$ 89,582,842</u>

See accompanying notes.

Auxiliary Activities Fund Statements of Financial Condition

Michigan State University

	June 30,	
	2001	2000
Assets:		
Operating cash and investments (Note 2)	\$ 13,432,261	\$ 8,279,652
Investments and marketable securities (Note 2)	41,887,227	40,749,767
Accounts receivable, less allowances for contractual adjustments and doubtful accounts of \$110,000 in both 2001 and 2000	4,906,334	4,988,083
Inventories and prepaid expenses	9,638,368	8,236,032
Investment in joint ventures (Note 8)	6,362,996	6,071,730
Total assets	<u>76,227,186</u>	<u>68,325,264</u>
Liabilities and deferred revenues:		
Accounts payable	7,150,670	6,061,239
Accrued personnel costs	9,762,304	9,026,022
Deferred revenues	14,340,639	12,493,615
Total liabilities and deferred revenues	<u>31,253,613</u>	<u>27,580,876</u>
Fund balance	<u>\$ 44,973,573</u>	<u>\$ 40,744,388</u>

See accompanying notes.

Expendable Restricted Fund Statements of Financial Condition

Michigan State University

	June 30,	
	2001	2000
Assets:		
Operating cash and investments (Note 2)	\$ 19,560,598	\$ 15,071,310
Investments and marketable securities (Note 2)	71,834,177	68,138,261
Accounts and pledges receivable less allowance for doubtful pledges of \$1,168,000 in 2001 (Note 9)	47,843,454	31,583,025
Total assets	<u>139,238,229</u>	<u>114,792,596</u>
Liabilities:		
Accounts payable	3,455,889	2,743,877
Accrued personnel costs	5,516,333	4,987,804
Total liabilities	<u>8,972,222</u>	<u>7,731,681</u>
Fund balance	<u>\$ 130,266,007</u>	<u>\$ 107,060,915</u>

See accompanying notes.

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

Michigan State University

	Year ended June 30, 2001						Year ended June 30, 2000 Total
	General Fund	Designated Fund	Auxiliary Activities Fund	Total Unrestricted Current Funds	Expendable Restricted Fund	Total Current Funds	
Revenues:							
Student fees	\$ 256,077,694	\$ -	\$ 4,938,875	\$ 261,016,569	\$ -	\$ 261,016,569	\$ 248,128,278
State of Michigan appropriations:							
Current operations	321,161,401	-	-	321,161,401	-	321,161,401	303,826,465
Michigan Agricultural Experiment Station	-	-	-	-	36,305,012	36,305,012	31,497,154
Michigan State University Extension	-	-	-	-	31,314,190	31,314,190	27,092,562
State of Michigan sponsored programs	-	-	-	-	21,592,686	21,592,686	23,363,086
Federally sponsored programs	-	-	-	-	165,645,670	165,645,670	151,064,090
Local and private gifts and sponsored programs	-	2,460,706	-	2,460,706	74,730,442	77,191,148	75,625,502
Income from investments:							
Endowment Fund	-	2,068,625	3,856	2,072,481	6,630,514	8,702,995	6,052,231
Other	6,581,063	4,394,283	7,690,989	18,666,335	9,547,860	28,214,195	19,335,404
Departmental activities	1,996,363	106,054,401	-	108,050,764	-	108,050,764	96,252,357
Auxiliary activities	-	-	202,111,477	202,111,477	-	202,111,477	184,189,083
Indirect cost recoveries	25,150,000	8,157,597	-	33,307,597	(33,310,696)	(3,099)	19,972
Decrease (increase) in restricted revenue held for future expenditures	-	-	-	-	-	-	(16,279,783)
Total revenues	610,966,521	123,135,612	214,745,197	948,847,330	312,455,678	1,261,303,008	1,150,166,401
Expenditures:							
Instruction and departmental research	332,383,474	27,735,825	-	360,119,299	17,725,758	377,845,057	353,409,717
Research	26,006,972	3,360,022	-	29,366,994	166,947,826	196,314,820	178,417,219
Public services	9,109,573	65,041,126	-	74,150,699	76,471,708	150,622,407	138,934,321
Academic support	57,227,430	543,384	-	57,770,814	4,509,731	62,280,545	59,499,525
Student services	21,224,964	1,424,903	-	22,649,867	265,656	22,915,523	22,542,749
Scholarships and fellowships	29,415,153	1,179,961	-	30,595,114	25,516,160	56,111,274	51,968,561
Institutional support (General Fund net of \$3,636,189 in 2001 and \$3,833,229 in 2000 for administrative charges)	48,702,735	5,573,496	-	54,276,231	363,362	54,639,593	50,882,560
Operation and maintenance of plant (General Fund net of \$7,362,366 in 2001 and \$6,928,656 in 2000 for utility charges to Auxiliary Activities Fund)	57,160,619	-	-	57,160,619	742,117	57,902,736	54,568,924
Auxiliary activities operations, less internal service rebillings of \$105,773,580 in 2001 and \$106,687,010 in 2000	-	-	186,550,156	186,550,156	-	186,550,156	170,884,862
Total expenditures	581,230,920	104,858,717	186,550,156	872,639,793	292,542,318	1,165,182,111	1,081,108,438

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

Michigan State University

	Year ended June 30, 2001						Year ended June 30, 2000 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	\$ 6,567,163	\$ -	\$ -	\$ 6,567,163	\$ -	\$ 6,567,163	\$ 5,435,249
Total mandatory transfers	6,567,163	-	-	6,567,163	-	6,567,163	5,435,249
Other transfers for:							
Plant improvement and retirement of indebtedness	21,928,135	(4,072,116)	27,225,363	45,081,382	3,212,092	48,293,474	48,130,224
Other	(4,761,983)	61,582,702	(3,259,507)	53,561,212	3,929,619	57,490,831	(5,561,600)
Total other transfers	17,166,152	57,510,586	23,965,856	98,642,594	7,141,711	105,784,305	42,568,624
Total transfers	23,733,315	57,510,586	23,965,856	105,209,757	7,141,711	112,351,468	48,003,873
Total expenditures and transfers	604,964,235	162,369,303	210,516,012	977,849,550	299,684,029	1,277,533,579	1,129,112,311
Revenues over (under) expenditures and transfers	6,002,286	(39,233,691)	4,229,185	\$ (29,002,220)	12,771,649	\$ (16,230,571)	\$ 21,054,090
Cumulative effect of accounting change (Note 9)	-	1,000,057	-		10,433,443		
Fund balance at beginning of year	59,793,733	89,582,842	40,744,388		107,060,915		
Fund balance at end of year	\$ 65,796,019	\$ 51,349,208	\$ 44,973,573		\$ 130,266,007		

See accompanying notes.

Student Loan Fund Statements of Financial Condition

Michigan State University

	June 30,	
	2001	2000
Assets:		
Operating cash and investments (Note 2)	\$ 8,449,183	\$ 8,663,402
Student loans receivable, less allowance for doubtful loans of \$3,925,000 in 2001 and \$3,900,000 in 2000	37,462,504	35,927,289
Deposit with loan guaranty agency	135,000	135,000
Total assets	<u>\$ 46,046,687</u>	<u>\$ 44,725,691</u>
Fund balance:		
University student loan funds:		
Restricted	\$ 1,715,424	\$ 1,529,728
Designated	7,383,344	7,008,153
	<u>9,098,768</u>	<u>8,537,881</u>
Federal student loan funds:		
Federal portion	32,271,436	31,634,998
University portion	4,676,483	4,552,812
	<u>36,947,919</u>	<u>36,187,810</u>
Total fund balance	<u>\$ 46,046,687</u>	<u>\$ 44,725,691</u>

See accompanying notes.

Student Loan Fund Statement of Changes in Fund Balance

Michigan State University

	Year ended June 30, 2001				Year ended June 30, 2000 Total
	University Student Loan Funds		Federal Student Loan Funds	Total	
	Restricted	Designated			
Fund balance:					
Balance at beginning of year	\$ 1,529,728	\$ 7,008,153	\$ 36,187,810	\$ 44,725,691	\$ 43,274,977
Additions (deductions):					
Federal government contributions (returns)	-	-	(116,025)	(116,025)	280,152
Gifts and grants	195,556	8,596	-	204,152	238,913
Income from investments	7,625	588,800	63,451	659,876	397,699
Interest and fees on student loans	3,778	51,446	879,367	934,591	889,676
Transfers in (out)	9,159	(82,575)	31,100	(42,316)	163,218
Close out of federal loan program	-	-	(879)	(879)	(1,015)
Uncollectible loans recovered (written off)	(22,022)	8,121	-	(13,901)	(20,528)
Decrease (increase) in allowance for uncollectible loans	(8,400)	(16,600)	-	(25,000)	(225,000)
Recovery (cancellation) for teaching service, military service and health professions employment	-	-	24,934	24,934	29,733
Cancellation for death, disability and bankruptcy	-	-	(97,705)	(97,705)	(112,123)
Administrative expenses and collection costs	-	(182,597)	(24,134)	(206,731)	(190,011)
Balance at end of year	<u>\$ 1,715,424</u>	<u>\$ 7,383,344</u>	<u>\$ 36,947,919</u>	<u>\$ 46,046,687</u>	<u>\$ 44,725,691</u>

See accompanying notes.

Endowment Fund Statements of Financial Condition

Michigan State University

	June 30,	
	2001	2000
Assets:		
Operating cash and investments (Note 2)	\$ 27,596,354	\$ 7,755,475
Investments and marketable securities (Note 2)	420,869,970	302,308,854
Real estate and other investments	147,810	157,590
Pledges receivable less allowance for doubtful accounts of \$967,000 in 2001 (Note 9)	8,653,206	-
Land grant endowment held by State of Michigan	1,059,379	1,059,379
Total assets	<u>458,326,719</u>	<u>311,281,298</u>
Liabilities:		
Accrued liabilities	<u>714,263</u>	<u>618,342</u>
Fund balance	<u>\$ 457,612,456</u>	<u>\$ 310,662,956</u>
Fund balance:		
Endowment funds	\$ 210,140,760	\$ 191,852,948
Funds functioning as endowment:		
Restricted	106,950,414	92,231,436
Designated	<u>22,297,218</u>	<u>22,931,834</u>
	129,247,632	115,163,270
Term endowment funds:		
Restricted	761,873	1,895,905
Designated	<u>115,905,427</u>	<u>317,189</u>
	116,667,300	2,213,094
Life income funds	497,385	374,265
Land grant endowment fund	<u>1,059,379</u>	<u>1,059,379</u>
Total fund balance	<u>\$ 457,612,456</u>	<u>\$ 310,662,956</u>

See accompanying notes.

Endowment Fund Statement of Changes in Fund Balance

Michigan State University

	Year ended June 30, 2001								Year Ended June 30, 2000 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	\$ 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
Additions:									
Gifts	16,683,826	9,252,706	6,508	4,374	-	132,816	-	26,080,230	16,534,223
Income (loss) from investments	9,893,137	2,252,469	1,383,323	128,901	6,029,384	(9,696)	-	19,677,518	34,540,581
	26,576,963	11,505,175	1,389,831	133,275	6,029,384	123,120	-	45,757,748	51,074,804
Transfers in (out):									
Spending policy	(4,551,418)	(2,425,089)	(657,604)	(18,249)	(1,883,219)	-	-	(9,535,579)	(6,594,419)
Other	858,162	5,582,033	(748,161)	(1,233,881)	112,895,872	-	-	117,354,025	772,493
	(3,693,256)	3,156,944	(1,405,765)	(1,252,130)	111,012,653	-	-	107,818,446	(5,821,926)
Deductions:									
Distribution to beneficiary funds	4,595,895	2,027,067	618,682	15,177	1,453,799	-	-	8,710,620	6,059,016
Cumulative effect of accounting change (Note 9)	-	2,083,926	-	-	-	-	-	2,083,926	-
Fund balance at end of year	\$ 210,140,760	\$ 106,950,414	\$ 22,297,218	\$ 761,873	\$ 115,905,427	\$ 497,385	\$ 1,059,379	\$ 457,612,456	\$ 310,662,956

See accompanying notes.

Plant Fund Statement of Financial Condition

Michigan State University

June 30, 2001

	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total	June 30, 2000 Total
Assets:						
Operating cash and investments (Note 2)	\$ -	\$ 88,789,975	\$ 2,199,185	\$ -	\$ 90,989,160	\$ 91,777,143
Other investments (Note 2)	161,907	-	262,198	-	424,105	357,945
Accounts and pledges receivable less allowance for doubtful accounts of \$1,438,000 in 2001 (Note 9)	24,860,939	1,566,104	-	-	26,427,043	20,313,396
Note receivable within Plant Fund	26,937,816	9,357,611	494,006	-	36,789,433	52,490,254
Unamortized bond origination costs	-	-	1,884,495	-	1,884,495	1,754,400
Investment in plant (Note 6):						
Land	-	-	-	17,766,523	17,766,523	17,766,523
Buildings	-	-	-	1,089,610,684	1,089,610,684	1,050,006,850
Equipment and other	-	-	-	390,318,862	390,318,862	369,532,569
Construction in progress	-	-	-	122,772,649	122,772,649	73,369,505
Accumulated depreciation	-	-	-	(750,546,958)	(750,546,958)	(708,220,958)
Total assets	51,960,662	99,713,690	4,839,884	869,921,760	1,026,435,996	969,147,627
Liabilities:						
Accounts payable and retainages	9,780,163	4,708,716	40,750	-	14,529,629	13,436,023
Notes payable within Plant Fund	4,895,218	494,006	-	31,400,209	36,789,433	52,490,254
Bonds payable (Note 3)	23,228,450	16,777,138	2,907,135	162,772,277	205,685,000	159,905,000
Total liabilities	37,903,831	21,979,860	2,947,885	194,172,486	257,004,062	225,831,277
Fund balance	\$ 14,056,831	\$ 77,733,830	\$ 1,891,999	\$ 675,749,274	\$ 769,431,934	\$ 743,316,350
Fund balance:						
Investment in Plant	\$ -	\$ -	\$ -	\$ 675,749,274	\$ 675,749,274	\$ 645,326,364
Restricted	8,708,719	15,021,957	1,629,801	-	25,360,477	10,764,954
Designated	5,348,112	62,711,873	262,198	-	68,322,183	87,225,032
	\$ 14,056,831	\$ 77,733,830	\$ 1,891,999	\$ 675,749,274	\$ 769,431,934	\$ 743,316,350

See accompanying notes.

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

Michigan State University

Year Ended June 30, 2001

	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total	Year Ended June 30, 2000 Total
Notes and bonds payable:						
Balance outstanding at beginning of year	\$ 37,147,759	\$ 15,239,967	\$ 2,879,403	\$ 157,128,125	\$ 212,395,254	\$ 132,508,855
Additions (deductions):						
Proceeds from borrowings:						
Bonds	24,573,763	22,967,819	1,293,418	-	48,835,000	61,165,000
Internal notes	-	-	-	9,836,344	9,836,344	25,799,654
Expenditures for capital additions	(19,604,951)	(19,100,482)	(1,236,249)	39,941,682 (A)	-	-
Notes and bonds retired:						
Bonds	-	-	(29,437)	(3,025,563)	(3,055,000)	(2,950,000)
Internal notes	(13,992,903)	(1,836,160)	-	(9,708,102)	(25,537,165)	(4,128,255)
Balance outstanding at end of year	<u>\$ 28,123,668</u>	<u>\$ 17,271,144</u>	<u>\$ 2,907,135</u>	<u>\$ 194,172,486</u>	<u>\$ 242,474,433</u>	<u>\$ 212,395,254</u>
Fund balance:						
Balance at beginning of year	\$ 1,834,368	\$ 94,024,220	\$ 2,131,398	\$ 645,326,364	\$ 743,316,350	\$ 695,095,121
Additions (deductions):						
State and State Building Authority appropriations	38,419,638	9,114,794	-	-	47,534,432	25,192,848
Gifts and other sources	10,709,852	941,551	1,741,400	-	13,392,803	14,556,948
Income from investments	1,751,018	5,867,963	120,410	(1,826,388) (A)	5,913,003	2,277,315
Transfers in (out):						
General Fund	1,247,116	20,467,182	6,781,000	-	28,495,298	27,397,651
Designated Fund	388	(4,072,504)	-	-	(4,072,116)	(1,475,589)
Auxiliary Activities Fund	1,677,351	25,084,983	463,029	-	27,225,363	24,571,022
Expendable Restricted Fund	1,227,388	1,984,704	-	-	3,212,092	3,072,389
Endowment Fund	119,354	(50,030,000)	-	-	(49,910,646)	90,000
Expenditures from current funds for capital additions	-	-	-	29,333,150	29,333,150	32,723,691
Expenditures for capital additions	(44,777,489)	(13,695,054)	-	58,472,543 (A)	-	-
Interest expense	-	-	(5,677,341)	-	(5,677,341)	(4,724,511)
Notes and bonds retired	-	-	(3,025,563)	3,025,563	-	-
Intrafund transfers in (out)	(460,569)	988,050	(399,238)	(128,243)	-	-
Repairs, maintenance and other expenditures not capitalized	(3,766,036)	(15,672,879)	(243,096)	-	(19,682,011)	(17,972,272)
Disposal of plant assets	-	492,555	-	(1,344,016)	(851,461)	(2,927,781)
Depreciation	-	-	-	(57,109,699)	(57,109,699)	(54,560,482)
Cumulative effect of accounting change (Note 9)	6,074,452	2,238,265	-	-	8,312,717	-
Balance at end of year	<u>\$ 14,056,831</u>	<u>\$ 77,733,830</u>	<u>\$ 1,891,999</u>	<u>\$ 675,749,274</u>	<u>\$ 769,431,934</u>	<u>\$ 743,316,350</u>

(A) Net Plant Fund expenditures for captial additions: **\$96,587,837**

See accompanying notes.

Retirement and Insurance Fund Statements of Financial Condition

Michigan State University

	June 30,	
	2001	2000
Assets:		
Operating cash and investments (Note 2)	\$ 4,018,579	\$ 2,456,795
Investments and marketable securities (Note 2)	60,035,274	61,774,581
Life insurance funding deposit	2,337,281	2,458,836
TIAA group annuity deposit	1,813,516	2,660,200
Other investments	944,120	800,728
Total assets	69,148,770	70,151,140
Liabilities:		
Accrued personnel costs	1,116,236	1,322,690
Fund balance	\$ 68,032,534	\$ 68,828,450
Fund balance:		
Retirement fund	\$ 65,695,253	\$ 66,369,614
Insurance fund	2,337,281	2,458,836
	\$ 68,032,534	\$ 68,828,450

See accompanying notes.

Retirement and Insurance Fund Statement of Changes in Fund Balance

Michigan State University

	Year ended June 30, 2001			Year ended
	Retirement Fund	Insurance Fund	Total	June 30, 2000 Total
Fund balance at beginning of year	\$ 66,369,614	\$ 2,458,836	\$ 68,828,450	\$ 66,895,325
Additions:				
Employer contributions	288,425	389,220	677,645	1,137,940
Income from investments	3,743,188	152,689	3,895,877	7,346,221
	<u>4,031,613</u>	<u>541,909</u>	<u>4,573,522</u>	<u>8,484,161</u>
Deductions:				
Benefit expenditures and fees	4,331,321	663,464	4,994,785	6,558,144
Transfer to (from) income reserve	374,653	-	374,653	(7,108)
	<u>4,705,974</u>	<u>663,464</u>	<u>5,369,438</u>	<u>6,551,036</u>
Fund balance at end of year	<u>\$ 65,695,253</u>	<u>\$ 2,337,281</u>	<u>\$ 68,032,534</u>	<u>\$ 68,828,450</u>

See accompanying notes.

Agency Fund Statements of Financial Condition

Michigan State University

	June 30,	
	2001	2000
Assets:		
Operating cash and investments (Note 2)	\$ 36,218,297	\$ 32,278,111
Investments and marketable securities (Note 2)	7,559,716	7,788,326
Accounts receivable	2,769,435	3,572,503
Total assets	<u>\$ 46,547,448</u>	<u>\$ 43,638,940</u>
Liabilities:		
Accounts payable	\$ 2,402,958	\$ 1,016,952
Payroll taxes and other payroll deductions	21,841,510	22,784,386
Deposits held for others	22,302,980	19,837,602
Total liabilities	<u>\$ 46,547,448</u>	<u>\$ 43,638,940</u>

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 (“The 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, in 1863 became a pioneer land grant college under the Morrill Act. 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 are 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 2000 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 2001 or 2000.

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 2000 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) interest income is recognized when received, and (3) 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. 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.

Investments – Investments are stated at fair value in accordance with GASB Statement #31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

Notes to Financial Statements (Continued)

Michigan State University

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 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, 2001 and 2000 were as follows:

	2001	2000
Cash	\$ (9,627,000)	\$ (3,952,000)
Investments	220,624,000	177,454,000
Equity in pooled cash and investments	38,289,000	27,559,000
	<u>\$ 249,286,000</u>	<u>\$ 201,061,000</u>

The amount reported as investments for 2001 and 2000 consisted of fixed income instruments. Of the bank balances for cash and investments, \$201,000 of the total \$878,000 in 2001 and \$200,000 of the total \$4,056,000 in 2000 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 9.1% in 2001 and 5.0% in 2000.

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, 2001 and 2000. 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.

	2001 Categories			
	A	B	C	Total
U.S. Government securities	\$ -	\$ 170,000	\$ 5,981,000	\$ 6,151,000
Notes and bonds	-	-	827,000	827,000
Equities	-	-	154,304,000	154,304,000
	<u>\$ -</u>	<u>\$ 170,000</u>	<u>\$ 161,112,000</u>	<u>\$ 161,282,000</u>

	2000 Categories			
	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	-	-	145,010,000	145,010,000
	<u>\$ -</u>	<u>\$ 190,000</u>	<u>\$ 153,416,000</u>	<u>\$ 153,606,000</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, net of certain Plant Fund investments, totaled \$499,544,000 and \$437,500,000 as of June 30, 2001 and 2000, respectively. Investment income in pooled accounts is allocated to funds based on each fund's proportional value of investments.

Notes to Financial Statements (Continued)

Michigan State University

The University also held miscellaneous assets of \$6,726,000 and \$7,495,000 at June 30, 2001 and 2000, 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, 2001 and 2000 were as follows:

	<u>2001</u>	<u>2000</u>
Common Investment Fund	5.7%	11.7%
Base Cash Pool	9.6%	3.9%
Other	-7.4%	10.6%

3. Bonds payable

Bonds payable included in the Plant Fund at June 30, 2001 and 2000 are summarized as follows:

	<u>2001</u>	<u>2000</u>
General Revenue Bonds, Series 2000A-2	\$ 48,835,000	\$ -
General Revenue Bonds, Series 2000A-1	61,165,000	61,165,000
General Revenue Bonds, Series 1998A-1	17,480,000	19,260,000
General Revenue Bonds, Series 1998A-2	51,935,000	51,935,000
General Revenue Bonds, Series 1996A	<u>26,270,000</u>	<u>27,545,000</u>
	<u>\$ 205,685,000</u>	<u>\$ 159,905,000</u>

In May 2001, the University issued \$48,835,000 of General Revenue Bonds, Series 2000A-2, 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 2007 through 2031. The Series 2000A-2 bonds may be converted to a permanent fixed rate provided certain conditions are met.

The Series 2000A-1 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 and 2031. The Series 2000A-1 bonds may be converted to a permanent fixed rate provided certain conditions are met.

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 4.25% to 6.00% and mature serially through fiscal 2026.

Scheduled fiscal year maturities of Plant Fund bonds payable are \$3,165,000 in 2002, \$2,970,000 in 2003, \$3,095,000 in 2004, \$2,725,000 in 2005, \$3,105,000 in 2006 and \$190,625,000 thereafter.

Interest expense was \$5,677,000 and \$4,725,000 for 2001 and 2000 respectively, net of capitalized interest of \$1,236,000 for 2001 and \$576,000 for 2000.

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>2001</u>	<u>2000</u>
University contributions	\$ 45,709,000	\$ 43,362,000
Employee contributions	22,855,000	21,681,000

Notes to Financial Statements (Continued)

Michigan State University

In addition, the University has a single-employer, defined benefit plan covering approximately 1,300 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 the employee's compensation during the last three years of employment and/or years of service. There were no required annual contributions and no pension costs for each of the three preceding years ended June 30, 2001.

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 3,500 in 2001 and 3,400 in 2000. The University recognizes the cost of providing those benefits on a pay-as-you-go basis. Those costs totaled \$14,591,000 for 2001 and \$13,280,000 for 2000.

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, 2001 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 \$79,000,000 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 Crop and Soil Sciences Research Facility, the Revitalization of the Michigan Animal Agriculture Facilities, the Engineering Research Complex, 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, 2001, 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, 2001, \$60,512,000 of the initial \$96,500,000 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; and natural disasters. To manage these risks, the University uses commercial insurance with various self-insured retentions. Self-insured amounts are computed based on historical claim experience.

The University's liability for various medical professional liability claims is funded based on actuarial valuations. Subsequent to February 1981, the University is indemnified by the State of Michigan for any losses in excess of the actuarially determined funded reserves. Beginning July 1, 1995 the University purchased excess commercial medical professional liability insurance to manage the liability. The liability is reported at the present value of \$4,622,000 as of June 30, 2001. The discount rate used was 5.0%.

The University is also self-insured for various employee benefits which include healthcare and dental insurance, Workers Compensation and Unemployment Compensation. 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. The Workers 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 6.0%.

At June 30, 2001, these general, professional, and self-insured employee benefit liabilities totaled \$12,444,000 which are primarily recorded in the Designated Fund. Changes in the total reported liabilities during fiscal 2001 and 2000 were as follows:

	2001	2000
Balance at beginning of year	\$ 12,395,000	\$ 13,539,000
Claims incurred and changes in estimates	50,494,000	42,802,000
Claim payments	<u>(50,445,000)</u>	<u>(43,946,000)</u>
Balance at the end of year	<u>\$ 12,444,000</u>	<u>\$ 12,395,000</u>

For those risks that the University has purchased commercial insurance, settled claims have not exceeded the commercial coverage in any of the past three years.

Notes to Financial Statements (Continued)

Michigan State University

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. 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, 2001, the stated value of the net assets of the Foundation approximated \$292,438,000. These assets are not included in the financial statements of the University. Contributions to and payments on behalf of the University approximated \$38,829,000 in 2001 and \$17,003,000 in 2000.

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.

9. Accounting Change

Effective with the fiscal year ended June 30, 2001, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 33 "Accounting and Financial Reporting for Non-Exchange Transactions". This statement requires that certain restricted and unrestricted gifts, and the related pledges receivable, be recognized as revenue when all the requirements to receive the gifts have been met.

The \$21,830,000 cumulative effect of the implementation of this statement is recorded in the Statement of Current Funds Revenues, Expenditures and Transfers and Changes in Fund Balance and in the Statement of Changes in Fund Balance for each of the applicable non-current funds. The related pledges

receivable of \$32,444,000 as of June 30, 2001, is recorded in the Statements of Financial Condition for the respective funds.

10. Future Accounting Pronouncements

The University will be required to implement the provisions of Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Colleges and Universities*, effective with the fiscal year ended June 30, 2002. The requirements of GASB #35 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, 2001, and have issued our report thereon dated August 31, 2001. 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, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan,
August 31, 2001