Annual Financial Report

2020 - 2021

MICHIGAN STATE UNIVERSITY

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MICHIGAN STATE UNIVERSITY
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MICHIGAN STATE
UNIVERSITY

October 28, 2021

We are pleased to present Michigan State University's financial report for the fiscal years ending June 30, 2020, and June 30, 2021. The financial report was prepared in accordance with generally accepted accounting principles for public colleges and universities as defined by the Governmental Accounting Standards Board (GASB). The Board of Trustees adopted the report as part of MSU's commitment to report annually on its fiscal affairs. Plante & Moran, PLLC, certified public accountants, audited these financial statements. The information reported fairly represents the University's financial position.

The 2019 Novel Coronavirus (COVID-19) has had a significant impact on the University, the state, the nation, and the world. By adhering to its basic financial principles, including deploying diverse revenue streams for funding programmatic needs, the University has made and will continue to make necessary fiscal adjustments with the objective of maintaining quality. The University continues to focus on cost controls, pursue a long-term investment strategy to maximize risk-adjusted total returns, and appropriately utilize debt and other resources to meet programmatic needs, including the maintenance and replacement of the University's infrastructure.

Financial Report Highlights for the fiscal year ending June 30, 2021:

- The University's financial assets totaled $8.1 billion.
- Revenues totaled $3.7 billion (including $1.2 billion in realized and unrealized net investment income), while expenses totaled $2.6 billion.
- To date, the University has been awarded $158 million in federal Higher Education Emergency Relief Funds through various legislation. $79 million has been expended for eligible purposes, including $64 million in fiscal 2021. The remaining funds ($79 million) will be utilized in fiscal 2022, in part, to fund student emergency financial aid grants of $39 million.
- The University transitioned to a Medicare Advantage Plan to deliver postemployment benefits for retirees. This change in benefit plan led to a $1.5 billion reduction in postemployment benefits liability, with an accompanying $1.6 billion reduction in fiscal 2021 postemployment benefits expense.
- MSU's net position was $5.3 billion.

MSU has been working to advance knowledge and transform lives for more than 166 years by making its exceptional programs accessible to students from Michigan and from around the globe. MSU's strength and stature as one of the top research universities in the world is a testament to its outstanding faculty, staff, and students who amidst the challenges of the pandemic continue to find new and innovative ways to excel.

As our nation's pioneer land-grant University, MSU embraces its mission and delivers world-class instruction, research, and public service to solve the world's most pressing problems. Through the creativity, determination and hard work of its faculty, staff, students, alumni, and worldwide supporters, MSU continues to make a significant impact. Go Green!

Lisa A. Frace
Senior Vice President, Chief Financial Officer, and Treasurer

Lisa A. Frace

Senior Vice President,
Chief Financial Officer,
and Treasurer

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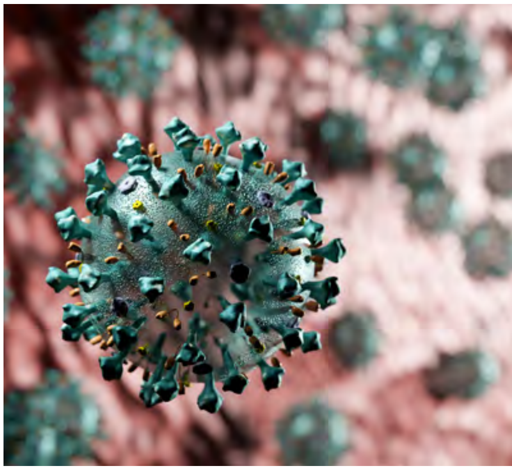
Michigan State University (the University, or MSU) is recognized around the world as a leading academic institution with world-class faculty, top graduate study programs, a powerful research portfolio, and an engaged entrepreneurial spirit. MSU is ranked among the top 100 universities in the world by U.S. News & World Report, among the top 125 global universities by Times Higher Education, and features 36 programs ranked in the top 25 nationally, including nine rated number one. MSU is also a member of the prestigious American Association of Universities which includes America's leading research universities. The University's excellence, cultivated over a 166-year history, is rooted in the core values of its land-grant heritage in providing quality, inclusiveness, and connectivity in all that it does.

Novel coronavirus pandemic



The University continues to navigate the Novel Coronavirus (COVID-19) global pandemic and the ongoing commitment to keeping our students, faculty, and staff safe while maintaining our dedication to advancing knowledge and transforming lives. During fiscal year 2021, the University responded to these challenges by fully transitioning instruction to remote learning, limiting on-campus residents, cancelling most public functions, and shifting other services to a digital platform. Both the uncertainty created by changes in the pandemic and the resulting operational changes naturally led to financial consequences which the University managed through cost-cutting measures, a focus on efficient use of existing resources, and use of federal grants provided to partially reimburse institutions of higher education for extraordinary expense or lost revenue due to the pandemic.

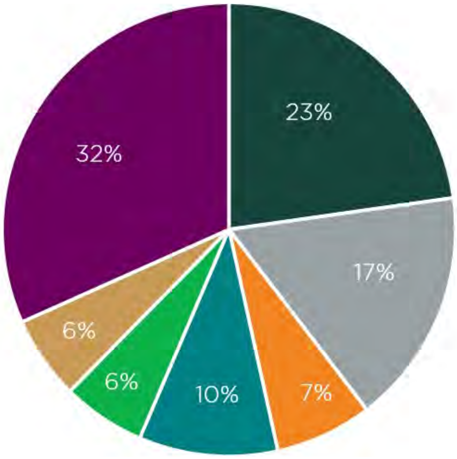
Managing Finances through Adversity

MSU has exercised prudent financial stewardship over the years and never more so than this past year. Managing finances through the COVID-19 global pandemic required diligent actions. From cutting costs to managing cash flows, the University has maintained a strong financial foundation. With assets and deferred outflows of $8.7 billion and liabilities and deferred inflows of $3.4 billion, the University's net position is $5.3 billion as of June 30, 2021.

One such cost-saving initiative had an outsized impact on the University's Statement of Net Position and drove much of the increase in the University's net position during the year ended June 30, 2021. In January 2021, the University transitioned its retiree medical plan to a Medicare advantage and prescription drug plan. This new plan is expected to save the University approximately $20 million annually, while continuing to deliver high-quality benefits to our retirees. The accounting treatment resulted in a reduction in the postemployment benefits liability of approximately $1.6 billion recognized during the year ended June 30, 2021. The reduced liability will be realized in actual cash savings for the University over the next few decades.

Sources of Net Revenue (millions):

$ 853	Tuition, net of discounts
624	Grants and contracts
253	Auxiliary activities
373	State appropriations
207	Other departmental activities
210	Private gifts, capital grants, and other
1,196	Net investment income (endowments and operating cash)
$ 3,716	Total net revenues



Revenue diversification and active cash and debt management has long been an important strategy for the University to achieve financial stability. This strategy has been an integral element in enabling the institution to be financially stable through different economic cycles, adverse expenses, and the COVID-19 global pandemic, as well as moderate dependence on student tuition and fee revenue. MSU maintained solid AA credit ratings from both Moody's and Standard and Poor's.

Students and Academics

Total MSU undergraduate enrollment for 2021 was 38,031, made up of 19,528 women and 18,503 men, with approximately 80 percent being Michigan residents. Enrolled students included 11,386 students of color and 4,540 international students. The strength of MSU programs draws students from all over the state, country, and world. This year, MSU enrolled individuals from all 83 counties in Michigan, all 50 states and 126 countries.

Although COVID-19 limited the University's ability to allow for learning experiences in their traditional form during 2021, through the innovation, determination, and hard work of its faculty, staff, and students, MSU has adapted new processes and techniques aimed at providing the highest level of safety while supporting an engaged and connected experience for all. MSU is excited to move into the fall 2021 semester with the ability to welcome students in some of the more traditional learning modalities, while continuing to utilize very successful new techniques. Demand for the high-quality education offered by MSU remains strong, and the University greeted the largest incoming class in our history for fall 2021.

Despite these challenges, MSU has seen overall graduation rates increase for the fifth consecutive year. The 2020 six-year graduation rate for first-time, full-time students increased to 81.3% from 80.7% in 2019. While we are pleased that the six-year graduation rate for underrepresented minority students increased to 66.9%, the highest rate in recent years and a 3.5 percentage point increase from 2019, MSU is focused on eliminating that gap and knows that it has more work to do. First-generation students had a six-year graduation rate of 73.3%, an almost full percentage point increase over last year's rate of 72.4%. Additionally, 95% of students who receive bachelor's degrees from MSU are immediately employed or pursue additional education; as undergraduate students, nearly 80% graduate from MSU having already completed an internship.

MSU students received approximately $30 million in funding from the first two rounds of the Higher Education Emergency Relief Fund (HEERF). The first round of funding (HEERF I) was awarded to over 14,729 eligible MSU students, while the second round (HEERF II) was awarded to 14,118 students. Of those receiving funding, 94% were undergraduates. The Office of Financial Aid is currently preparing to further support our students in fiscal year 2022 with an additional $40 million the University received in the third round of HEERF funding.

In 2021, the University received $46 million in institutional funding from the first two rounds of HEERF. These funds were utilized in accordance with grant requirements to offset incremental expenses as well as replace a portion of lost revenues directly attributable to the COVID-19 pandemic. The University was awarded an additional $41 million from the American Rescue Plan in late fiscal year 2021 to similarly offset expenses and lost revenues related to the pandemic which will be utilized during fiscal year 2022.

The University also received, in 2021, its largest single cash commitment in the University's history from an individual. Detroit business leader and former member of the men's basketball team, Mat Ishbia, made a $32 million commitment to benefit MSU Athletics, including a significant expansion of athletic facilities and funds to support career services dedicated to student-athletes as well as to enhance the university's athletic excellence overall.

The Gilbert Family Foundation, in partnership with the Rock Family of Companies, have proven to be strong benefactors and will support the new Apple Developer Academy in Detroit, an innovative and transformative education collaboration between Apple and MSU, and the first Apple Developer Academy in North America. Apple, MSU, and the Rock Family of Companies share a vision to empower diverse entrepreneurs, creators, and coders by helping them cultivate the skills necessary for pathways in the rapidly growing tech economy. The Academy welcomed its inaugural cohort of students in October of 2021. Tuition to the Academy is free, and priority admission is granted to applicants from Detroit. It is anticipated that the Academy will impact 1,000 students annually.

MSU College of Law started a new chapter in its 129-year history by completing its full integration into the University on August 17, 2020. This will enhance close collaborations between scholars from various disciplines. These relationships can add legal depth of knowledge to the work of MSU researchers and enhance MSU College of Law faculty members' scholarship by engaging outside areas of expertise.

Research

MSU recognizes that research is central to the University's mission and to building a mid-Michigan talent center through learning opportunities that take place in and outside of the classroom and which employ progressive pedagogy. MSU is working to provide state-of-the-art facilities and infrastructure that will help attract and retain top-quality students, faculty, and researchers. This is vital to remaining competitive in key fields, both nationally and internationally. Examples of facilities and innovations that are attracting researchers and professionals include:

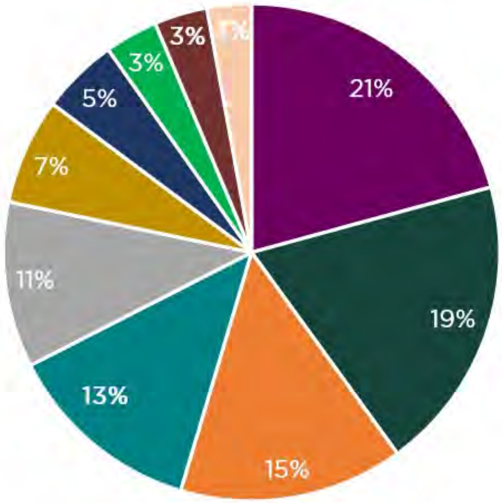
- The Doug Meijer Medical Innovation Building, located at the base of the Medical Mile in the downtown Grand Rapids Innovation Park, which received two advanced GE PETtrace 890 cyclotrons. The delivery of these machines classifies the facility as the most modern and advanced dual-cyclotron radiopharmacy in the world. The 12,000 square foot radiopharmacy, when operating at full capacity, will support the growing diagnostic and therapeutic needs of thousands of cancer patients from West Michigan and around the country. The cyclotrons will complement the world's most advanced molecular imaging clinic and the world's most advanced theranostics clinic.

- In July of 2020, the U.S. Department of Energy announced that MSU's Scale-Up Research Facility (SURF) in Detroit's Corktown will have a significant role in two of the 55 projects into which the federal government will invest $139 million to advance vehicle technologies. SURF will work with both Ford and General Motors as part of a national revitalization of manufacturing competitiveness, especially in the transportation sector. The $7.5 million Ford project is the "Multi-functional Smart Composite Structures with Electronics Integration for Smart Vehicles," and the $7.5 million General Motors project is the "Development of Tailored Fiber-Reinforced Composites Materials Systems for High-Volume Manufacturing of Structural Battery Enclosure."

- Since 1958, MSU has been known for its leadership and discovery in nuclear science, and today the University is home to the nation's No. 1 nuclear physics graduate program. In 2020 The U.S. Department of Energy designated the Facility for Rare Isotope Beams (FRIB) as an Office of Science User facility. With the designation, FRIB joins the family of 27 DOE Office of Science user facilities across the country. The university continues to construct and operate the $730 million facility under a cooperative agreement with the DOE Office of Science, supporting the mission of the Office of Nuclear Physics. FRIB will enable scientists to make discoveries about the properties of rare isotopes (short-lived nuclei not normally found on Earth), nuclear astrophysics, and fundamental interactions. These discoveries lead to applications for society including in medicine, homeland security and industry. Once operations commence in 2022, the nearly 500,000 square foot facility is poised to welcome more than 1,400 scientific users to conduct research at FRIB. From construction through operation, FRIB is expected to generate accumulated wages totaling $1.7 billion and add $4.4 billion to the state's economy from construction through operations.

MSU is a leader in creating knowledge for the 21st century, routinely expending in excess of $500 million in sponsored awards annually from the health sciences to the environment, including food, water, and energy. The University is number one in the Big Ten for U.S. Department of Agriculture expenditures, number one in the Big Ten and number two nationally for U.S. Department of Energy expenditures, and number two in the Big Ten and number nine nationally for National Science Foundation expenditures.

Sources of Net Sponsored Revenue (millions):



$ 108	Federal US Dept. of Energy
100	Federal US Dept. of Health and Human Services
76	Federal National Science Foundation
67	Local/Private Revenue
56	Federal US Dept. of Education
36	Federal US Dept. of Agriculture
26	Federal Other
18	Federal USAID
18	State Revenues
15	Federal US Dept. of Defense
$520	Total net Sponsored Program revenues

In 2021, University researchers pivoted to research to fight COVID-19 with over 200 COVID-19 related project proposals submitted and more than $18 million in new funding awarded. MSU continues focus on cutting-edge research growth, providing an impetus for economic development while creating a culture of innovation and creativity that enhances the University's international competitiveness and reputation.

Community Health Care

HENRY FORD HEALTH + MICHIGAN STATE UNIVERSITY Health Sciences

In 2021, MSU and Henry Ford Health System, two of the state's leading education, research, and health care institutions, partnered to make Michigan a national leader in providing access to exceptional health care for all residents, scientific discovery and education for providers, patients, and families. The landmark partnership will last for at least 30 years as both institutions are committed to aligning efforts across key departments and programs to achieve critical health care and educational goals, while addressing social issues that impact health outcomes for patients in Michigan and beyond.

McLaren Health Care hospital construction continues in the University Corporate Research Park. This new $450 million facility broke ground in December 2018 and will broaden the University's community health care footprint and help MSU recruit top physicians and researchers to the region by providing access to tools and data that will build a healthier society and develop new life-saving therapies and treatments. The facility is expected to open in 2022.

In the face of the COVID-19 global pandemic, MSU has remained firm in its stance to provide quality health care to our community, the country, and the world. Some of MSU's undertakings to combat the virus locally include offering drive-through testing for the virus, producing PPE using 3D printers, and decontaminating reusable PPE to redistribute to the local hospitals and frontline workers. MSU is also helping to combat the virus outside of our community by developing more accurate tests for the virus which return faster results, researching the practical application of already-existing drugs to combat the virus, developing an FDA-approved method of decontaminating reusable PPE, and developing a new ventilator design that is low-cost and can be constructed with items hospitals already have on-hand.

Spartans Will

Michigan State University's strategy focuses on advancing the common global good with uncommon will. Efforts in science, technology, engineering, and math disciplines and important curricular priorities expand MSU's economic impact locally, regionally, and internationally. Our programmatic investments pursue cutting-edge approaches in all that it does in support of student success, research, and public service. MSU is devoted to fulfilling its mission in new and innovative ways through integration of technology and teaching, closing graduation gaps where they exist, enhancing interdisciplinary study, and driving innovation in health care delivery and research.

Michigan State University is recognized around the world as a leading academic institution with world-class faculty, top graduate school programs, a powerful research portfolio, and an engaged, entrepreneurial spirit. Together, the collective will of our stakeholders - including students, faculty, staff, donors, partners, and the communities we serve - can and will shape our world to be a better place to inspire the next generation of Spartan excellence.

Our financial team is dedicated to the support of the University's mission and proudly embraces support of the fiscal integrity that is foundational to empowering and advancing the University's success.

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Independent Auditor's Report

To the Board of Trustees
Michigan State University

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan State University (the "University") and its discretely presented component unit as of and for the years ended June 30, 2021 and 2020 and the related notes to the financial statements, which collectively comprise Michigan State University's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Michigan State University Foundation (the "Foundation"), which is the sole discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited under *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Michigan State University and its discretely presented component unit as of June 30, 2021 and 2020 and the respective changes in their financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Michigan State University

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of changes in the University's total OPEB liability and related ratios be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The listing of trustees, officers, and finance management; the report from the senior vice president, chief financial officer, and treasurer; and the transmittal letter are presented for purposes of additional analysis and are not a required part of the basic financial statements. The listing of trustees, officers, and finance management; the report from the senior vice president, chief financial officer, and treasurer; and the transmittal letter have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2021 on our consideration of Michigan State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Michigan State University's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 28, 2021

Introduction

The following discussion provides an overview of the financial position of Michigan State University (the "University") for the fiscal years ended June 30, 2021 and 2020.

Included is an analysis of the University's Statement of Net Position, which presents the assets, deferred outflows, liabilities, deferred inflows, and net position of the University. All are measured as of the fiscal year end. The Statement of Revenues, Expenses, and Changes in Net Position reflects revenues and expenses recognized during the fiscal year. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

The Michigan State University Foundation (the "Foundation") is a legally separate entity that meets the criteria set forth for component units under GASB regulations. The Foundation provides financial support for the objectives, purposes, and programs of the University. Although the University does not control the timing, purpose, or amount of its receipts from the Foundation, the resources (and income thereon) the Foundation holds and invests are solely for the benefit of the University. Because the Foundation's resources are solely for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation is a private organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are sometimes different from GASB. No modifications have been made to the Foundation financial information included in the University's financial report to account for these differences.

MSU Health Care, Inc. and Lysander Series of Aesir Series, LLC ("Lysander") are additional legally separate entities that meet the criteria set forth for component units under GASB regulations. MSU Health Care, Inc. is a multi-specialty medical practice that operates the University's primary care, sports medicine, diagnostics, testing, and other services. The University is the sole corporate member of MSU Health Care, Inc., which is reported as a blended component unit. Lysander is a cell captive insurance company used by the University to gain access to global reinsurers for purposes of obtaining general liability insurance and automobile liability insurance. Lysander exclusively benefits the University, and the University has full control of Lysander, which is also reported as a blended component unit.

The University's financial statements, related footnote disclosures, and required supplementary information (RSI), including management's discussion and analysis, have been prepared by management. GASB required supplementary information is not audited and should be read in conjunction with the financial statements and footnotes.

Novel Coronavirus (COVID-19) Pandemic

In December 2019, the Novel Coronavirus (COVID-19) was first reported and has since emerged as the cause of a global pandemic. The world-wide response to managing the COVID-19 pandemic has included extraordinary measures designed to reduce physical human interaction, including the temporary suspension of community events and other activities, broad travel restrictions, and the temporary closing of many businesses. Likewise, the pandemic has had a significant effect on the University for the years ended June 30, 2021 and 2020, including transitioning instruction to remote learning to the fullest extent possible, limiting on-campus residency, eliminating all non-essential travel, and cancelling or postponing athletic and performing arts events. The following sections will discuss further the specific impacts reflected in the financial statements for the years ending June 30, 2021 and 2020.

Statement of Net Position

The Statement of Net Position includes all assets, deferred outflows, liabilities, and deferred inflows. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when services are provided and expenses and liabilities are recognized when others provide the services, regardless of when cash is exchanged. Deferred outflows and deferred inflows of resources are recognized through the consumption or acquisition of resources by the University that is applicable to a future reporting period. Assets, deferred outflows, liabilities, and deferred inflows are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation rather than current market values.

Below is a summarized comparison of the University's assets, deferred outflows, liabilities, deferred inflows, and net position at June 30, 2021, 2020, and 2019 adjusted to illustrate the impact of postemployment benefit obligations.

(in millions)	2021	OPEB Adjustment	2021 Net of OPEB	2020	OPEB Adjustment	2020 Net of OPEB	2019	OPEB Adjustment	2019 Net of OPEB
Current assets	$ 1,135	-	$ 1,135	$ 824	-	$ 824	$ 739	-	$ 739
Noncurrent assets:									
Restricted cash and cash equivalents and restricted investments	-	-	-	14	-	14	145	-	145
Endowment and other investments	3,862	-	3,862	3,080	-	3,080	3,151	-	3,151
Capital assets, net	2,934	-	2,934	2,938	-	2,938	2,862	-	2,862
Other	130	-	130	106	-	106	125	-	125
Total assets	8,061	-	8,061	6,962	-	6,962	7,022	-	7,022
Deferred outflows of resources	622	(578)	44	548	(490)	58	163	(115)	48
Current liabilities	646	(22)	624	745	(51)	694	759	(44)	715
Noncurrent liabilities	2,368	(608)	1,760	3,913	(2,090)	1,823	3,521	(1,603)	1,918
Total liabilities	3,014	(630)	2,384	4,658	(2,141)	2,517	4,280	(1,647)	2,633
Deferred inflows of resources	352	(325)	27	388	(362)	26	423	(405)	18
Net Investment in Capital Assets	1,490	-	1,490	1,485	-	1,485	1,511	-	1,511
Restricted:									
Nonexpendable	884	-	884	817	-	817	763	-	763
Expendable	1,523	-	1,523	852	-	852	894	-	894
Unrestricted	1,420	377	1,797	(690)	2,013	1,323	(686)	1,937	1,251
Net position	$ 5,317	$ 377	$ 5,694	$ 2,464	$ 2,013	$ 4,477	$ 2,482	$ 1,937	$ 4,419

For more detailed information see the accompanying Statements of Net Position.

Current assets:

Current assets consist of cash and cash equivalents, investments, net accounts and interest receivable, and other assets. During 2021, cash and cash equivalents increased $172 million. The increase is a function of the University's operating, financing, and investing activities as reported in the statement of cash flows. Investments increased $175 million, primarily due to increases in short-term investment reserves. Net receivables decreased $36 million, primarily due to a $90 million decrease in insurance recovery receivables that were recognized during the year ended June 30, 2020, offset by a $32 million increase in state appropriations receivable, and a $31 million increase in state sponsored medical programs. State sponsored medical program accounts receivable balances generally reflect timing differences between delivery of service and payment by the state.

During 2020, cash and cash equivalents increased $64 million. The increase was a function of the University's operating, financing, and investing activities as reported in the statement of cash flows. Investments decreased $25 million, primarily due to decreases in short-term investment reserves. Net receivables increased $54 million due to a $90 million increase in insurance recoveries receivable (see note 10) offset by a $32 million decrease in state appropriations receivable due to the State of Michigan Public Act 146 of 2020 signed in July 2020 that replaced appropriation payments originally allocated for 2020 with federal Coronavirus Relief Funds. Due to the timing of the bill and eligibility requirements of the funding these amounts were recognized as revenue during 2021.

Noncurrent assets:

Restricted cash and cash equivalents and restricted investments

All balances represent unspent bond proceeds, which are externally restricted for the construction or purchase of capital assets, and funded by Series 2019B bond proceeds. There were no unspent bond proceeds in 2021.

Endowment and other investments

At June 30, 2021 and 2020, the University's endowment investments totaled $3,580 million (an increase of $780 million) and $2,800 million (a decrease of $78 million), respectively. During the years ended June 30, 2021, 2020, and 2019, the University's endowment activity was as follows:

	2021	2020	2019
		(in millions)	
Beginning balance	$ 2,800	$ 2,878	$ 2,700
College of Law merged investments	11	-	-
Gifts and University additions	51	50	55
Reinvested earnings	17	15	18
Investment earnings net of transfers	786	(58)	105
Reallocation (to)/from operating funds	(85)	(85)	-
Ending balance	$ 3,580	$ 2,800	$ 2,878

Other investments consist primarily of retirement and postemployment benefit reserves, which totaled $133 million and $96 million at June 30, 2021 and 2020, respectively. Also included in other investments was the Liquidity Reserve Pool component of the University's Operating Cash Pool ($107 million in 2021 and $106 million in 2020).

Capital assets

The University continues to implement its long-range plan to modernize and renew its teaching, research, and residential life facilities in support of its mission.

At June 30, 2021, 2020, and 2019, the University's investments in capital assets were as follows:

	2021	2020 *(in millions)*	2019
Land	$ 49	$ 49	$ 48
Buildings and site improvements	4,169	3,969	3,709
Construction in progress	345	440	491
Software and other intangibles	147	120	119
Equipment and other	1,022	993	957
Museum collections	27	24	22
Less: accumulated depreciation	(2,825)	(2,657)	(2,484)
	$ 2,934	$ 2,938	$ 2,862

Additions to buildings and site improvements during 2021 and 2020 included:

	2021	2020
	(in millions)	
Science, Technology, Engineering, and Mathematics building	$ 99	$ -
Facility for Rare Isotope Beams harvest vault	24	-
Munn Ice arena	16	-
Student information system	29	-
Interdisciplinary Science and Technology building	-	97
Edward J. Minskoff Pavilion	-	61
Music building addition	-	39
Campus water safety improvements	-	18
Other	32	45
Total	$ 200	$ 260

Construction in progress reflects multi-year projects which, once completed and placed into service, are generally categorized as buildings and site improvements. Balances at June 30, 2021 and 2020 included:

	2021	2020
	(in millions)	
TB Simon Power Plant upgrades	$ 42	$ 33
Grand Rapids Innovation Park - Radiopharmacy	7	-
Facility for Rare Isotope Beams specialized equipment	248	218
Science, Technology, Engineering, and Mathematics building	-	70
Facility for Rare Isotope Beams harvest vault	-	23
Other	48	96
Total construction in process	$ 345	$ 440

As of June 30, 2021, the University had initiated plans and incurred certain contractual commitments related to the construction and renovation of various facilities. Many of the projects have been deferred as a proactive measure due to the financial impacts of COVID-19; however, the costs to complete the projects are estimated to be $99 million and are to be funded over multiple years from debt proceeds, capital grants, private gifts, and other University funds.

Deferred outflows of resources:

At June 30, 2021 and 2020, deferred outflows of resources totaled $622 million (an increase of $74 million) and $548 million (an increase of $385 million), respectively. In 2021, deferred amounts related to changes in assumptions used to calculate the valuation of other postemployment benefits and related contributions made subsequent to the measurement date (in accordance with GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75")) increased by $88 million. Offsetting this increase is a decrease of $13 million in the fair value of hedging derivative instruments and a $1 million decrease in deferred losses on refunding debt in 2010.

Current liabilities:

Current liabilities consist primarily of trade accounts and interest payable, accrued compensation and other personnel costs, unearned revenues, and other liabilities payable within one year or less. The net decrease in 2021 was due primarily to decreases in accounts payable of $29 million, deposits held for others of $14 million, and the current portion of long-term debt and other obligations of $51 million. Accounts payable decreased primarily due to amounts owed to third parties that aided in 2020 insurance recoveries being payable at June 30, 2020. No such payable existed at June 30, 2021. Deposits held for others decreased due to the merger of the College of Law during the year ended June 30, 2021. Investments held on behalf of the College of Law were previously reported as deposits held for others. The decrease in the current portion of long-term debt and other obligations relates to refunding of existing Series 2018A debt in 2021 using insurance recovery proceeds accrued in 2020 (see note 10) and Series 2020A debt. Accrued payroll taxes and other payroll deductions increased by $24 million, primarily driven by the deferral of employment tax payments authorized by the CARES Act, which was offset by a $29 million decrease in other postemployment benefit obligations due to benefit plan changes described below in the noncurrent liabilities section.

The net decrease in 2020 was due primarily to decreases in accounts payable of $29 million and deposits held for others of $48 million. Accounts payable decreased primarily due to changes in certain medical service plan and Medicaid Enhanced Reimbursement program costs and the related timing of payments to service providers. Deposits held for others decreased due to the reduction in the Litigation Reserve fund (see note 10). These decreases were offset by an increase in the current portion of long-term debt and other obligations as insurance recovery proceeds accrued in 2020 are committed to refunding existing Series 2018A debt in 2021 (see note 10).

Noncurrent liabilities, primarily debt and net postemployment benefit obligations:

At June 30, 2021, the University had noncurrent debt and other obligations outstanding of $1,623 million compared with $1,673 million at June 30, 2020. During the year ended June 30, 2021, the University issued Series 2020A ($91 million) bonds which were used to refund Series 2018A bonds and a portion of Series 2015A bonds. During the year ended June 30, 2020, the University issued Series 2019C ($148 million) bonds which were used to refund the Series 2010C bonds. The University has outstanding General Revenue Bonds of $1,638 million and $1,762 million in 2021 and 2020, respectively (including $109 million and $92 million in 2021 and 2020, respectively, of related original issue premiums). The University periodically reviews its debt capacity and related capital asset needs to optimize the use of its long-term resources. As of June 30, 2021, the University's outstanding General Revenue debt carried an investment grade credit rating from Moody's and Standard & Poor's of Aa2 and AA, respectively.

At June 30, 2021 and 2020, the noncurrent portion of the University's net postemployment benefit obligations (OPEB) totaled $608 million (a decrease of $1,482 million) and $2,090 million (an increase of $487 million), respectively. Effective January 2021, the University transitioned to a Medicare Advantage Program to deliver medical benefits to eligible retired employees and qualified spouses/beneficiaries. While the change in the plan will result in monetary savings to the University, the majority of the reduction in the liability is due to the accounting provisions of GASB 75 where benefits provided as a conduit for the federal government are not part of the substantive OPEB plan offered by the employer because the federal government is primarily responsible for and has assumed the risks associated with providing the benefits.

Provisions of GASB 75 require revaluing the unfunded liability using a 20 year tax-exempt municipal rate on an annual basis. As a result, the liability estimate for financial reporting is susceptible to dramatic variation from year to year. Although the financial reporting liability will be changing, the University's approach to funding the retirement benefits continues to be on a pay-as-you-go basis. Thus, there will be no impact on the payment of the other postemployment benefits.

Deferred inflows of resources:

At June 30, 2021 and 2020, deferred inflows of resources totaled $352 million and $388 million, respectively (a decrease of $36 million). In 2021, deferred inflows of resources representing deferred amounts due to changes in assumptions used to calculate the valuation of other postemployment benefits decreased by $36 million. Deferred inflows of resources attributable to the University's investment value resulting from irrevocable split-interest agreements (primarily Charitable Remainder Trusts) at June 30, 2021 and 2020 totaled $21 million and $19 million, respectively (an increase of $2 million). In accordance with GASB 81 amounts are deferred until all provisions of the agreements are satisfied. Deferred inflows of resources of $5 million and $7 million (a decrease of $2 million) were recognized in 2021 and 2020, respectively, due to gains on bond refunding related to the refunding of the 2010C bonds.

Net position:

Net position represents residual University assets and deferred outflows after liabilities and deferred inflows are deducted. The University's net position at June 30, 2021, 2020, and 2019 was as follows:

	2021	2020 (in millions)	2019
Net investment in capital assets	$ 1,490	$ 1,485	$ 1,511
Restricted:			
Nonexpendable	884	817	763
Expendable	1,523	852	894
Total restricted	2,407	1,669	1,657
Unrestricted - before OPEB	1,797	1,323	1,251
Total net position - before OPEB	5,694	4,477	4,419
OPEB (Unrestricted)	(377)	(2,013)	(1,937)
Total net position	$ 5,317	$ 2,464	$ 2,482

Net investment in capital assets represents the University's land, buildings, software, and equipment net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted nonexpendable net position is subject to externally imposed stipulations that they be maintained permanently. Such net position includes the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

Restricted expendable net position is subject to externally imposed restrictions governing its use. Such net position includes the net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently, restricted quasi-endowments, restricted gifts, and federal and state sponsored programs. During 2021, expendable restricted net position increased by $671 million. The increase was primarily driven by a $532 million increase in investment income on restricted investments and a $79 million increase in restricted gifts.

Unrestricted net position is not subject to externally imposed restrictions; however, virtually all of the University's unrestricted net position is subject to internal designation to meet various specific commitments. These commitments include funding the completion of the 2021 summer semester and the first quarter of fiscal year 2022, maintaining reserves for capital projects, sustaining working capital balances for self-supporting departmental activities, and preserving unrestricted quasi and term endowments. At June 30, 2021 and 2020, the unrestricted balances related to these specific commitments totaled $1,797 million (an increase of $474 million) and $1,323 million (an increase of $72 million), respectively. Offsetting these balances is a draw on unrestricted net position for commitments related to postemployment benefits. At June 30, 2021 and 2020, these commitments reduced unrestricted net position by $377 million and $2,013 million, respectively.

Statement of Revenues, Expenses, and Changes in Net Position

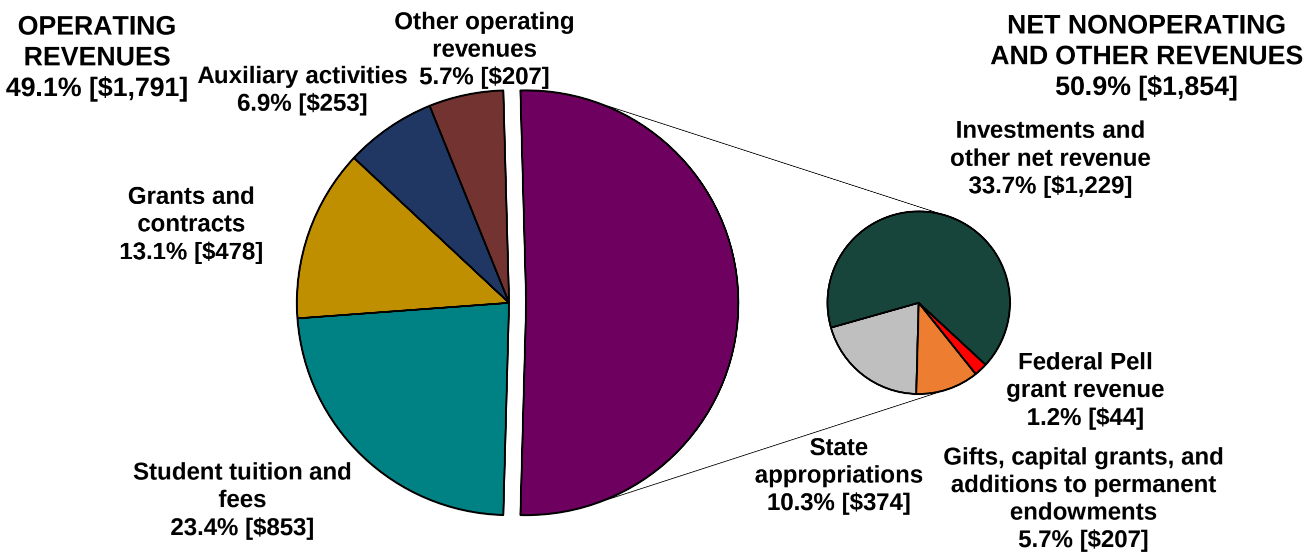
The Statement of Revenues, Expenses, and Changes in Net Position presents the operating results of the University, as well as the nonoperating revenues and expenses. Operating revenues primarily include net student tuition and fees, grants and contracts, and auxiliary activities. Given a public university's dependency on revenues such as state appropriations, gifts, and investment income, which are prescribed by GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Net nonoperating revenues or expenses are an integral component in determining the increase or decrease in net position.

A summarized comparison of the University's revenues, expenses, and changes in net position for the years ended June 30, 2021, 2020, and 2019 follows:

	2021	2020	2019
		(in millions)	
Operating revenues:			
Student tuition and fees, net of allowances	$ 853	$ 895	$ 868
Grants and contracts	478	475	483
Auxiliary activities	253	358	412
Other operating revenues	207	308	284
Total operating revenues	1,791	2,036	2,047
Operating expenses:			
Instruction and departmental research	685	733	753
Research	374	383	399
Public service	300	366	334
Academic support	122	126	125
Student services	57	55	55
Scholarships and fellowships	109	99	73
Institutional support	170	187	173
Operation and maintenance of plant	126	135	135
Auxiliary enterprises	265	343	345
Other postemployment benefits expense	(1,601)	120	88
Depreciation	196	186	179
Other operating expenses, net	9	4	3
Total operating expenses	812	2,737	2,662
Operating income (loss)	979	(701)	(615)
Nonoperating revenues (expenses):			
State operating appropriation	289	256	286
State AgBioResearch appropriation	35	35	35
State Extension appropriation	30	30	30
Federal Pell grant revenue	44	45	45
Coronavirus federal grants and aid	101	16	-
Gifts	119	40	61
Net investment income	1,196	166	247
Interest expense on indebtedness	(71)	(77)	(63)
Other nonoperating revenues, net	4	90	2
Net nonoperating revenues	1,747	601	643
Income (loss) before other	2,726	(100)	28
State capital appropriations	20	5	-
Capital grants and gifts	42	30	75
Additions to permanent endowments	46	47	44
Increase (decrease) in net position	2,834	(18)	147
Net position, beginning of year	2,464	2,482	2,335
Beginning net position adjustment, merger	19	-	-
Net position, beginning of year, restated	2,483	2,482	2,335
Net position, end of year	$ 5,317	$ 2,464	$ 2,482

The University is supported by a diverse stream of revenue including student tuition and fees, state appropriations, federal and state sponsored programs, private gifts and grants, and investment income. The University continues to seek revenue from all possible sources consistent with its mission and to manage the financial resources to make quality education affordable to its students.

Total net revenues by source for the year ended June 30, 2021 are presented in millions of dollars:



TOTAL NET REVENUES $3.6 BILLION

Operating revenues: The primary source of operating revenue for the University was student tuition and fees (net of scholarship allowances), totaling $853 million and $895 million in 2021 and 2020, respectively. Gross tuition and fees revenue decreased $15 million, which is comprised of a $43 million decrease driven by reduced enrollment and changes in student blend due to the COVID-19 pandemic, offset with a $28 million increase from the merger of the College of Law during 2021. Other major revenue sources in 2021 included federal grants and contracts of $386 million (an increase of $12 million), including $360 million in sponsored programs, and auxiliary activities (activities that provide services to students, faculty, staff, and the public) totaled $253 million (a decrease of $105 million). The decrease in auxiliary activities was driven by the impacts of the COVID-19 pandemic on athletics, residential housing services, and other auxiliary activities. In 2020, net tuition and fees increased by $27 million due to changes in student blend and impacts of transitioning to a flat rate tuition model, federal grants and contracts decreased by $7 million, and auxiliary activities decreased $54 million.

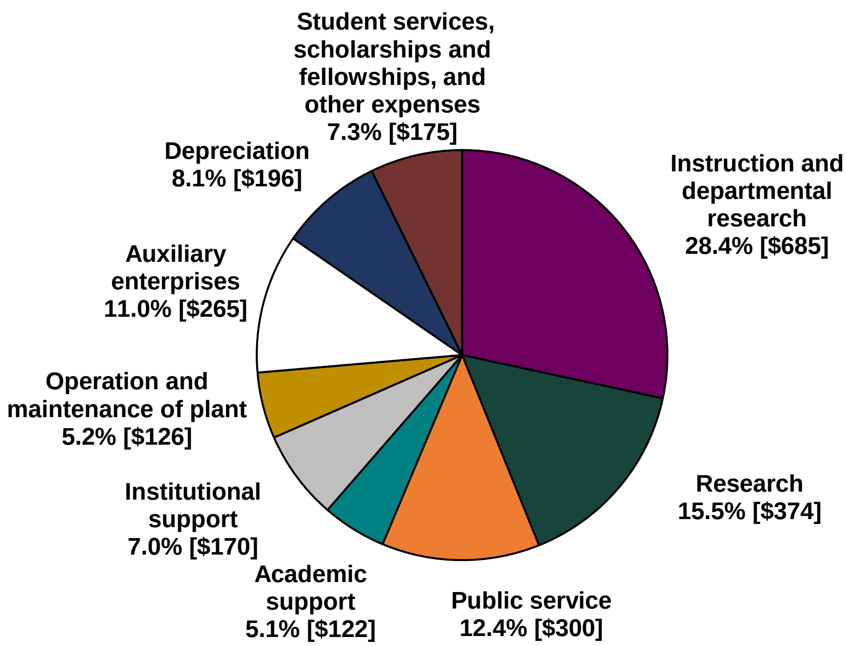
Net nonoperating and other revenues: The primary source of net nonoperating revenue was State appropriations, which totaled $374 million in 2021, an increase of $48 million. In 2021, the University received $289 million in funding for general operations, compared to $256 million in 2020. Michigan State University Extension and MSU AgBioResearch appropriations totaled $65 million, consistent with 2020 levels. As noted in the 2020 current assets section above, the State of Michigan revised funding for state appropriation allocations, resulting in $32 million of funds originally appropriated for 2020 being recognized as revenue in 2021 as Coronavirus federal grants and aid. In 2021, the University also recognized $20 million in state capital appropriations, compared to $5 million on 2020. In 2021, the University was awarded $46 million in federal funding through the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, $82 million in federal funding through the American Rescue Plan (ARP), and $7 million in federal funding through a Shuttered Venues Operating Grant (SVOG). In 2020, the University was awarded $30 million in federal funding through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In accordance with the grants and aid, the University must meet certain eligibility requirements before recognizing the funding. For 2021, the University provided $17 million to students as emergency financial aid grants ($15 million CRRSA and $2 million ARP), utilized $47 million in institutional aid ($15 million CARES, $30 million CRRSA, and $2 million ARP), and sought reimbursement for $5 million in expenses (SVOG) which was recognized as revenue during the year. As previously noted, the University also received $32 million in Coronavirus Relief Funds as 2020 state appropriations substitute which was recognized as revenue in 2021. For 2020, the University provided $15 million to students as emergency financial aid grants. In addition, $1 million of federal CARES Act: Provider Relief Funding was recognized as an eligible health care provider. The remaining amounts awarded are expected to be recognized during the year ended June 30, 2022 once all eligibility requirements have been met. See footnote 1 for more details.

Other significant components of net nonoperating revenues in 2021 included net investment income, which increased $1,030 million due to market conditions. In 2020, net investment income decreased $81 million due to market conditions. Gifts increased by $79 million, driven by a $32 million pledge from an alumni, the largest single donation from an individual in the University's history. In 2020, the University settled claims with certain insurance carriers for $113 million, with $28 million of contingent fees being paid to third parties who aided in the recovery, resulting in net revenues of $85 million.

During 2021, $1,359 million was expended for the core missions of the University: instruction and departmental research, research, and public service, a decrease of $123 million (8.3%) from 2020. Instruction and departmental research and research expenses decreased $57 million (5.1%), while public service expenses decreased $66 million (18.0%), which reflects University cost cutting initiatives and the impacts of the COVID-19 pandemic on the operations of the University. Institutional support totaled $170 million, a decrease of $17 million, largely due to a decrease in claims and legal expenses. Auxiliary enterprises totaled $265 million, a decrease of $78 million, and scholarships and fellowships totaled $109 million, an increase of $10 million due in part to the student emergency grants paid from the COVID-19 federal funding. In 2020, expenses for the core mission of the University increased $17 million and auxiliary enterprises increased $4 million.

As discussed in the noncurrent liabilities section, during the year ended June 30, 2021, the University implemented a Medicare Advantage Plan to deliver postemployment benefits. The change in benefit plan to a Medicare Advantage Program reduced the postemployment liability by approximately $1,747 million. The net effect of this change resulted in other postemployment benefits expense of negative $1,601 million in 2021, a $1,721 decrease from 2021. This expense is presented separately from other functional expense classifications in the Statement of Revenues, Expenses, and Changes in Net Position due to the significance of the change. Prior year amounts were reclassified accordingly.

Operating expenses by source, excluding postemployment benefits expense, for the year ended June 30, 2021 are presented in millions of dollars:



TOTAL OPERATING EXPENSES NET OF POSTEMPLOYMENT BENEFITS $2.4 BILLION

The University's Economic Outlook

Fiscal year 2021 saw continued significant impacts of the COVID-19 pandemic on the University, the state, the nation, and the world. While environmental and public health conditions continue to change, University leadership remains focused on assuring the safety and well-being of students, faculty, and staff while providing high quality academic programs in a variety of formats.

For fiscal year 2022, the University welcomed one of its largest first-year classes of approximately 9,000 students. The COVID-19 vaccine has allowed the University to welcome students back to its residential community, with early fall 2021 housing capacity at 86%. Although this is encouraging news, the impact of declined enrollment in 2021, specifically in international and non-resident students, will impact the budget for the next three to four years.

In June 2021, the Board of Trustees voted to increase tuition rates 2% for the 2022 academic year after multiple years of no undergraduate in-state tuition increases. Additionally, the State legislature approved a 1% increase in state appropriation funding over 2021 base levels. The University will receive a 3.9% nonrecurring supplemental allocation to the State's 2021 funding as part of a federal requirement for the State to receive federal stimulus funds. The State funding affirmation is an important development that provides overall stability to the University budget.

During fiscal 2021, the University was awarded $82 million through the American Rescue Plan. Approximately $79 million of this amount will be used in fiscal 2022 for eligible uses, including $39 million to be paid to students as emergency financial aid.

Investment income continues to be an important component of MSU's ongoing revenue diversification. As strong stewards of University funds, the University manages its endowment spending rate to ensure necessary resources are available for operations, while maintaining the purchasing power of the endowment assets for decades to come. Over time, MSU's long-term diversified investment strategy has proven to provide an important source of support for University operations and help keep tuition increases lower.

The University continues to deploy cost containment strategies, including a second year of 3% incremental budget reductions for all academic and administrative units.

While the impacts of COVID-19 continue, the University continues to adapt and make the necessary fiscal adjustments with the objective of maintaining quality.

MICHIGAN STATE UNIVERSITY
STATEMENTS OF NET POSITION

	June 30, 2021	June 30, 2020
ASSETS	(in thousands)	
Current assets:		
Cash and cash equivalents	$ 372,997	$ 201,143
Investments	482,502	307,425
Accounts and interest receivable, net	225,141	260,897
Student loans and pledges receivable, net	35,342	32,292
Inventories and other assets	19,482	22,141
Total current assets	1,135,464	823,898
Noncurrent assets:		
Restricted cash and cash equivalents	-	4,669
Restricted investments	-	9,220
Endowment investments	3,579,785	2,799,889
Other investments	281,833	280,293
Student loans and pledges receivable, net	100,008	76,389
Investments in joint ventures and other assets	29,497	29,258
Derivative instruments - swap asset	324	372
Capital assets, net	2,933,688	2,937,901
Total noncurrent assets	6,925,135	6,137,991
Total assets	**8,060,599**	**6,961,889**
DEFERRED OUTFLOWS OF RESOURCES	**621,799**	**547,578**
LIABILITIES		
Current liabilities:		
Accounts and interest payable	136,064	165,062
Accrued personnel costs	69,810	64,435
Accrued self-insurance liabilities	24,194	22,907
Payroll taxes and other payroll deductions	47,037	22,573
Deposits held for others	8,129	22,123
Unearned revenues	96,694	102,640
Current portion of net other postemployment benefit obligations	22,252	51,326
Current portion of long-term debt and other obligations	242,487	293,435
Total current liabilities	646,667	744,501
Noncurrent liabilities:		
Accrued personnel costs	38,964	36,894
Accrued self-insurance liabilities	13,151	10,260
Payroll taxes and other payroll deductions	21,561	15,485
Unearned revenues	8,067	8,667
Derivative instruments - swap liability	54,840	78,763
Net other postemployment benefit obligations	607,843	2,090,014
Long-term debt and other obligations	1,623,378	1,672,946
Total noncurrent liabilities	2,367,804	3,913,029
Total liabilities	**3,014,471**	**4,657,530**
DEFERRED INFLOWS OF RESOURCES	**351,378**	**387,548**
NET POSITION		
Net investment in capital assets	1,490,252	1,484,778
Restricted:		
Nonexpendable	883,923	817,110
Expendable:		
Research and gifts	1,085,289	523,154
Quasi and term endowments	339,480	229,858
Debt service and capital projects	84,192	87,661
Student loans	13,302	11,234
Unrestricted	1,420,111	(689,406)
TOTAL NET POSITION	**$ 5,316,549**	**$ 2,464,389**

See accompanying notes

MICHIGAN STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION

	June 30, 2021	June 30, 2020
	(in thousands)	
ASSETS		
Cash equivalents	$ 24,307	$ 16,880
Interest and dividends receivable, net	309	121
Other receivables, net	2,670	3,372
Investments	470,302	365,972
Land held for investment, net	1,364	1,605
Investment in University Health Park, net	2,873	2,885
Equity in start-up organizations, net	5,308	3,077
Notes receivable, net	3,083	1,033
Prepaid expenses	60	55
Property and equipment, net	14,413	7,190
Intangible assets, net	703	791
TOTAL ASSETS	**$ 525,392**	**$ 402,981**
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued expenses and other payables	$ 3,625	$ 2,647
Deferred revenue	14	13
Trusts and annuities payable	6,345	6,743
Capital lease obligation	6,047	-
Deposit held for Michigan State University	19,884	17,856
Obligations under life estate agreements	432	456
Total liabilities	**36,347**	**27,715**
Net assets:		
Without donor restrictions	447,813	338,933
With donor restrictions:		
Time or purpose restrictions	41,232	36,333
Perpetual restrictions	-	-
Total net assets with donor restrictions	41,232	36,333
Total net assets	**489,045**	**375,266**
TOTAL LIABILITIES AND NET ASSETS	**$ 525,392**	**$ 402,981**

See accompanying notes

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year ended June 30, 2021	2020
	(in thousands)	
OPERATING REVENUES		
Student tuition and fees	$ 1,035,806	$ 1,050,466
Less: scholarship allowances	183,222	155,214
Net student tuition and fees	852,584	895,252
State of Michigan grants and contracts	16,392	18,159
Federal grants and contracts	385,427	373,846
Local and private sponsored programs	76,416	82,643
Interest and fees on student loans	584	1,272
Departmental activities (net of scholarship allowances of $5,992 in 2021 and $8,160 in 2020)	206,644	306,473
Auxiliary activities (net of room and board allowances of $5,984 in 2021 and $27,442 in 2020)	253,041	358,354
TOTAL OPERATING REVENUES	**1,791,088**	**2,035,999**
OPERATING EXPENSES		
Instruction and departmental research	685,476	733,194
Research	373,945	382,564
Public service	300,255	366,112
Academic support	121,730	126,223
Student services	56,540	55,253
Scholarships and fellowships	109,301	98,604
Institutional support	170,486	186,323
Operation and maintenance of plant	126,225	135,152
Auxiliary enterprises	264,799	342,741
Other postemployment benefits expense	(1,601,410)	119,940
Depreciation	195,919	186,306
Other operating expenses, net	8,900	4,442
TOTAL OPERATING EXPENSES	**812,166**	**2,736,854**
Operating income (loss)	978,922	(700,855)
NONOPERATING REVENUES (EXPENSES)		
State operating appropriation	288,936	256,597
State AgBioResearch appropriation	34,937	34,937
State Extension appropriation	30,136	30,136
Federal Pell grant revenue	44,032	44,596
Coronavirus federal grants and aid	101,272	16,135
Gifts	118,936	39,779
Net investment income	1,195,807	165,837
Interest expense on indebtedness	(70,889)	(77,432)
Other nonoperating revenues, net	2,476	90,401
Net nonoperating revenues	1,745,643	600,986
INCOME (LOSS) BEFORE OTHER	**2,724,565**	**(99,869)**
State capital appropriations	20,199	5,111
Capital grants and gifts	41,713	30,306
Additions to permanent endowments	46,205	47,279
Increase (decrease) in net position	2,832,682	(17,173)
Net position, beginning of year	2,464,389	2,481,562
Beginning net position adjustment, merger	19,478	-
Net position, beginning of year, as adjusted	2,483,867	2,481,562
NET POSITION, END OF YEAR	**$ 5,316,549**	**$ 2,464,389**

See accompanying notes

MICHIGAN STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
		(in thousands)	
REVENUE, GAINS AND OTHER SUPPORT:			
Contributions	$ -	$ 634	$ 634
Income from investments - net of investment fees	118,362	7,592	125,954
Royalty income	1,812	-	1,812
Rental income	2,130	-	2,130
Grants and contracts	(101)	3,000	2,899
Adjustment to value of annuities payable	-	(225)	(225)
Other income	2,918	-	2,918
Net assets released from restrictions	6,102	(6,102)	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	131,223	4,899	136,122
EXPENSES:			
Contributions to Michigan State University	13,495	-	13,495
Grant expenses	2,409	-	2,409
Salaries, fringe benefits, and payroll taxes	2,910	-	2,910
Consultants and interns	204	-	204
Office expense	398	-	398
Professional fees	242	-	242
Operating expense	84	-	84
Rent and utilities	1,006	-	1,006
Insurance	140	-	140
Depreciation and amortization	972	-	972
Provision for uncollectible receivables	271	-	271
Other expense	212	-	212
TOTAL EXPENSES	22,343	-	22,343
Change in net assets	108,880	4,899	113,779
Net assets, beginning of year	338,933	36,332	375,266
NET ASSETS, END OF YEAR	$ 447,813	$ 41,231	$ 489,045

	Year ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
		(in thousands)	
REVENUE, GAINS AND OTHER SUPPORT:			
Contributions	$ 48	$ 1,486	$ 1,534
Income from investments - net of investment fees	1,338	174	1,512
Royalty income	674	-	674
Rental income	1,803	-	1,803
Grants and contracts	347	-	347
Adjustment to value of annuities payable	-	173	173
Other income	215	-	215
Net assets released from restrictions	5,145	(5,145)	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	9,570	(3,312)	6,258
EXPENSES:			
Contributions to Michigan State University	14,257	-	14,257
Salaries, fringe benefits, and payroll taxes	3,608	-	3,608
Net periodic postretirement benefit cost	160	-	160
Consultants and interns	1,072	-	1,072
Office expense	275	-	275
Professional fees	245	-	245
Operating expense	250	-	250
Rent and utilities	1,032	-	1,032
Insurance	108	-	108
Depreciation and amortization	885	-	885
Provision for uncollectible receivables	392	-	392
Other expense	347	-	347
TOTAL EXPENSES	22,631	- -	22,631
Change in net assets	(13,061)	(3,312)	(16,373)
Net assets, beginning of year	351,994	39,644	391,639
NET ASSETS, END OF YEAR	$ 338,933	$ 36,332	$ 375,266

STATEMENTS OF CASH FLOWS

	Year ended June 30, 2021	2020
	(in thousands)	
Cash flows from operating activities		
Tuition and fees	$ 842,162	$ 898,814
Research grants and contracts	486,229	460,848
Auxiliary activities	261,814	350,043
Departmental activities	175,261	289,084
Interest and fees on student loans	584	1,272
Loans issued to students	(3,590)	(4,583)
Collection of loans from students	6,410	7,689
Scholarships and fellowships	(108,215)	(105,367)
Payments to suppliers	(509,410)	(661,566)
Payments to employees	(1,547,052)	(1,653,069)
Fiduciary activities - Direct lending, scholarship, and other receipts	426,458	504,882
Fiduciary activities - Direct lending, scholarship, and other payments	(426,458)	(504,882)
Other payments	(35,517)	(78,276)
Net cash used by operating activities	(431,324)	(495,111)
Cash flows from noncapital financing activities		
State appropriations	321,782	353,297
Federal Pell grant revenue	44,032	44,596
Coronavirus federal grants and aid receipts	93,086	16,135
Gifts	83,515	48,543
Endowment gifts	46,214	47,386
Proceeds from issuance of noncapital debt	91,446	-
Principal paid on noncapital debt	(168,745)	(23,055)
Interest paid on noncapital debt	(14,867)	(16,124)
Other receipts	67,500	17,762
Net cash provided by noncapital financing activities	563,963	488,540
Cash flows from capital and related financing activities		
Capital appropriations	21,362	-
Capital gifts and grants	49,929	43,579
Proceeds from issuance of capital debt and other long-term obligations	133,222	177,392
Purchase of capital assets	(206,666)	(284,808)
Proceeds from sale of capital assets	816	1,534
Principal paid on capital debt	(153,069)	(211,829)
Interest paid on capital debt	(60,992)	(66,195)
Other receipts	6,321	4,142
Net cash used by capital and related financing activities	(209,077)	(336,185)
Cash flows from investing activities		
Investment income, net	335,419	168,713
Proceeds from sales and maturities of investments	2,256,843	7,355,784
Purchase of investments	(2,348,639)	(7,159,568)
Net cash provided by investing activities	243,623	364,929
Net increase in cash	167,185	22,173
Cash and cash equivalents, beginning of year	205,812	183,639
Cash and cash equivalents, end of year	**$ 372,997**	**$ 205,812**

See accompanying notes

STATEMENTS OF CASH FLOWS (Continued)

	Year ended June 30, 2021	2020
Reconciliation of net operating income (loss) to cash flows from operating activities:	(in thousands)	
Operating income (loss)	$ 978,922	$ (700,855)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation expense	195,919	186,306
Change in assets and liabilities:		
Accounts receivable	(16,489)	6,855
Student loans receivable	2,820	3,106
Inventories and other assets	2,702	2,111
Investments in joint ventures and other assets	(239)	357
Accounts payable	4,641	(27,769)
Accrued personnel costs	7,445	1,673
Payroll taxes and other payroll deductions	30,540	14,549
Deposits held for others	989	(48,138)
Unearned revenues	(6,546)	(15,824)
Accrued self-insurance liabilities	4,178	6,091
Net other postemployment benefit obligation	(1,511,245)	494,005
Change in deferred outflows	(88,188)	(374,978)
Change in deferred inflows	(36,773)	(42,600)
Net cash used by operating activities	**$ (431,324)**	**$ (495,111)**

See accompanying notes

1. Organization, basis of presentation, reporting entity, 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. The University has grown into a comprehensive research university providing undergraduate, graduate, and professional degree programs. The University is not a component unit of the State of Michigan as defined by the Governmental Accounting Standards Board ("GASB").

Basis of presentation:

The University follows all applicable GASB pronouncements. The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for publicly owned colleges and universities and are presented in accordance with the reporting model prescribed in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38, and No. 63. The University follows the "business-type" activities requirements of GASB Statement No. 34. This approach requires the following components of the University's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements

GASB Statement No. 34, as amended by No. 63, establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following four net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted:
  Nonexpendable – Net position subject to externally imposed constraints that they be maintained permanently by the University. Nonexpendable net position includes the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

  Expendable – Net position whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time. Expendable net position includes net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.
- Unrestricted: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees (the "Board") or may otherwise be limited by contractual agreements with outside parties. Unrestricted net position is generally designated for academic, research, and outreach programs and initiatives, postemployment benefits, and capital asset renewals and replacements.

Reporting entity:

The Michigan State University Foundation (the "Foundation") is a legally separate, tax-exempt entity that meets the criteria set forth for component units under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as amended by GASB Statement No. 61. The Foundation provides financial support for the objectives, purposes, and programs of the University. Although the University does not control the timing, purpose, or amount of its receipts from the Foundation, the resources (and income thereon) that the Foundation holds and invests are dedicated to benefit the University. Because the resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and its Statements of Financial Position and Statements of Activities and Changes in Net Assets are discretely presented in the University's financial statements. In addition, the Foundation's significant notes are summarized in note 4.

The Foundation is a private organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those under GASB. No modifications have been made to the Foundation financial information included in the University's financial report to account for these differences. Complete financial statements for the Foundation can be obtained by a written request to:

Michigan State University Foundation, 325 E. Grand River Avenue, Suite 275, East Lansing, MI 48823.

MSU Health Care, Inc. is a legally separate, tax-exempt entity with the University serving as its sole corporate member. MSU Health Care, Inc. is a multi-specialty medical practice that operates the University's primary care, sports medicine, diagnostics, testing, and other services. Under the requirements of GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14,* MSU Health Care, Inc. is reported as a blended component unit. Effective July 1, 2020, the University transferred the operations of primary care, sports medicine, diagnostics, testing, and other services to MSU Health Care, Inc. MSU Health Care, Inc.'s significant notes are included the University's footnotes, the transfer of operations is disclosed in note 17, and condensed financial statements are presented in note 18. Complete financial statements for MSU Health Care, Inc. can be obtained by a written request to:

MSU Health Care, Inc., 909 Fee Road, Room D130, East Lansing, MI 48824.

Lysander Series of Aesir Series, LLC ("Lysander") was formed as a legally separate entity that meets the criteria set forth for component units under GASB Statement No. 61. Lysander is a cell captive insurance company within an existing and approved captive insurance company used by the University to gain access to global reinsurers for purposes of obtaining general liability insurance and automobile liability insurance as disclosed in note 10. Lysander exclusively benefits the University and the Board is the series member of Lysander which is reported as a blended component unit. Condensed financial statements are presented in note 18.

In August 2020, the University acquired all of the assets and ongoing operations of the Michigan State University College of Law ("Law College") in exchange for assuming the Law College's outstanding liabilities. The operations of the Law College are treated as a department of the University and the Law College's separate legal entity was dissolved in October 2020. The asset purchase agreement was accounted for as a merger with the University recognizing the Law College's assets, liabilities, and net position at carrying value as of July 1, 2020. The Law College reported under FASB accounting standards, so the Law College's financial statements were recalculated under GASB accounting standards, before being recognized in the University financial statements. The merger is disclosed in note 17.

Summary of significant accounting policies:

Cash and cash equivalents – For purposes of the Statement of Cash Flows, the University defines cash equivalents as highly liquid, short-term (90 days or less) investments that bear little or no market risk. Cash and cash equivalents held in the Liquidity Reserve Pool ("LRP"), Common Investment Fund ("CIF"), and other investment funds are included in investments because the intent of these funds is long-term appreciation. Any cash balances held in these funds at the date of the financial statements are due to timing of reinvesting the proceeds within the fund.

Restricted cash and cash equivalents and restricted investments – Restricted cash and cash equivalents and restricted investments represent unspent bond proceeds that are externally restricted for the construction or purchase of capital assets.

Pledges – Financial support in the form of pledges is received from business enterprises, foundations, and individuals. Revenue from gift pledges is recorded only when there is an unconditional promise to pay and all eligibility requirements, including time requirements, have been met. Contributions to permanent and term endowments are not recognized as assets until actually received.

Inventories – Inventories are recorded using various methods, including last in, first out ("LIFO") and first in, first out ("FIFO").

Investments – Investments are stated at fair value, which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The University values its investments using a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the University, while unobservable inputs reflect the University's own assumptions about how market participants would value an asset or a liability based on the best information available. The University uses various industry standard valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Capital assets – Capital assets are stated at cost or, when donated, at acquisition value at the date of the 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 ranging from four to forty years for the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The University capitalizes but does not depreciate certain works of art and historical treasures that are held for exhibition, education, research, or public service. These collections are neither disposed of for financial gain nor encumbered in any way, and are subject to organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections.

Deferred outflows of resources – This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. Deferred outflows of resources consist of accumulated changes in the fair value of hedging derivative instruments, contributions subsequent to the measurement date and changes in assumptions related to the valuation of other postemployment benefits, and deferred losses on refunding of debt.

Deferred inflows of resources – Deferred inflows of resources represent an addition to net position that applies to a future period and so will not be recognized as revenue until then. Deferred inflows of resources consist of the investment value, net of related liabilities to other beneficiaries, attributable to the University from irrevocable split-interest agreements, changes in assumptions related to the valuation of other postemployment benefits, and deferred gains on refunding of debt.

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 death, retirement, or termination. Unused hours exceeding these limitations are forfeited.

Self-insurance liabilities – Self-insurance liabilities consist of accrued expenses related to the University's self-insurance programs.

Unearned revenue – Unearned revenue consists primarily of advance ticket sales for athletic events, summer school tuition not earned during the current year, and contract and sponsored program advances.

Derivative instruments – Derivative instruments consist of interest rate swap agreements and are stated at fair value based on the zero-coupon valuation method.

Operating and nonoperating revenues – Operating activities as reported in the Statements of Revenues, Expenses, and Changes in Net Position are those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all of the University’s expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 34, including state appropriations, federal Pell grant revenue, gifts, and investment income. For the year ended June 30, 2020, insurance proceeds were accrued and reported as other nonoperating revenues net of contingent legal fees related to the recoveries (see note 10). Restricted and unrestricted resources are spent and tracked at the discretion of the recipient University department within the guidelines of donor restrictions, if any.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

Coronavirus federal grants and aid - In December 2019, COVID-19 was first reported and has since emerged as a global pandemic. The world-wide response to manage the COVID-19 pandemic has included many extraordinary measures designed to reduce physical human interactions, including the temporary suspension of community events and other activities, broad travel restrictions, and the temporary closing of many businesses. Likewise, the University's operations and financial results for the years ended June 30, 2021 and 2020 were also impacted, including transitioning instruction to remote learning to the fullest extent possible, limiting on-campus residence, eliminating all non-essential travel, and cancelling or postponing athletic and performing arts events.

To partially offset the financial impact to students and the losses incurred by the University due to the disruption caused by COVID-19, the University received various federal grants. In accordance with each individual grant, the University was required to meet certain eligibility requirements before recognizing the funding as revenue, which included distributing certain portions to students as emergency financial aid. For the fiscal years ending June 30, 2021 and 2020, federal coronavirus grants recognized were as follows:

	2021	2020
Coronavirus Aid, Relief, and Economic Securities (CARES) Act:		
Emergency student aid	$ -	$ 14,919
Institutional aid	14,918	-
Coronavirus Provider Relief Funds	-	1,216
Coronavirus Relief Funds	32,203	-
Coronavirus Response and Relief Supplemental Appropriations:		
Emergency student aid	15,029	-
Institutional aid	30,936	-
American Rescue Plan:		
Emergency student aid	1,527	-
Institutional aid	1,527	-
Shuttered Venue Operators Grant	5,132	-
Total coronavirus federal grants and aid	$ 101,272	$ 16,135

These amounts are reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Position.

The University was awarded $29,837 in funding through the Coronavirus Aid, Relief, and Economic Security ("CARES") Act: Higher Education Emergency Relief Fund during the year ended June 30, 2020. For the fiscal year ending June 30, 2020, the University provided $14,919 to students as emergency financial aid grants, which was recognized in 2020. The remaining $14,918, representing institutional aid, was utilized during the year ended 2021.

The University was awarded $32,203 of CARES Act Relief Funding through the State of Michigan as a substitute for a portion of the originally awarded fiscal year 2020 state appropriation. Eligibility requirements for these funds were satisfied during the year ended June 30, 2021.

The University was awarded $45,965 in funding through the Coronavirus Response and Relief Supplemental Appropriations Act during the year ended June 30, 2021. During the year ended June 30, 2021, the University provided $15,029 to students as emergency financial aid, and utilized $30,936 as institutional aid.

The University was awarded $81,754 in funding through the American Rescue Plan Act during the year ended June 30, 2021. In accordance with the Act, the University must meet certain eligibility requirements before recognizing the funding, which includes distributing $40,912 to students for emergency financial aid. For the fiscal year ending June 30, 2021, the University provided $1,527 to students as emergency financial aid, and recognized an equal amount of institutional aid revenue. The remaining amount awarded is expected to be recognized in 2022 once all eligibility requirements have been met.

The University was awarded $7,324 in funding through the Shuttered Venue Operators Grant during the year ended June 30, 2021. The University will be reimbursed for $5,132 in expenses recognized prior to June 30, 2021, and thus recognized a receivable and revenue for this amount as of June 30, 2021. The remaining amount awarded is expected to be recognized in 2022.

The severity of the continued impact due to COVID-19 on the University's financial condition, results of operations or cash flows will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the University's community, all of which are uncertain and cannot be predicted.

Student tuition and fees – Student tuition and fee revenues are reported in the fiscal year in which the substantial portion of the educational term occurs, net of scholarship allowances in the Statements of Revenues, Expenses, and Changes in Net Position. Scholarship allowances represent the difference between the stated charge for goods and services provided by the University and the amount that is paid by the students or third parties on behalf of the students, where the University has discretion over such expenses.

Auxiliary activities – Auxiliary activities primarily represent revenues generated from University Residential and Hospitality Services, Intercollegiate Athletics, and various other departmental activities that provide services to the student body, faculty, staff, and general public.

Donor restricted endowments – Under Michigan law set forth in the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan in 2009 ("UPMIFA"), the Board acts in a fiduciary capacity as trustee of its endowment funds. UPMIFA requires that the Board exercise its fiduciary duties prudently and consider both the charitable purposes and needs of the University and the purposes of the specific endowment regarding current expenditures and preservation of the purchasing power of the funds. Under the programmatic spending policy established by the Board, 4.4% of the average market value of endowment investments for the twenty quarters of the five fiscal years prior to the beginning of the fiscal year was authorized for expenditure for fiscal year 2021. For fiscal year 2022, the rate will remain at 4.4%.

Reclassification – Expenses related to other postemployment benefits from the prior year have been reclassified to conform to the current year's presentation as discussed in note 12.

Eliminations – In preparing the financial statements, the University eliminates inter-fund assets and liabilities and transactions with blended component units that would otherwise be reflected twice in the Statements of Net Position. Similarly, revenues and expenses related to internal service activities and blended component units are also eliminated from the Statement of Revenues, Expenses, and Changes in Net Position. Student tuition and fees are presented net of scholarships and fellowships applied to student accounts where the University has discretion over such expenses, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

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

Income taxes – The University is a part of the State of Michigan for purposes of Internal Revenue Code Section 115, and is an organization as described in Internal Revenue Code Section 501(c)(3). The University's income generally is exempt from federal income taxes, although income from certain activities may be subject to taxation as unrelated business income.

Change in accounting policy – Effective for the fiscal year ended June 30, 2021, the University adopted GASB Statement No. 84, *Fiduciary Activities* , ("GASB 84"). This statement establishes criteria for identifying fiduciary activities and the related reporting requirements for fiduciary activities. The University does not have a significant amount of funds that would be considered fiduciary funds under GASB 84. GASB 84 permits certain entities, such as the University, to report activities that would otherwise require separate fiduciary fund financial statements within the University's Statement of Net Position and Statement of Cash Flows as an operating activity if upon receipt, the funds are normally expected to be held for three months or less. These fiduciary activities were reclassified to the operating activities portion of the Statement of Cash Flows at June 30, 2021 and 2020, respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

2. Cash and cash equivalents

The University's cash and cash equivalents as of June 30, 2021 and 2020 were as follows:

	2021	2020
Cash and cash equivalents, current	$ 372,997	$ 201,143
Restricted cash and cash equivalents, noncurrent	-	4,669
Total cash and cash equivalents	$ 372,997	$ 205,812

Of the bank balances for cash, $852 of the total $487,522 in 2021 and $1,001 of the total $246,510 in 2020 were held in accounts covered by federal depository insurance. Any remaining amounts were uninsured and uncollateralized, as banks holding deposits of the University are legally prohibited from collateralizing these deposits.

3. Investments and fair value measurements

The University manages investments in accordance with the investment policy approved by the Board. The investment policy distinguishes guidelines for the Liquidity Pool ("LP"), Liquidity Reserve Pool ("LRP"), and Common Investment Fund ("CIF"). In addition, the University has other investments that are restricted by external agreements or by special donor limitations (Other). Certain prior year amounts in the footnote have been reclassified for consistency with the current year presentation.

As of June 30, 2021 and 2020, the University had the following investments:

	June 30, 2021				
Investment type	LP	LRP	CIF	Other	Total
Investment pools	$ 19,579	$ -	$ 3,366,336	$ 73,987	$ 3,459,902
U.S. Government agencies	178,478	106,742	-	-	285,220
Municipal bonds	1,491	-	-	-	1,491
Corporate bonds	139,893	-	-	-	139,893
Asset-backed securities	142,052	-	-	-	142,052
U.S. equities	-	-	267,570	-	267,570
International equities	-	-	42,559	-	42,559
International bonds	1,009	-	174	-	1,183
Life insurance policies	-	-	-	4,250	4,250
Total	$ 482,502	$ 106,742	$ 3,676,639	$ 78,237	$ 4,344,120

	June 30, 2020				
Investment type	LP	LRP	CIF	Other	Total
Investment pools	$ 13,704	$ 106,246	$ 2,600,080	$ 69,418	$ 2,789,448
U.S. Treasury bonds	193,721	-	-	-	193,721
U.S. Government agencies	14,341	-	-	2,788	17,129
Municipal bonds	1,280	-	-	-	1,280
Corporate bonds	31,594	-	-	4,506	36,100
Asset-backed securities	49,111	-	-	112	49,223
U.S. equities	-	-	239,960	8,058	248,018
International equities	-	-	42,269	2,168	44,437
International bonds	12,894	-	213	86	13,193
Life insurance policies	-	-	-	4,278	4,278
Total	$ 316,645	$ 106,246	$ 2,882,522	$ 91,414	$ 3,396,827

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. University investment policy does not limit the value of investments that may be held by an outside party. The University's investments that are held by the University's counterparty in the name of the University as of June 30, 2021 and 2020, respectively, are as follows:

Investment type	2021	2020
Investment pools	$ 18,980	$ 15,616
U.S. Treasury bonds	-	193,721
U.S. Government agencies	285,220	14,341
Municipal bonds	1,491	1,280
Corporate bonds	139,893	33,905
Asset-backed securities	142,052	49,223
U.S. equities	267,570	242,276
International equities	42,559	42,841
International bonds	1,183	13,107
Total	$ 898,948	$ 606,310

The maturities of fixed income investments as of June 30, 2021 and 2020 were as follows:

	June 30, 2021 Fixed Income Investment Maturities				
Investment type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
U.S. Government agencies	$ -	$ 285,220	$ -	$ -	$ 285,220
Municipal bonds	-	1,126	-	365	1,491
Corporate bonds	5,107	132,786	2,000	-	139,893
Asset-backed securities	-	55,843	35,047	51,162	142,052
International bonds	-	1,183	-	-	1,183
Total	$ 5,107	$ 476,158	$ 37,047	$ 51,527	$ 569,839

	June 30, 2020 Fixed Income Investment Maturities				
Investment type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
U.S. Treasury bonds	$ 5,027	$ 188,694	$ -	$ -	$ 193,721
U.S. Government agencies	2,398	11,284	-	3,447	17,129
Municipal bonds	916	-	-	364	1,280
Corporate bonds	5,866	25,617	2,306	2,311	36,100
Asset-backed securities	1,978	14,809	5,440	26,996	49,223
International bonds	2,991	10,202	-	-	13,193
Total	$ 19,176	$ 250,606	$ 7,746	$ 33,118	$ 310,646

Interest Rate Risk: As a means of managing its exposure to fair value losses arising from increasing interest rates, University investment policy limits the average duration of the LP portfolio to three years and the LRP and CIF portfolios to six years. At June 30, 2021 and 2020, the University was in compliance with its investment policy with regard to average duration. University policy does not address average duration of investments by investment type.

The University invests in asset-backed securities such as mortgage pass-through securities issued by U.S. Government agencies. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

The Standard & Poor's credit ratings for fixed income investments at June 30, 2021 and 2020 were as follows:

	June 30, 2021							
	Rating							
Investment type	AAA	AA	A	BBB	BB	Below BB	Not rated	Total
U.S. Government agencies	$ -	$ 285,220	$ -	$ -	$ -	$ -	$ -	$ 285,220
Municipal bonds	-	1,304	-	-	-	-	187	1,491
Corporate bonds	-	8,788	53,263	68,502	-	-	9,340	139,893
Asset-backed securities	52,449	36,384	1,645	557	-	-	51,017	142,052
International bonds	1,009	-	-	-	-	-	174	1,183
Total	$ 53,458	$ 331,696	$ 54,908	$ 69,059	$ -	$ -	$ 60,718	$ 569,839

	June 30, 2020							
	Rating							
Investment type	AAA	AA	A	BBB	BB	Below BB	Not rated	Total
U.S. Treasury bonds	$ -	$ 193,721	$ -	$ -	$ -	$ -	$ -	$ 193,721
U.S. Government agencies	-	17,129	-	-	-	-	-	17,129
Municipal bonds	-	364	916	-	-	-	-	1,280
Corporate bonds	-	3,052	11,639	14,986	352	373	5,698	36,100
Asset-backed securities	12,738	2,596	2,084	3,082	-	-	28,723	49,223
International bonds	-	2,062	6,485	3,938	-	-	708	13,193
Total	$ 12,738	$ 218,924	$ 21,124	$ 22,006	$ 352	$ 373	$ 35,129	$ 310,646

Credit Risk: While not individually rated, U.S. Treasury bonds and U.S. Government agencies securities are backed by the full faith and credit of the U.S. government, which has an AA+ rating by Standard & Poor's. University policy does not address credit risk by investment type. As a means of managing credit risk on its fixed income investments, University investment policy limits portfolio average investment quality of all separately managed funds to AA and limits investments at time of purchase to the following minimum ratings issued by nationally recognized statistical rating organizations by portfolio type as follows:

- LP portfolio - Short-term A1/P1, long-term BBB
- LRP portfolio - Short-term A2/P2, long-term B
- CIF portfolio - Short-term A2/P2, long-term BB

Concentration of Credit Risk: As a means of managing the concentration of credit risk, University investment policy limits the concentration of investments as follows:

- LP portfolio – No more than 15% of the portfolio's market value may be invested in dollar denominated foreign securities of developed countries (i.e., no emerging markets). No more than 10% of the portfolio's market value will be invested in securities of any single issuer, except those which are obligations of, or fully guaranteed as to both principal and interest by, the U.S. Government or its agencies.

- LRP portfolio – No more than 10% of the portfolio's market value may be invested in securities below BBB. No more than 10% of the portfolio's market value may be invested in securities of any single issuer, except those which are obligations of, or fully guaranteed as to both principal and interest by, the U.S. Government or its agencies.

- CIF portfolio – Investments are managed in accordance with asset allocation guidelines and manager guidelines established at the time of manager appointment and consist of equities, real assets, limited partnerships, absolute return funds, and fixed income assets.

As of June 30, 2021 and 2020, not more than 5% of the University's total investments were invested in any one issuer except those which are obligations of, or fully guaranteed as to both principal and interest by, the U.S. Government or its agencies.

Foreign Currency Risk: University investment policy limits foreign currency risk on its LRP portfolio to 30% of the portfolio's market value, but does not address foreign risks for the LP or CIF portfolios. The University's exposure to foreign currency risk consisted of $13,937 in investments denominated in British pounds sterling and $3,403 in investments denominated in euros at June 30, 2021. The University's exposure to foreign currency risk consisted of $12,302 in investments denominated in British pounds sterling and $2,845 in investments denominated in euros at June 30, 2020.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The following describes this hierarchy and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis:

Level 1: Quoted prices in active markets for identical assets or liabilities. Market-price data are generally obtained from relevant exchanges or dealer markets.

Level 2: Inputs other than Level 1 that are observable either directly or indirectly, such as quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for similar assets or liabilities. Inputs are obtained from various sources, including market participants, dealers, and brokers.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. Certain prior year amounts in the footnote have been reclassified for consistency with the current year presentation.

The University's recurring estimated fair value of investments at June 30, 2021 and 2020, grouped by the valuation hierarchy outlined above were as follows:

	Fair value measurement at June 30, 2021 using:				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Net asset value (NAV)	Balance at June 30, 2021
Investments by fair value level:					
Equity securities:					
U.S. equities	$ 609,094	$ -	$ -	$ 368,739	$ 977,833
International equities	46,611	-	-	209,951	256,562
Debt securities:					
U.S Government agencies	-	285,220	-	-	285,220
Corporate bonds	-	139,893	-	-	139,893
International bonds	-	1,183	-	-	1,183
Municipal bonds	-	1,491	-	-	1,491
Asset-backed securities	-	142,052	-	-	142,052
Hedge funds	-	-	-	641,307	641,307
Private investments	-	-	-	1,565,715	1,565,715
Real assets/Real estate	-	-	25,448	162,517	187,965
Money market and mutual funds	87,899	-	-	-	87,899
Funds held at MSU Foundation	-	-	19,684	-	19,684
Other investments	-	-	19,026	-	19,026
Total investments by fair value level	$ 743,604	$ 569,839	$ 64,158	$ 2,948,229	$ 4,325,830

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

	Fair value measurement at June 30, 2020 using:				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Net asset value (NAV)	Balance at June 30, 2020
Investments by fair value level:					
Equity securities:					
U.S. equities	$ 480,492	$ -	$ -	$ 223,949	$ 704,441
International equities	44,436	-	-	298,296	342,732
Debt securities:					
U.S Treasury bonds	-	193,721	-	-	193,721
U.S Government agencies	-	14,341	-	-	14,341
Corporate bonds	-	31,594	2,311	-	33,905
International bonds	-	13,107	-	-	13,107
Municipal bonds	-	1,280	-	-	1,280
Asset-backed securities	-	49,111	112	-	49,223
Other fixed income	5,303	-	-	-	5,303
Hedge funds	-	-	-	616,475	616,475
Private investments	-	-	-	1,010,242	1,010,242
Real assets/Real estate	-	-	20,725	134,505	155,230
Money market and mutual funds	184,018	-	-	-	184,018
Funds held at MSU Foundation	-	-	17,641	-	17,641
Other investments	-	-	19,708	-	19,708
Total investments by fair value level	$ 714,249	$ 303,154	$ 60,497	$ 2,283,467	$ 3,361,367

As prescribed by GASB Statement No. 72, *Fair Value Measurement and Application*, certain investments held by the University are to be valued using methods other than fair value. For the fiscal years ending June 30, 2021 and 2020, the University did not hold any U.S. Treasury bond investments with original maturities of less than one year. In addition, certain funds held by interest rate swap counterparties totaling $18,290 and $35,460 at June 30, 2021 and 2020, respectively, reflect cash balances on deposit in accordance with counterparty collateral posting provisions.

Investments classified in Level 1 at June 30, 2021 and 2020 are valued using prices quoted in active markets for those securities.

The fair value of various equity and debt securities held at June 30, 2021 and 2020 was determined primarily on Level 2 inputs. The University estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Investments classified in Level 3 at June 30, 2021 and 2020 are valued using the University's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. Life insurance policies are valued at their cash surrender value.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates. The University's estimated fair value of derivatives at June 30, 2021 and 2020 were as follows:

	Fair value measurement at June 30, 2021 using:			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance at June 30, 2021
Derivative instruments by fair value:				
Investment derivatives - swap assets	$ -	$ 324	$ -	$ 324
Cash flow hedging derivatives - swap liability	-	(37,161)	-	(37,161)
Investment derivatives - swap liability	-	(17,679)	-	(17,679)
Total derivative instruments by fair value	$ -	$ (54,516)	$ -	$ (54,516)

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

	Fair value measurement at June 30, 2020 using:			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance at June 30, 2020
Derivative instruments by fair value:				
Investment derivatives - swap assets	$ -	$ 372	$ -	$ 372
Cash flow hedging derivatives - swap liability	-	(49,995)	-	(49,995)
Investment derivatives - swap liability	-	(28,768)	-	(28,768)
Total derivative instruments by fair value	$ -	$ (78,391)	$ -	$ (78,391)

The University holds shares or interests in investment companies where the fair value of the investments are measured on a recurring basis using net asset value (or its equivalent) of the investment companies as a practical expedient. For the year ended June 30, 2021 and 2020, the fair value, unfunded commitments, and redemption rules of those investments were as follows:

			As of June 30, 2021		
	June 30, 2021	June 30, 2020	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
U.S. equities [a]	$ 368,739	$ 223,949	$ -	Daily	1 day
International equities [b]	209,951	298,296	-	Various	10-30 days
Hedge funds [c]	641,307	616,475	6,707	Various	31-120 days
Private investments [d]	1,565,715	1,010,242	493,472	Not applicable	Not applicable
Real assets/Real estate [e]	162,517	134,505	52,474	Not applicable	Not applicable
Total	$ 2,948,229	$ 2,283,467	$ 552,653		

[a] *U.S. equities.* This category includes U.S. equities that are marketable equity securities of primarily U.S.-based companies. Several sub-categories of this asset class include: large capitalization companies, small capitalization companies, value-style investing, and growth-style investing.

[b] *International equities.* This category includes international equities that are marketable equity securities in developed and emerging countries outside the U.S. The investment is intended to provide long-term performance similar to or in excess of U.S. equities and provide diversification.

[c] *Hedge funds.* The University invests in hedge funds seeking equity-like returns while reducing volatility. The University will consider funds with a diversifier mandate (lower expected volatility and lower correlation to broad market trends), as well as funds with a growth-oriented mandate (higher expected volatility and higher correlation to broad market trends). Managers with either type of mandate will employ risk management techniques intended to reduce downside potential to a degree considered appropriate for their respective strategy. A de minimis amount of the hedge funds have restrictions that do not allow for redemption in the first 12 to 60 months after acquisition. The longer remaining restriction period for these investments ranged from10 to 22 months at June 30, 2021. Generally, longer redemption restrictions are offered with a lower fee structure

[d] *Private investments.* This category includes distressed, private equity, and venture capital investments. These investments are illiquid and higher risk/return assets than marketable securities. Risk will be controlled by diversifying across a number of fund managers and by geographic focus, industry emphasis, financing stage, and vintage year. This core private investments portfolio may be supplemented with less diversified specialty funds or direct investments. The investments in the private investments class (limited partnerships) are committed to funds for extended periods of time, often multiple years. The pacing of investment returns is determined by market activity and the discretion of the general partner. Secondary markets exist into which limited partners can sell their interest in funds, but often at a steep discount to the fair value of the investment. Distributions from each fund will be received only as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 1 to 10 years.

[e] *Real assets/Real estate.* This category includes both public and private real assets. Risks related to the investments will be minimized by diversifying through use of investment pools or partnerships that are varied as to property type, location, investment life cycle, and investment manager. This core real asset portfolio may be supplemented with less diversified specialty funds or direct investments.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

4. Foundation investments

The Foundation records investments at fair value. It utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Foundation's estimated fair values of investments measured on a recurring basis as of June 30, 2021 and 2020 were as follows:

	Fair value measurement at June 30, 2021 using:				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Net asset value (NAV)	Balance at June 30, 2021
Marketable securities:					
Short-term investments	$ 285	$ -	$ -	$ -	$ 285
Domestic equities	41,711	-	-	-	41,711
Foreign equities	1,025	-	-	-	1,025
Mutual funds - equities	97,914	-	-	-	97,914
Mutual funds - fixed income	7,583	-	-	-	7,583
Alternative investments:					
Foreign equities	-	-	-	43,772	43,772
Hedge funds	-	-	-	122,337	122,337
Private equity	-	-	-	155,675	155,675
Total investments by fair value level	$ 148,518	$ -	$ -	$ 321,784	$ 470,302

	Fair value measurement at June 30, 2020 using:				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Net asset value (NAV)	Balance at June 30, 2020
Marketable securities:					
Short-term investments	$ 647	$ -	$ -	$ -	$ 647
Domestic equities	45,496	-	-	-	45,496
Foreign equities	4,079	-	-	-	4,079
Mutual funds - equities	51,384	-	-	-	51,384
Mutual funds - fixed income	31,723	-	-	-	31,723
Alternative investments:					
Short-term investments	-	-	-	4	4
Foreign equities	-	-	-	42,664	42,664
Hedge funds	-	-	-	82,983	82,983
Private equity	-	-	-	106,992	106,992
Total investments by fair value level	$ 133,329	$ -	$ -	$ 232,643	$ 365,972

The fair value for marketable debt and equity securities are based on quoted market prices. Securities traded on the national securities exchange are valued at the reported sales price on the last business day of the year. Investments traded over the counter on the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask price.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

In accordance with applicable accounting standards, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

Private equity investments are illiquid based upon partnership dissolution. Management, external consultants, and the Board of Directors evaluate these investments for impairment on a quarterly basis. As of June 30, 2021, the Foundation has outstanding commitments to fund limited partnerships and venture capital investments in the amount of $60,429.

5. Accounts and interest receivable

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

	2021	2020
State appropriations	$ 64,365	$ 32,138
Research and sponsored programs	65,843	60,500
Departmental activities	77,382	63,261
Insurance recoveries receivable (see note 10)	-	90,000
Interest receivable	769	544
Other	25,469	25,221
	233,828	271,664
Less: allowance for doubtful accounts	8,687	10,767
Total accounts and interest receivable, net	$ 225,141	$ 260,897

In July 2020, the State of Michigan passed Public Act 146 of 2020 that replaced the August 2020 and part of the July 2020 appropriation payments with CARES Act Relief Funds that the State had received from the federal government. Due to the timing of the Act and eligibility requirements of the funding, $32,203 in appropriations originally appropriated for fiscal year 2020 were recorded during the year ended June 30, 2021.

6. Student loans and pledges receivable

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

	2021	2020
Student loans receivable:		
Perkins Federal Loan Program	$ 11,729	$ 16,804
Health Professions Student Loan Programs	13,363	12,301
Other	2,141	2,254
	27,233	31,359
Less: allowance for doubtful accounts	2,101	3,832
Total student loans receivable, net	25,132	27,527
Pledges receivable:		
Capital	57,026	66,195
Operations	65,872	24,479
	122,898	90,674
Less: allowance for doubtful accounts	12,680	9,520
Total pledges receivable, net	110,218	81,154
Total student loans and pledges receivable, net	135,350	108,681
Less: current portion - student loans	7,279	7,882
Less: current portion - pledges	28,063	24,410
Noncurrent portion	$ 100,008	$ 76,389

Principal repayment and interest rate terms of federal and University student loans vary considerably. Campus-based federal loan programs are funded principally with federal and institutional contributions to the University under the Perkins and various health professions loan programs.

The Perkins loan program expired on September 30, 2017, which ended the issuance of new loans under this program, and disallowed any new disbursements after June 30, 2018. The University continues to service outstanding loans in accordance with program specifications as permitted by the Federal government.

For the year ended June 30, 2021 and 2020, the University distributed $315,325 and $334,070, respectively, for student loans through the U.S. Department of Education William D. Ford Direct Loan Program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

As discussed in note 1, pledges for permanent endowments do not meet eligibility requirements, as defined by GASB Statement No. 33, until the related gift is received. Accordingly, pledges for permanent endowments totaling $30,592 and $35,858 at June 30, 2021 and 2020, respectively, are not recognized as assets in the accompanying financial statements, but are expected to be received in future years.

Payments on pledges receivable at June 30, 2021, expected to be received in the following fiscal years ended June 30, are summarized below. The allowance for uncollectible pledges receivable is made based on prior collection experience and management judgment. Gift pledges expected to be collected in the future years are reported at the net present value of the related cash flows discounted at 3.5%.

2022	$ 31,308
2023	26,715
2024	14,819
2025	11,668
2026	7,572
2027 and beyond	30,816
Total discounted pledges receivable	122,898
Less: allowance for uncollectible pledges	12,680
Total pledges receivable, net	$ 110,218

7. Investments in joint ventures and other assets

The composition of investment in joint ventures and other assets at June 30, 2021 and 2020 is summarized as follows:

	2021	2020
Investment in joint ventures	$ 5,877	$ 5,638
Other assets	23,620	23,620
Total investment in joint ventures and other assets	$ 29,497	$ 29,258

The University is a member of two separate incorporated nonprofit joint ventures which are accounted for under the equity method. University Rehabilitation Alliance, Inc. (URA) has the University and Peckham Vocational Industries of Lansing as members and is an enterprise for the treatment of persons with brain injury. Henry Ford Health System - Michigan State University Health Sciences has the University and Henry Ford Health System as members and is an enterprise that supports a broader affiliation agreement between the two members (see note 16). The University is a 50% member in each of the foregoing nonprofit corporations. Copies of financial statements for these entities can be obtained by a written request to: Office of the Controller, Michigan State University, 426 Auditorium Rd., John A. Hannah Administration Building Room 305, East Lansing, Michigan 48824.

Since URA's inception, the University has extended various lines of credit to URA for capital and operational needs, the latest of which expired December 31, 2020 and was not renewed. At June 30, 2021 and 2020, the University had a note receivable balance of $1,751 and $1,826, respectively. This receivable is due in equal monthly installments by March 2036 at a rate of 5.5% and is secured by the land, property, and equipment of URA.

MSU Health Care, Inc., a blended component unit, is a member of an incorporated nonprofit joint venture which is accounted for under the equity method. Spartan Radiology, LLC, whose members are MSU Health Care, Inc. and Advanced Radiology Services, PC, is an enterprise providing professional medical diagnostic imaging, therapeutic and radiology services, and related professional services. MSU Health Care, Inc., and thus the University, is a 50% member of the nonprofit corporation. Copies of financial statements for these entities can be obtained by a written request to: Office of the Controller, Michigan State University, 426 Auditorium Rd., John A. Hannah Administration Building Room 305, East Lansing, Michigan 48824.

MSU Health Care, Inc. has provided two promissory notes to Spartan Radiology, LLC in the amount of $375 and $350, respectively, each at a rate of 6%, which are secured by all tangible and intangible property of Spartan Radiology, LLC. Principal and accrued interest payments are due quarterly at a rate of 50% of the entity's cash balance to the extent it exceeds $250, with any remaining outstanding amounts due 2023.

Other assets is comprised of a $22,561 deposit made related to a facilities agreement with Consumers Energy and $1,059 of assets originally granted to the University under the Morrill Act as a pioneer land-grant college. The Consumers agreement called for the University to fund an initial deposit of $23,000 to Consumers Energy that was used for the construction of a 138kV electrical substation to provide energy to the University. The facility is owned and operated by Consumers Energy. The University is entitled to an annual utility expense rebate from Consumers Energy, based in part on annual energy consumption for a period of up to 25 years, up to an accumulated rebate total of $23,000. Any portion of the deposit not applied to future energy expenses through the annual rebate amount by March 2042 will be forfeited.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

8. Capital assets and collections

Capital asset and collection activity for the years ended June 30, 2021 and 2020 follows:

	2020	Additions	Disposals	Transfers	2021
Non-depreciated capital assets:					
Land	$ 48,575	$ -	$ -	$ -	$ 48,575
Construction in progress	439,797	135,506	-	(230,159)	345,144
Museum collections	24,042	3,082	(23)	-	27,101
Total non-depreciated capital assets	512,414	138,588	(23)	(230,159)	420,820
Depreciated capital assets:					
Buildings and site improvements	3,969,290	2,307	(2,809)	199,789	4,168,577
Software and other intangibles	120,147	-	(3,506)	30,370	147,011
Equipment and other	993,392	61,405	(32,913)	-	1,021,884
Less: accumulated depreciation					
Buildings and site improvements	(1,749,710)	(127,080)	1,169	-	(1,875,621)
Software and other intangibles	(114,167)	(10,043)	3,746	-	(120,464)
Equipment and other	(793,465)	(66,729)	31,675	-	(828,519)
Total depreciated capital assets	2,425,487	(140,140)	(2,638)	230,159	2,512,868
Total capital assets	$ 2,937,901	$ (1,552)	$ (2,661)	$ -	$ 2,933,688

	2019	Additions	Disposals	Transfers	2020
Non-depreciated capital assets:					
Land	$ 48,110	$ 465	$ -	$ -	$ 48,575
Construction in progress	490,804	209,467	-	(260,474)	439,797
Museum collections	22,420	1,627	(5)	-	24,042
Total non-depreciated capital assets	561,334	211,559	(5)	(260,474)	512,414
Depreciated capital assets:					
Buildings and site improvements	3,708,751	1,195	-	259,344	3,969,290
Software and other intangibles	119,008	9	-	1,130	120,147
Equipment and other	956,828	49,979	(13,415)	-	993,392
Less: accumulated depreciation					
Buildings and site improvements	(1,627,582)	(122,189)	61	-	(1,749,710)
Software and other intangibles	(109,260)	(4,907)	-	-	(114,167)
Equipment and other	(747,074)	(59,210)	12,819	-	(793,465)
Total depreciated capital assets	2,300,671	(135,123)	(535)	260,474	2,425,487
Total capital assets	$ 2,862,005	$ 76,436	$ (540)	$ -	$ 2,937,901

As a result of the merger of the College of Law (see note 17) the University added equipment with a cost of $9,739 and accumulated depreciation of $7,933 to the capital asset balance as of July 1, 2020.

In May 2019 the University entered into an agreement with Health Innovation Partners, LLC ("the Lessee") to develop the Grand Rapids Innovation Park ("GRIP"). The University has leased land to the Lessee for 75 years, with an option to extend the agreement for an additional 20 years, for $190 in base annual payments that increase 2% per year and are subject to additional increases based on modified gross revenues of the Lessee. At building lease commencement the Lessee will also pay the University an amount based on the square footage of the buildings which represents a demolition reserve that the University can use for any purpose and will be recognized as revenue when received. The Lessee will use the land to develop, construct, finance, complete, lease, and operate the project which includes the Medical Innovation Building, a parking garage, and a commercial building. The Lessee will own and have all rights, title, and interest, to all buildings and structures, fixtures, and personal property during the term of the agreement. The University will rent space in the buildings during the agreement term at established rates subject to various escalators over the term that are below market value. The University and Lessee have formed an operating committee with equal voting rights that will approve any additional tenants subject to established restrictions that effectively ensure that future tenants adhere to the mission of the University. At the end of the agreement the University will retain ownership of the buildings. During the year ended June 30, 2021, the parking garage was placed into service, while the Medical Innovation Building and commercial building were still being constructed. The buildings associated with the partnership will not be recognized on the University's financial statements as they are currently owned by the Lessee. The University will recognize the lease agreements associated with the partnership as they become effective.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

9. Deferred outflows and inflows of resources

The composition of deferred outflows of resources at June 30, 2021 and 2020 is summarized as follows:

	2021	2020
Accumulated changes in fair value of hedging derivative instruments	$ 37,161	$ 49,995
Other postemployment benefits (see note 12)	578,080	489,892
Loss on refunding of debt at June 30, 2010	6,558	7,691
Total deferred outflows of resources	$ 621,799	$ 547,578

The composition of deferred inflows of resources at June 30, 2021 and 2020 is summarized as follows:

	2021	2020
Irrevocable split-interest agreements (net of related liabilities)	$ 20,561	$ 18,827
Other postemployment benefits (see note 12)	325,322	362,095
Gain on refunding of debt at June 30, 2020	5,495	6,626
Total deferred inflows of resources	$ 351,378	$ 387,548

10. 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. The University complies with the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and related guidance, and records liabilities for legal proceedings and other contingent losses in those instances where the liability is deemed probable and the University can reasonably estimate the amount of the loss (or a range of the loss can be estimated). Once established, accruals are adjusted from time to time, as appropriate, to reflect (1) the facts and circumstances known at the time, including information regarding negotiations, settlements, rulings and other relevant events and developments, (2) the advice and analyses of counsel and (3) the assumptions and judgment of management. To manage these risks, the University uses various lines of commercial insurance purchased directly by the University or through Lysander (cell captive insurance company) on an annual basis (including, but not limited to, general liability insurance, educators legal liability insurance, excess medical professional liability insurance, and property insurance) with differing self-insured retentions. The University evaluates self-insured retention amounts annually, and establishes retention amounts based on various factors, including historical claims experience.

The University's liability for various medical professional liability claims is funded based on actuarial valuations. The liability is reported at its present value of $8,216 and $7,893 as of June 30, 2021 and 2020, respectively. The discount rate used was 2.0% and 2.5% at June 30, 2021 and 2020, respectively, which is based in part on the University's short-term internal cost of capital and industry standards.

The University is also self-insured for various employee benefits that include health care 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 the 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 its present value of $3,899 and $3,767 as of June 30, 2021 and 2020, respectively. The discount rate used was 3.5% as of June 30, 2021 and 2020, respectively, which is based in part on the University's medium-term internal cost of capital and industry standards.

Changes in the total reported general, professional, and self-insured employee benefit liabilities during 2021, 2020, and 2019 were as follows:

	2021	2020	2019
Balance, beginning of year	$ 33,167	$ 27,076	$ 525,577
Claims incurred and changes in estimates	200,319	231,804	210,216
Claim payments	(196,141)	(225,713)	(708,717)
Balance, end of year	37,345	33,167	27,076
Less: current portion	24,194	22,907	19,890
Noncurrent portion	$ 13,151	$ 10,260	$ 7,186

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, with the exception of the civil actions discussed in the following paragraph.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

During the year ended June 30, 2019, a Litigation Reserve was established as part of a broader settlement agreement related to civil actions stemming from crimes perpetrated by a former physician employed by the University. The Litigation Reserve was used to litigate or settle any related claims not released by an initial settlement agreement and the University could use up to $6,000 plus accumulated interest to fund costs and expenses, including attorney's fees, incurred in defending and settling related claims. The Litigation Reserve ultimately settled 150 claims totaling $69,706, with $6,060 being used to fund costs and expenses, with $43,981 in settlements being distributed during the year ended June 30, 2020. As of June 30, 2020, there was no balance remaining in the Litigation Reserve.

In addition to the settlements funded by the original settlement agreement, the University has settled and paid 20 claims for $3,629 and 39 claims for $17,003 during the years ended June 30, 2021 and 2020, respectively. Additional claims could be paid in the future, but absent knowledge of the number and nature of such claims, the University is unable to predict the ultimate legal and financial liability and at this time cannot reasonably estimate the possible loss or range of loss. Accordingly, no amounts have been accrued in the financial statements for these claims.

For the years ended June 30, 2021 and 2020, the University incurred costs totaling $2,412 and $7,674, respectively, for internal investigation, legal, and other related costs associated with the settlement. These expenses are included in institutional support within the Statement of Revenues, Expenses, and Changes in Net Position.

The University has submitted claims to insurance carriers related to claims settled and certain legal costs incurred to date. Insurance reimbursements for settlements and/or legal fees totaling $113,350 were agreed to during the year ended June 30, 2020 and reported as other non-operating revenues net of amounts owed to third parties. The University received $23,350 of the recoveries during the year ended June 30, 2020, with $90,000 receivable at June 30, 2020, which was received during the year ended June 30, 2021. Per an agreement contingent on the recoveries, the University paid $22,500 and $5,588 to third parties that aided in the recoveries during the years ended June 30, 2021 and 2020, respectively. The net insurance recoveries were used to pay down the Series 2018A bonds (see note 13) during the year ended June 30, 2021. The amounts of any future insurance reimbursements are unknown as of June 30, 2021, and as a result no insurance recovery accruals have been recorded in the 2021 financial statements.

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

11. Retirement benefits

The University has a defined contribution base retirement program administered through TIAA and Fidelity Investments for all qualified employees. All regular employees are eligible to participate based on the service requirements specific to their employee group. Participants maintain individual accounts with the base retirement vendors and are fully vested.

For the year ended June 30, 2020, participating employees contributed 5% of their base salary or wages and the University contributed 10% of the employee's base salary or wages, subject to applicable University guidelines and Internal Revenue Service limits. Effective July 1, 2020, the University reduced the matching contribution to 5% for executive management and non-unionized faculty and academic staff. In addition, for certain employees hired after June 30, 2010, and who are not eligible to receive postemployment benefits upon retirement, the University contributes an additional 0.5% or 0.75% (depending on total years of service) of the employee's base salary or wages, subject to applicable limits. Participants may elect to contribute additional amounts to a supplemental program and/or a deferred compensation 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 in accordance with University policies, union contracts, or plan provisions. Contributions under the base program, excluding the participants' supplemental contributions, for the years ended June 30, 2021 and 2020

	2021	2020
University contributions	$ 70,158	$ 94,194
Employee contributions	45,987	46,528

In addition, the University has a single-employer, defined benefit plan covering 197 employees hired prior to January 1, 1973. The plan is closed to new entrants and monies have been internally reserved by the University to fully fund program costs. The plan is not funded through a pension trust. The University has recorded a liability of $2,530 and $2,946 representing the total remaining pension obligation based on an actuarial valuation as of January 1, 2021 and 2020, respectively. The benefits are based on the employee's compensation during the last three years of employment and/or years of service.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

12. Net other postemployment benefit (OPEB) obligations

The University provides retiree health and dental care benefits, including prescription drug coverage, to eligible retired employees and qualified spouses/beneficiaries. This is a closed single employer defined benefit plan administered by the University effective for employees hired prior to July 1, 2010. Employees hired on or after July 1, 2010 are eligible to purchase insurance at the average cost of the defined benefit plan. Benefits are provided to eligible faculty, academic staff and support staff who meet normal retirement requirements while still working for the University. Currently, the plan has approximately 21,000 members. The plan does not issue a separate stand-alone financial statement. Terms of benefit plans are generally determined as part of collective bargaining agreements or set by the University for employees who are not represented. The Provost and Executive Vice President for Academic Affairs and the Executive Vice President for Administration are authorized to enter into collective bargaining agreements. In addition, the President, Senior Vice President and Chief Financial Officer, and Director of Contract and Grant Administration are authorized to approve benefit plan changes.

On January 1, 2021, the University transitioned its retiree medical plan to a Medicare advantage and prescription drug plan, for those retirees eligible for Medicare. Medicare advantage and prescription drug plans are offered by private companies approved by Medicare to provide bundled Medicare benefits. The University pays a premium for each eligible retiree, spouse, and covered dependent to enroll in the plan and the actual claims are paid by the provider. Retirees are responsible for various co-payments. Prior to January 1, 2021, the University's medical plans were self-funded and each plan's premiums were updated annually based on actual claims. The University contributed to the lowest cost health plan's applicable rate cost for which retirees are eligible. No payment was required by retirees who selected the lowest cost health plan for coverage. In the event a retiree selected an alternative health plan, the retiree was responsible for payment of the difference in premium costs. Retirees were responsible for various co-payments. The University does not maintain a separate legal trust to hold assets used to fund postemployment benefits, has no obligation to make contributions in advance of when insurance premiums or claims are due for payment, and currently pays for postemployment benefits on a pay-as-you-go basis.

The University's annual postemployment benefits expense is actuarially determined in accordance with GASB Statement No. 75 ("GASB 75"). Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

For the year ended June 30, 2021, the University's reported liability for providing retiree health and dental care benefits is estimated based on an actuarial valuation date of January 1, 2020 and measurement date of December 31, 2020 in accordance with GASB 75. The University's liability is calculated using the entry age normal level percent of pay method. The actuarial assumptions are as follows:

Discount rate	2.12%, based on the Bond Buyer 20-year General Obligation Municipal Bond Index
Salary increases	5.0%
Healthcare cost trend rates	6.56%/9.03% for 2021, decreasing 0.31% per year, to an ultimate rate of 5% for 2026 and later years. Trend rates shown are for pre-65 rates/post-65 rates, respectively. As of July 1, 2010, internal policy caps healthcare cost increases at a maximum of 5% per year.

For the year ended June 30, 2020, the University's reported liability for providing retiree health and dental care benefits is estimated based on an actuarial valuation date of January 1, 2020 and measurement date of December 31, 2019 in accordance with GASB 75. The University's liability is calculated using the entry age normal level percent of pay method. The actuarial assumptions are as follows:

Discount rate	2.73%, based on the Bond Buyer 20-year General Obligation Municipal Bond Index
Salary increases	5.0%
Healthcare cost trend rates	6.88% for 2020, decreasing 0.31% per year, to an ultimate rate of 5% for 2026 and later years. As of July 1, 2010, internal policy caps healthcare cost increases at a maximum of 5% per year.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

For the December 31, 2020 measurement date, the University utilized separate mortality assumptions for faculty and non-faculty staff. Faculty mortality is based on the Pub T.H-2010.H (A) Public Retirement Plans Mortality Tables with MP-2020 improvement scale. Non-faculty staff mortality is based on the RP-2014 Generational Healthy Mortality Tables, with mixed collar adjustments, projected back to 2006 using scale MP-2014 and then projected forward using MP-2020. For the December 31, 2019 measurement date, the University utilized separate mortality assumptions for faculty and non-faculty staff. Faculty mortality is based on the Pub T.H-2010.H (A) Public Retirement Plans Mortality Tables with MP-2019 improvement scale. Non-faculty staff mortality is based on the RP-2014 Generational Healthy Mortality Tables, with mixed collar adjustments, projected back to 2006 using scale MP-2014 and then projected forward using MP-2019. Additional assumptions utilized include employee withdrawal rates up to 1.5% at age 65 for certain employee groups, a retirement age up to 69.0 for certain employee groups, 90% of males and 60% of females having covered spouses, and a retiree opt-out rate of 8%. These additional assumptions are based on an experience study performed in 2019. Changes in the total reported liability for postemployment benefits obligations for the year ended June 30, 2021 and 2020, are summarized as follows

	2021	2020
Balance, beginning of year	$ 2,141,340	$ 1,647,335
Service cost	57,333	41,383
Interest cost	59,410	66,476
Changes in assumptions	170,012	402,866
Difference between expected and actual plan experience	(6,475)	27,297
Benefits payments	(44,938)	(44,017)
Changes in benefit terms	(1,746,587)	-
Balance, end of year	630,095	2,141,340
Less: current portion	22,252	51,326
Noncurrent portion	$ 607,843	$ 2,090,014

Changes in assumptions reflect a change in the discount rate at both the measurement dates of December 31, 2020 and 2019, respectively. Changes in the benefit terms reflects the change to the Medicare advantage plan at the December 31, 2020 measurement date.

Under the Medicare advantage plan, the Medicare Retiree Drug Subsidy is paid directly to the plan provider, and thus has the effect of reducing the University's postemployment benefits obligations at June 30, 2021. The University's liability for postemployment benefits obligations at June 30, 2020 was not reduced by the anticipated Medicare Retiree Drug Subsidy for future periods. This subsidy would have reduced the total postemployment benefits liability by approximately $2,750.

For both the December 31, 2020 and 2019 measurement dates, amounts are based on the valuation date of January 1, 2020. Therefore, census data, including the number of plan participants, used in both years were the same and consisted of the following:

	2021 and 2020
Active employees - Hired before July 1, 2010	5,682
Active employees - Hired after July 1, 2010	7,333
Retirees receiving benefits	5,385
Dependents	3,088
Total plan participants	21,488

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend.

A one-percentage point change in the discount rate and assumed health care cost trend rates would have the following impact on the liability for postemployment benefits obligations at June 30, 2021:

	1% Decrease	Current Rates	1% Increase
Discount rate:			
Net OPEB obligations	$ 721,384	$ 630,095	$ 554,618
Increase (decrease)	91,289	-	(75,477)
Health care trend rate:			
Net OPEB obligations	$ 541,285	$ 630,095	$ 667,541
Increase (decrease)	(88,810)	-	37,446

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

A one-percentage point change in the discount rate and assumed health care cost trend rates would have the following impact on the liability for postemployment benefits obligations at June 30, 2020:

	1% Decrease	Current Rates	1% Increase
Discount rate:			
Net OPEB obligations	$ 2,516,151	$ 2,141,340	$ 1,837,541
Increase (decrease)	374,811	-	(303,799)
Health care trend rate:			
Net OPEB obligations	$ 1,985,678	$ 2,141,340	$ 2,204,945
Increase (decrease)	(155,662)	-	63,605

The components of postemployment benefits expense for the year ended June 30, 2021 and 2020 are summarized as follows:

	2021	2020
Service cost	$ 57,333	$ 41,383
Interest cost	59,410	66,476
Changes in benefit terms	(1,746,587)	-
Amortization of differences between expected and actual experience	2,082	2,730
Amortization of changes in assumptions	26,352	9,351
Total expense	$ (1,601,410)	$ 119,940

Deferred outflows and inflows of resources related to postemployment benefits obligations at June 30, 2021 are summarized as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net deferred impact to OPEB
Changes in assumptions	$ 544,117	$ 319,495	$ 224,622
Differences between expected and actual experience	21,837	5,827	16,010
Benefit payments made after measurement date	12,126	-	12,126
Total	$ 578,080	$ 325,322	$ 252,758

Deferred outflows and inflows of resources related to postemployment benefits obligations at June 30, 2020 are summarized as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net deferred impact to OPEB
Changes in assumptions	$ 443,057	$ 362,095	$ 80,962
Differences between expected and actual experience	24,567	-	24,567
Benefit payments made after measurement date	22,268	-	22,268
Total	$ 489,892	$ 362,095	$ 127,797

Of the total amount reported as deferred outflows of resources related to OPEB at June 30, 2021, $12,126 resulting from University contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction in the net OPEB liability in the year ended June 30, 2022. Deferred outflows and inflows related to changes in assumptions and the difference between expected and actual plan experience will be amortized into expense in the following years ended June 30 based upon the average future work life expectancy of plan participants.

2022	$ 28,434
2023	28,434
2024	28,434
2025	28,434
2026	28,434
2027 and beyond	98,462
Total	$ 240,632

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

13. Long-term debt and other obligations

Long-term debt and other obligations for the years ended June 30, 2021 and 2020 are summarized as follows:

	2020	Borrowed	Retired	2021	Current Portion
General Revenue Bonds:					
Series 2020A	$ -	$ 91,360	$ -	$ 91,360	$ 3,570
Series 2019C	147,755	-	10,840	136,915	8,635
Series 2019A	323,070	-	675	322,395	700
Series 2019B	292,105	-	5,200	286,905	5,460
Series 2018A - Direct placement	168,745	-	168,745	-	-
Series 2015A	180,410	-	34,015	146,395	4,045
Series 2013A	149,950	-	4,080	145,870	4,285
Series 2010A	205,000	-	-	205,000	-
Series 2007B	23,010	-	2,065	20,945	2,140
Series 2005	54,140	-	3,050	51,090	3,170
Series 2003A	48,205	-	2,865	45,340	2,990
Series 2000A	77,125	-	-	77,125	2,580
	1,669,515	91,360	231,535	1,529,340	37,575
General Revenue Commercial Paper:					
Series B taxable	130,615	24,180	41,420	113,375	113,375
Series F tax-exempt	43,740	-	43,740	-	-
Series G tax-exempt	-	87,630	4,225	83,405	83,405
	174,355	111,810	89,385	196,780	196,780
Unamortized bond premiums	92,495	20,027	3,370	109,152	3,703
Student loan deposits	28,564	572	-	29,136	3,767
Lease obligations and other	1,452	900	895	1,457	662
Total long-term debt and other obligations	$ 1,966,381	$ 224,669	$ 325,185	$ 1,865,865	$ 242,487

	2019	Borrowed	Retired	2020	Current Portion
General Revenue Bonds:					
Series 2019C	$ -	$ 147,755	$ -	$ 147,755	$ 10,840
Series 2019A	323,070	-	-	323,070	675
Series 2019B	292,105	-	-	292,105	5,200
Series 2018A - Direct placement	191,800	-	23,055	168,745	77,870
Series 2015A	184,410	-	4,000	180,410	4,015
Series 2013A	153,850	-	3,900	149,950	4,080
Series 2010A	205,000	-	-	205,000	-
Series 2010C	179,990	-	179,990	-	-
Series 2007B	25,000	-	1,990	23,010	2,065
Series 2005	54,140	-	-	54,140	3,050
Series 2003A	48,205	-	-	48,205	2,865
Series 2000A	77,125	-	-	77,125	-
	1,734,695	147,755	212,935	1,669,515	110,660
General Revenue Commercial Paper:					
Series B taxable	127,715	7,910	5,010	130,615	130,615
Series F tax-exempt	52,485	-	8,745	43,740	43,740
	180,200	7,910	13,755	174,355	174,355
Unamortized bond premiums	81,031	21,102	9,638	92,495	3,370
Student loan deposits	36,355	-	7,791	28,564	4,653
Lease obligations and other	1,231	625	404	1,452	397
Total long-term debt and other obligations	$ 2,033,512	$ 177,392	$ 244,523	$ 1,966,381	$ 293,435

All General Revenue bonds are secured by General Revenues and certain variable rate issues bear interested based on weekly or quarterly rates determined by the indexing agent or remarketing agent and are amortized through mandatory redemptions as follows:

- Series 2007B: through 2037
- Series 2005: through 2034
- Series 2003A: through 2033
- Series 2000A: from 2022 through 2031

Except for the Series 2007B bonds, the foregoing bonds may be converted to a permanent fixed rate provided certain conditions are met.

The Series 2000A, 2003A, and 2005 bonds can be tendered by bondholders with 7 days' notice. If the tendered bonds are not remarketed within those 7 days, the University is obligated to purchase the tendered bonds. The University has entered into standby bond purchase agreements to fund the purchase of tendered bonds that are not remarketed. Repayment terms vary between 2 and 3 years for draws under the standby bond purchase agreements. Therefore, these bonds are classified as non-current for the fiscal year ending June 30, 2021.

During the year ended June 30, 2021, the University issued Series 2020A general revenue bonds in the amount of $91,360 with a net original issue premium of $20,027. Bond proceeds and commercial paper were used to refund $80,875 of Series 2018A bonds, $30,000 of Series 2015A bonds, and pay issuance costs. The 2018A bonds were variable rate, so a change in undiscounted cash flow to serve the new debt and economic gain was not determined. For the portion that refunded part of Series 2015A bonds, the undiscounted cash flow to service the new debt decreased by $13,450. The economic gain resulting from this transaction amounted to $10,947. The Series 2020A bonds bear interest at fixed rates from 3% to 5% and mature either serially through fiscal 2032 or are subject to mandatory redemption from fiscal 2042 through 2046.

The Series 2019C bonds bear interest at fixed rates from 4% to 5% and mature either serially through fiscal 2039 or are subject to mandatory redemption from fiscal 2042 through 2046.

The Series 2019B bonds bear interest at fixed rates from 3% to 5% and mature either serially from fiscal 2021 through 2039 or are subject to mandatory redemption from fiscal 2040 through 2048.

The Series 2019A bonds bear interest at fixed rates from 3.066% to 4.496% and subject to mandatory redemption from fiscal 2021 through 2049.

The Series 2015A bonds bear interest at fixed rates from 3% to 5% and mature either serially through fiscal 2036 or are subject to mandatory redemption from fiscal 2037 through 2046.

The Series 2013A bonds bear interest at fixed rates from 3% to 5% and mature either serially through fiscal 2034 or are subject to mandatory redemption from fiscal 2035 through 2042.

The Series 2010A bonds bear interest at 6.173% and are subject to mandatory redemption from fiscal 2044 through 2050. Prior to March 1, 2013, in accordance with the Build America Bonds program, the University received semi-annual federal credit payments equal to 35% of actual interest expense incurred on the outstanding principal balance of the bonds. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions took place on March 1, 2013. These required reductions included a reduction to refundable credits applicable to certain qualified bonds, including Series 2010A. The sequestration reduction rate was 5.7% as of October 1, 2020 and is scheduled to remain that rate until September 30, 2030. The sequestration reduction rate was 5.9% from October 1, 2019 to September 30, 2020. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration rate is subject to change.

In December 2018, the Series 2018A bonds were purchased by a commercial bank in a direct placement transaction. In October 2020 the Series 2018A bonds were refunded in their entirety with Series 2020A bonds and commercial paper.

The University utilizes variable-rate commercial paper to provide interim financing. The Board has authorized the issuance of up to $250,000 in commercial paper secured by General Revenues and allows for tax-exempt and taxable issuances. Outstanding commercial paper debt is converted to long-term financing, as appropriate, within the normal course of business. Outstanding tax-exempt balances bear interest at rates from 0.09% to 0.13% and taxable balances bear interest at rates from 0.09% to 0.13%, with principal and accrued interest payments due within a maximum of 270 days from the date of issuance.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

Hedging derivative instrument payments and hedged debt: Using rates as of June 30, 2021, scheduled fiscal year maturities of bonds payable and related interest expense are as follows. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. See note 14 for information on derivative instruments.

Fiscal Year	Fixed-Rate Bonds		Variable-Rate Bonds		Hedging	
Ending June 30,	Principal	Interest	Principal	Interest	Derivatives, Net	Total
2022	26,695	63,083	10,880	207	7,074	107,939
2023	28,095	61,736	11,360	188	6,612	107,991
2024	24,045	60,569	16,375	168	5,978	107,135
2025	25,305	59,372	17,120	147	5,311	107,255
2026	26,565	58,078	17,725	126	4,615	107,109
2027-2031	138,585	271,596	89,150	346	12,349	512,026
2032-2036	178,845	237,198	30,890	126	1,364	448,423
2037-2041	280,025	183,462	1,000	5	-	464,492
2042-2046	359,835	112,732	-	-	-	472,567
2047-2051	246,845	24,102	-	-	-	270,947
Total	$ 1,334,840	$ 1,131,928	$ 194,500	$ 1,313	$ 43,303	$ 2,705,884

Interest expense was $70,889 and $77,432 for 2021 and 2020, respectively.

Unamortized bond premiums totaled $109,152 ($3,703 current) and $92,495 (3,370 current) at June 30, 2021 and 2020, respectively. Bond premium amounts are amortized over the applicable bond issue life.

Student loan deposits represent funds from the federal government and other private entities related to various student loan programs.

As of June 30, 2021 and 2020, the University held $37,500 and $75,000, respectively, in revolving lines of credit that are available for maintaining the required operating cash reserves of the University and providing necessary funds to meet extraordinary cash flow needs, if necessary. For the years ending June 30, 2021 and 2020, no amounts were drawn on these lines of credit. On October 15, 2021, the $37,500 revolving line of credit expired.

Lease obligations and other is comprised of lease obligations of $375 ($184 current), lease-purchase obligations of $702 ($298 current), and obligations for installment purchases of $380 ($180 current).

Accrued personnel costs include vacation and sick leave days earned but unused, including the University's share of payroll taxes, valued at the current rate of pay. Changes in the balances of accrued personnel costs during 2021 and 2020 were as follows:

	2021	2020
Balance, beginning of year	$ 101,329	$ 99,656
Additions	11,862	9,435
Reductions	(4,417)	(7,762)
Balance, end of year	108,774	101,329
Less: current portion	69,810	64,435
Noncurrent portion	$ 38,964	$ 36,894

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

14. Derivative instruments

At June 30, 2021 and 2020, the University was party to seven separate pay-fixed, receive-variable interest rate swaps and five separate pay-variable, receive-variable interest rate swaps. After considering any netting arrangements or other rights of offsets that may exist with each counterparty, interest rate swaps are reported at the net fair value as of the balance sheet date as either a noncurrent asset or noncurrent liability in the Statement of Net Position.

The fair value and notional amounts of derivative instruments outstanding at June 30, 2021 and 2020 were as follows:

	June 30, 2021		June 30, 2020	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivative instruments - swap asset:				
Investment derivatives:				
Pay-variable interest rate swaps	$ 19,015	$ 324	$ 22,360	$ 372
Derivative instruments - swap liability:				
Cash flow hedging derivatives				
Pay-fixed interest rate swaps	$ 193,080	$ (37,161)	$ 202,150	$ (49,995)
Investment derivatives:				
Pay-variable interest rate swaps	300,980	5,563	316,465	2,400
Pay-fixed interest rate swaps	71,685	(23,242)	71,685	(31,168)
Total Derivative instruments - swap liability	$ 565,745	$ (54,840)	$ 590,300	$ (78,763)

In accordance with GASB Statement No. 53, an interest rate swap is considered an effective cash flow hedge if the swap payment received substantially offsets the payment made on the associated debt and changes in fair value are deferred as either a deferred outflow or a deferred inflow of resources. An interest rate swap that is not considered an effective cash flow hedge, in accordance with the provisions of the Statement, is deemed to be an investment derivative instrument and changes in fair value are recorded as net investment income (loss). For the fiscal year ending June 30, 2021 and 2020, the fair value of hedging derivative instruments increased $12,834 and decreased $10,505, respectively, while the fair value of investment derivative instruments increased $11,041 and decreased $10,565, respectively.

Fair Value: The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the dates of each future net settlement on the swaps.

Objective: The University is party to seven separate derivative instruments which are pay-fixed, receive-variable interest rate swaps that hedge the changes in cash flows on various variable-rate debt series. In order to protect against the potential of rising interest rates, the University entered into these derivative instruments at a cost less than what the University would have paid to issue fixed-rate debt. In order to benefit from both expected changes in the relationship of short and long-term interest rates and the relationships between the SIFMA Municipal Swap Index and both the ten-year USD-ISDA Index and the one-month USD-LIBOR-BBA Index and the relationship between the one-month USD-LIBOR-BBA Index and the ten-year USD-ISDA Index, the University also entered into five separate investment derivative instruments which are pay-variable, receive-variable interest rate swaps which relate to various debt series.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

Terms, Fair Values, and Credit Risk: The following table displays the terms and fair values of the University's hedging derivative instruments outstanding at June 30, 2021 and 2020, along with the notional amounts and credit rating of the associated counterparty as of June 30, 2021.

Type	Cash Flow Hedge for Debt Series	2021 Notional Amount	Effective Date	Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating	2021 Fair Value	2020 Fair Value
Pay-fixed interest rate swap	2000A	$ 71,535	11/3/2008	8/15/2029	4.074%	67% USD-LIBOR-BBA one month	Deutsche Bank AG / Baa3/BBB+	$ (13,025)	$ (17,270)
Pay-fixed interest rate swap	Taxable CP	1,055	10/17/2002	8/15/2022	5.280%	USD-LIBOR-BBA one month	Deutsche Bank AG / Baa3/BBB+	(55)	(122)
Pay-fixed interest rate swap	2003A	45,340	11/3/2008	2/15/2033	3.618%	67% USD-LIBOR-BBA one month	Barclays Bank PLC / A1/A	(9,351)	(12,612)
Pay-fixed interest rate swap	Taxable CP	6,520	11/3/2008	2/15/2033	5.330%	USD-LIBOR-BBA one month	Barclays Bank PLC / A1/A	(1,898)	(2,567)
Pay-fixed interest rate swap	2005	51,090	11/3/2008	2/15/2034	3.647%	67% USD-LIBOR-BBA one month	Barclays Bank PLC / A1/A	(10,655)	(14,355)
Pay-fixed interest rate swap	2007B & Tax-exempt CP	17,540	5/17/2007	2/15/2028	4.139%	67% USD-LIBOR-BBA three month plus .58%	JP Morgan Chase Bank / Aa2/A+	(2,177)	(3,069)
		$ 193,080						$ (37,161)	$ (49,995)

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

The following table displays the terms and fair values of the University's investment derivative instruments outstanding at June 30, 2021 and 2020, along with the notional amounts and credit rating of the associated counterparty as of June 30, 2021:

Type	Associated Debt Series	2021 Notional Amount	Effective Date	Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating	2021 Fair Value	2020 Fair Value
Pay-variable interest rate swap	2000A, 2003A, 2005, 2019C	$ 191,505	8/15/2009	2/15/2034	67% USD-LIBOR-BBA one month	67% USD-ISDA Swap Rate ten year less 0.407%	Deutsche Bank AG / Baa3/BBB+	$ 2,538	$ (179)
Pay-variable interest rate swap	Taxable CP	7,575	5/26/2006	2/15/2033	USD-LIBOR-BBA one month	USD-LIBOR-BBA ten year less 0.575%	Deutsche Bank AG / Baa3/BBB+	153	5
Pay-variable interest rate swap	2019C	12,675	5/17/2010	8/15/2032	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 0.44%	Deutsche Bank AG / Baa3/BBB+	214	248
Pay-variable interest rate swap	2019C	19,015	5/17/2010	8/15/2032	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 0.44%	Bank of New York Mellon / Aa2/AA-	324	372
Pay-variable interest rate swap	2007A, 2007B, 2019C	89,225	5/17/2007	2/15/2037	SIFMA Municipal Swap Index	67% USD-ISDA Swap Rate ten year plus 0.0063%	JP Morgan Chase Bank / Aa2/A+	2,658	2,326
Pay-fixed interest rate swap	2007B, Taxable and Tax-exempt CP	71,685	5/17/2007	2/15/2037	4.226%	67% USD-LIBOR-BBA three month plus 0.63%	JP Morgan Chase Bank / Aa2/A+	(23,242)	(31,168)
		$ 391,680						$ (17,355)	$ (28,396)

Subsequent to the original effective dates, the University amended the following pay-variable, receive-variable interest rate swap per the terms listed in the table below. After the amendment periods, the interest rate swap reverts back to the original terms as outlined in the table above.

2021 Notional Amount	Amendment Effective Date	Amendment Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating
$ 89,225	8/1/2011	7/31/2014	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 1.8653%	JP Morgan Chase Bank / Aa2/A+
	8/1/2014	2/14/2021	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 1.1245%	

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

Credit Risk: The University is exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the University's policy to require counterparty collateral posting provisions. The University has never failed to access collateral when required. The aggregate fair value of derivative instruments in asset positions at June 30, 2021 and 2020 was $5,887 and $2,951, respectively. This represents the maximum loss that would be recognized at the reporting date if the counterparties to those derivatives failed to perform as contracted. This maximum exposure is offset by negative hedging and investment derivative fair values included in netting arrangements with the same counterparties as the derivative instruments in asset positions. The net exposure to credit risk with any individual counterparty is $324 and $372 at June 30, 2021 and 2020, respectively.

The following table demonstrates the thresholds and minimum transfers for collateralization:

Credit Rating	Deutsche Bank AG		JP Morgan Chase Bank N.A.		Bank of New York Mellon		Barclays Bank PLC	
	Threshold	Minimum Transfer	Threshold	Minimum Transfer	Threshold	Minimum Transfer	Threshold	Minimum Transfer
Aaa/AAA	$ 40,000	$ 1,000	$ 40,000	$ 1,000	$ 40,000	$ 1,000	$ 40,000	$ 1,000
Aa3/AA- to Aa1/AA+	6,000*	1,000	20,000	1,000	6,000*	1,000	6,000	1,000
A3/A- to A1/A+	1,500	500	5,000	500	1,500	500	1,500	500
Baa1/BBB+	500	250	500	250	500	250	500	250
Below Baa1/BBB+	-	250	-	250	-	250	-	-

* Threshold for the University is $20,000

Interest Rate Risk: The University is not exposed to interest rate risk on its derivative instruments.

Basis Risk: The University is exposed to basis risk on its pay-fixed, receive-variable interest rate swaps because the variable-rate payments received by the University on these hedging derivative instruments are based on a rate or index other than interest rates the University pays on its variable-rate debt, which bear interest based on periodic rates determined by the indexing agent or remarketing agent. These pay-fixed, receive-variable swaps expose the University to basis risk should the rates resulting from the 67% of USD-LIBOR-BBA swaps not equal the rate the University pays on the 2000A, 2003A, 2005, 2007B, and tax-exempt Commercial Paper Series debt, and should the rates resulting from the USD-LIBOR-BBA swaps not equal the rate the University pays on the taxable Commercial Paper Series debt.

Termination Risk: The University or any of the involved counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a hedging derivative instrument is in a liability position, the University would be liable to the appropriate counterparty for a payment equal to the liability, subject to any netting arrangement.

Rollover Risk: The University is not exposed to rollover risk on its derivative instruments.

Contingencies: All of the University's derivative instruments include provisions that require the University to post collateral at certain thresholds depending on the University's credit rating. See the table under "Credit Risk" for thresholds and minimum transfers for collateralization. As of June 30, 2021, the University's credit ratings were Aa2 as assigned by Moody's and AA as assigned by Standard & Poor's. The aggregate fair value of all derivative instruments with these collateral posting provisions as of June 30, 2021 was ($54,516). The related collateral postings totaled $18,290 posted by the University to its counterparties and $0 held by the University posted by its counterparties.

15. Grants and contracts

The University receives grants and contracts from certain federal, state, and local agencies to fund research and other activities. Revenues from grants and contracts are recognized when all eligibility requirements have been met. 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 adjustments of costs, if any, resulting from such examination by the granting agency would not be material.

16. Commitments

At June 30, 2021, the University has initiated plans and incurred certain contractual commitments related to the construction or capital improvement of various facilities. The costs to complete the projects are estimated to be $98,714 and are to be funded from debt proceeds, capital grants, private gifts, and other University funds. Certain University facilities have been, or are scheduled to be, financed in whole or in part by SBA bond issues secured by a pledge of rentals to be received from the State of Michigan pursuant to lease agreements among 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 certain operating and maintenance costs. The SBA will be obligated to sell each building to the University for one dollar, after full payment of all rentals due under the related lease.

At June 30, 2021, the University had entered into various limited partnerships with investment managers of hedge, real assets, real estate, venture capital, private equity, and restructuring funds. As of June 30, 2021, $552,653 of investment commitments remain outstanding.

The University is party to an electric power purchase and site access agreement for renewable solar energy. Under the terms of the contract, the University has granted a third party access to construct, operate, and maintain solar arrays on the University's property. The University is committed to purchase, at a fixed rate, all of the electric power generated from the solar arrays. The University has the option to purchase the solar array infrastructure at specific dates throughout the term of the contract.

In January 2021 the University entered into an affiliation agreement with Henry Ford Health System to form the Health Sciences Center. The overall goals of the Health Sciences Center include developing a jointly branded and nationally recognized research program, developing a new research building in Detroit, creating an National Cancer Institute designated cancer center, an expanded educational agenda, and establishing a regional campus and training sites in Detroit. In connection with the agreement, the University has committed to investing $3,750 per year in Health Sciences Center research and education programming. The University has also committed to participate in fundraising and other initiatives to assist in funding the overall goals of the Health Sciences Center as mutually agreed to by both parties. The agreement runs through 2051.

17. Merger and transfer of operations

On August 17, 2020, the University acquired all of the assets and ongoing operations of the Michigan State University College of Law ("Law College") in exchange for assuming the Law College's outstanding liabilities. The asset purchase agreement was accounted for as a merger and was entered into as a means to enhance administrative services at the Law College and promote greater opportunities for collaboration between the faculty and students of the University and Law College. The Law College was not previously included in the University's reporting entity.

The Law College's financial statements were previously reported under FASB accounting standards and had to be converted to GASB accounting standards before being merged with the University's financial statements. The adjustments to convert the financial statements to GASB accounting standards included writing off pledges for permanent endowments and recording deferred inflows of resources reflecting the investment value, net of related liabilities to other beneficiaries, attributable to the University from irrevocable split-interest agreement. Adjustments were also made to eliminate receivables, payables, and a capital lease arrangement between the two entities to avoid double counting the amounts once the Law College was merged with the University.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

After these adjustments to convert the Law College's financial statements to GASB accounting standards and removing accruals between the two entities, the University recognized the following at July 1, 2020:

	July 1, 2020
Current assets	$ 2,593
Capital assets	1,806
Other assets	17,230
Total assets	21,629
Deferred outflows of resources	-
Current liabilities	288
Noncurrent liabilities	778
Total liabilities	1,066
Deferred inflows of resources	1,085
Net investment in capital assets	1,806
Restricted nonexpendable	1,827
Restricted expendable	4,104
Unrestricted	11,741
Total net position	$ 19,478

On July 1, 2020, the University transferred the operations of primary care, sports medicine, diagnostics, testing, and other services to MSU Health Care, Inc. These operations were transferred to MSU Health Care, Inc. to promote the focused development of these services separate from the operations of the University as a whole. On July 1, 2020, the University transferred the following amounts to MSU Health Care, Inc.:

	July 1, 2020
Current assets	$ 25,070
Capital assets	2,237
Other assets	-
Total assets	27,307
Deferred outflows of resources	-
Current liabilities	2,291
Noncurrent liabilities	-
Total liabilities	2,291
Deferred inflows of resources	-
Net investment in capital assets	2,237
Restricted nonexpendable	-
Restricted expendable	-
Unrestricted	22,779
Total net position	$ 25,016

As a blended component unit, the financial results of MSU Health Care, Inc. are consolidated as part of the University financial statements for the years ended June 30, 2021 and 2020, respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

18. Blended component units

As indicated in note 1, the University consolidates MSU Health Care, Inc. and Lysander in a blended presentation. Condensed combining financial information for the years ended June 30, 2021 and 2020, respectively, are presented below:

Condensed Statement of Net Position:	MSU Health Care, Inc.		Lysander	
	2021	2020	2021	2020
Current assets	$ 34,996	$ 4,889	$ 2,594	$ 1,983
Capital assets, net	1,272	-	-	-
Amounts receivable from the University	176	-	-	-
Other assets	110	197	-	-
Total assets	36,554	5,086	2,594	1,983
Deferred outflows of resources	-	-	-	-
Current liabilities	2,100	9	1,567	975
Noncurrent liabilities	-	-	-	-
Amounts payable to the University	5,415	-	-	-
Total liabilities	7,515	9	1,567	975
Deferred inflows of resources		-	-	-
Net investment in capital assets	1,272	-	-	-
Restricted:	-		-	-
Nonexpendable	-	-	-	-
Expendable	-	-	-	-
Unrestricted	27,767	5,077	1,027	1,008
Total net position	$ 29,039	$ 5,077	$ 1,027	$ 1,008

Condensed Statement of Revenues, Expenses, and Changes in Net Position:	MSU Health Care, Inc. 2021	MSU Health Care, Inc. 2020	Lysander 2021	Lysander 2020
Operating revenues	$ 103,677	$ 337	$ -	$ -
Revenues from the University	2,267	-	974	931
Total operating revenues	105,944	337	974	931
Operating expenses, external	31,527	1,027	955	972
Operating expenses, University	37,366	-	-	-
Depreciation expense	1,334	-		-
Total operating expenses	70,227	1,027	955	972
Net operating income (loss)	35,717	(690)	19	(41)
Gifts and contributions	91	-	-	-
Investment income	488	(528)	-	-
Contributions from the University	7,235	-	-	545
Net non-operating revenue (expense)	7,814	(528)	-	545
Gain on transfer of operations	25,016	-	-	-
Transfers from (to) the University	(44,585)	-	-	-
Change in net position	23,962	(1,218)	19	504
Beginning net position	5,077	6,295	1,008	504
Ending net position	$ 29,039	$ 5,077	$ 1,027	$ 1,008

NOTES TO THE FINANCIAL STATEMENTS (continued) (dollars in thousands)

Condensed Statement of Cash Flows:	MSU Health Care, Inc.		Lysander	
	2021	2020	2021	2020
Net cash provided (used) by operating activities	$ 35,318	$ (1,414)	$ 262	$ (41)
Net cash provided (used) by noncapital financing activities	(34,181)	-	-	545
Net cash provided (used) by capital and related financing activities	17,277	-	-	-
Net cash provided (used) by investing activities	567	-	-	-
Beginning cash and cash equivalents	4,880	6,294	1,008	504
Ending cash and cash equivalents	$ 23,861	$ 4,880	$ 1,270	$ 1,008

19. New accounting pronouncements

The University will be required to implement the provisions of GASB Statement No. 87,*Leases,* effective for the fiscal year ending June 30, 2022. This GASB Statement intends to improve accounting and financial reporting for leases by establishing a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The University is in the process of determining the full impact of this standard on its financial statements.

The University will be required to implement the provisions of GASB Statement No. 93,*Replacement of Interbank Offered Rates,* effective with the fiscal year ending June 30, 2023. This GASB Statement amends accounting guidance that will be impacted by global reference rate reform and the related end of the London Interbank Offered Rate (LIBOR). The University is in the process of determining the full impact of this standard on its financial statements.

The University will be required to implement the provisions of GASB Statement No. 94,*Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* effective for the fiscal year ending June 30, 2023. This GASB Statement improves guidance on accounting and financial reporting for public-private and public-public partnership arrangements. The University is in the process of determining the full impact of this standard on its financial statements.

The University will be required to implement the provisions of GASB Statement No. 96,*Subscription-Based Information Technology Arrangements,* effective for the fiscal year ending June 30, 2023. This GASB Statement provides guidance on accounting and financial reporting for subscription-based information technology arrangements. The University is in the process of determining the full impact of this standard on its financial statements.

Financial report prepared under the direction of Lisa A. Frace, Senior Vice President, Chief Financial Officer, and Treasurer; Gregory J. Deppong, Controller; John L. Thelen, Assistant Controller; and Shea M. Bryant, Manager of Financial Analysis and Reporting

(dollars in thousands)

Schedule of changes in the University's total OPEB liability and related ratios

The historical reconciliation of the total reported liability for postemployment benefits obligations for the year ended June 30, 2021, 2020, 2019, and 2018 is summarized as follows:

	2021	2020	2019	2018
Service cost	$ 57,333	$ 41,383	$ 48,202	$ 41,211
Interest cost	59,410	66,476	70,323	69,928
Changes in assumptions	170,012	402,866	(447,295)	115,470
Differences between expected and actual plan experience	(6,475)	27,297	-	-
Benefit payments	(44,938)	(44,017)	(39,943)	(38,599)
Change in benefit terms	(1,746,587)	-	-	-
Net changes	$ (1,511,245)	$ 494,005	$ (368,713)	$ 188,010
Total liability, beginning of year	$ 2,141,340	$ 1,647,335	$ 2,016,048	$ 1,828,038
Total liability, ending of year	$ 630,095	$ 2,141,340	$ 1,647,335	$ 2,016,048
Covered payroll	$ 1,041,405	$ 1,006,188	$ 993,122	$ 959,538
Total liability as a percentage of covered payroll	60.5%	212.8%	165.9%	210.1%

Notes to Schedule:

No assets are accumulated in a trust to pay related other postemployment benefits.

Discount rates used in determining the total reported liability for postemployment benefits obligations were 2.12%, 2.73%, 4.09%, 3.44%, and 3.78% at the measurement dates of December 31, 2020, 2019, 2018, 2017, and 2016, respectively.

In 2021, the change in benefit terms includes a transition to a Medicare advantage and prescription drug plan.

In 2020, changes in assumption include the repeal of the Affordable Care Act high cost plan excise tax and a reduction in the current health care cost trend rate from 7.50% to 6.88%.

In 2019, as a result of an experience study, assumptions related to mortality, employee withdrawal rates, retirement age, salary increases, marital status, and retiree opt-out rates were adjusted to more closely reflect actual experience. The changes were as follows:

- Mortality – The University changed from using the RP-2014 Generational Healthy Mortality Tables, with white collar adjustments for all employees to Pub T.H-2010.H (A) Public Retirement Plans Mortality Tables for faculty and MP-2014 Generational Healthy Mortality Tables, with mixed collar adjustments for non-faculty.

- Employee withdrawal rate – The University changed from 0% at age 55 to up to 1.5% at age 65 for certain employee groups.

- Retirement age – The University increased the retirement age from 62.4 for all employees to up to 69.0 for certain employee groups.

- Salary increase – The University increased the salary increase level from 4% to 5%.

- Marital status – The University increased the number of covered spouses from 80% for males and 50% for females to 90% for males and 60% for females.

- Retiree opt-out rate – The University increased the retiree opt-out rate from 0% to 8%

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

Independent Auditor's Report

To Management and the Board of Trustees
Michigan State University

We have audited, 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, the financial statements of Michigan State University (the "University") as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 28, 2021. Our report includes a reference to other auditors who audited the financial statements of Michigan State University Foundation (the "Foundation"), as described in our report on Michigan State University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the Foundation or that are reported on separately by those auditors who audited the financial statements of the Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Trustees
Michigan State University

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 28, 2021