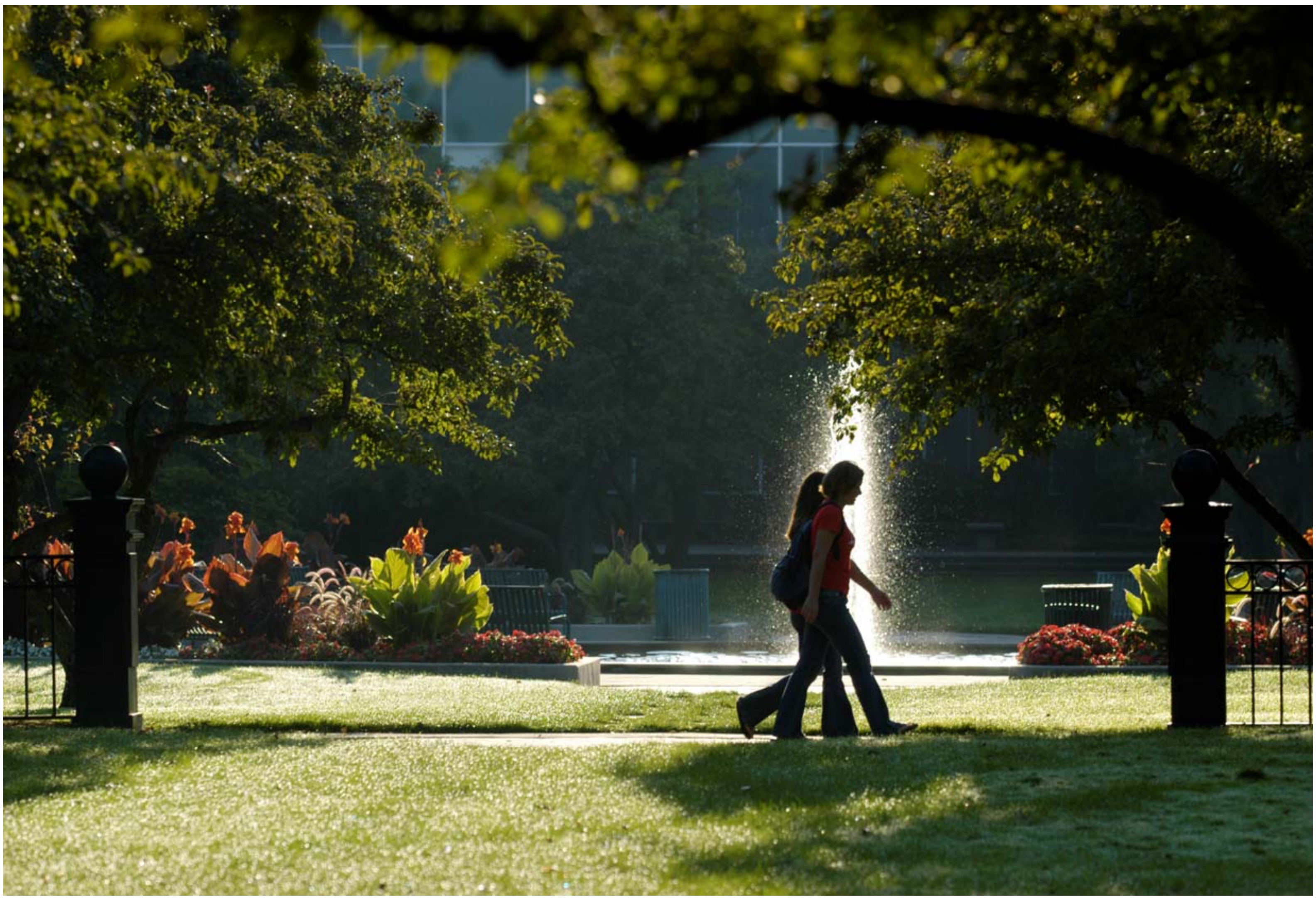
ANNUAL FINANCIAL REPORT

FISCAL YEAR 2012—2013



MICHIGAN STATE UNIVERSITY

TABLE OF CONTENTS

Michigan State University

MICHIGAN STATE UNIVERSITY

EXECUTIVE OFFICERS

Lou Anna K. Simon
President

June Youatt
Acting Provost and Executive Vice President for Academic Affairs

Satish S. Udpa
Executive Vice President for Administrative Services

Bill Beekman
Vice President and Secretary of the Board of Trustees

Mark Burnham
Vice President for Governmental Affairs

Ronald T. Flinn
Vice President for Infrastructure Planning and Facilities

Vennie G. Gore
Vice President for Auxiliary Enterprises

Robert W. Groves
Vice President for University Advancement

Mark P. Haas
Vice President for Finance and Treasurer

Stephen Hsu
Vice President for Research and Graduate Studies

Denise Maybank
Vice President for Student Affairs and Services

Robert A. Noto
Vice President for Legal Affairs and General Counsel

Paulette Granberry Russell
Senior Advisor to the President for Diversity and Director of the Office for Inclusion and Intercultural Initiatives

Heather C. Swain
Vice President for Communications and Brand Strategy

OFFICE OF THE VICE PRESIDENT FOR FINANCE

Mark P. Haas
Vice President for Finance and Treasurer

Gregory J. Deppong
Controller

Donna M. Donovan
Director of Enterprise Business Systems

Daniel T. Evon
Director of Contract and Grant Administration

Glen J. Klein
Director of Investments and Financial Management

Kimberly C. Kokenakes
Director of University Services

Matthew G. McCabe
Director of Risk Management and Insurance

OFFICE OF THE CONTROLLER

Gregory J. Deppong
Controller

Susan J. Waltersdorf
Associate Controller
Student Financial Services

Shyam Gedela
Finance Application Support Technical Manager

Deborah A. Gulliver
University Travel Program Manager

David P. Hartman
Systems Development Manager

Lee Hunter
Chief Accountant

Tom S. Kohlmann
Student Loans Manager

Mary H. Nelson
Accounts Receivable and Merchant Services Manager

Laurie K. Schlenke
Student Accounts Manager

John L. Thelen
Financial and Cost Analysis Manager

Sheila R. Wamhoff
Payroll Manager

Steven J. Ueberroth
Finance Application Support Functional Manager

MICHIGAN STATE
UNIVERSITY

October 25, 2013

This report presents Michigan State University's financial position and results of operations for fiscal years ended June 30, 2013, and June 30, 2012. The financial report, adopted by the Board of Trustees, is provided as part of MSU's commitment to report annually on its fiscal affairs. Plante & Moran, PLLC, certified public accountants, audited these financial statements, and their audit report appears on pages 15-16.

MSU has been working to advance the common good in uncommon ways for more than 150 years through more than 200 programs of study in 17 degree-granting colleges. Consistently ranked among the world's top universities, MSU remains among the most efficient of its peer research institutions. As the nation's pioneer land-grant university, MSU embraces its special mission of world-class instruction, research, and public service to solve the world's most pressing problems.

Throughout the fiscal year ended June 30, 2013, the university continued focusing its resources where they count, upholding its commitment to remain a best value for students and stakeholders. Based on its core values of quality, inclusiveness, and connectivity, the university is poised to build on its long-term framework of *Boldness by Design* and *Shaping the Future*, by moving forward to be *Bolder by Design*. This initiative outlined by President Lou Anna K. Simon challenges all of MSU to again lead the transformation of higher education by advancing our culture of high performance.

MSU is enhancing the student experience by continual development of its residential hall neighborhood programs and facilities by bringing academic and health support services to where the students live. We are enriching community, economic, and family life by preserving access to all students through financial aid programs, and by partnering with the community to provide programs through the MSU Innovation Center and MSU Extension and AgBioResearch offices. Growing international outreach by enriching study abroad through research, internships, and community engagement assists graduates to succeed in an increasingly global world. MSU is increasing research opportunities across a diverse set of disciplines, including nuclear science by constructing the Facility for Rare Isotope Beams (FRIB). Finally, MSU is strengthening stewardship by further streamlining daily operations in order to have the nation's model university workforce, and making environmental stewardship a priority by approving an Energy Transition Plan in an aspiration to move toward clean energy.

MSU's long-term success is strengthened by the goals laid out in *Bolder by Design*. By advancing a culture of higher performance, MSU is raising expectations, focusing on the most vital issues, reforming work habits, and managing innovations that improve operations. Through the combined efforts of its faculty, staff, alumni, and worldwide supporters, MSU continues its role as the world's preeminent land-grant university by making a significant impact on Michigan, the nation, and the world.

Mark P. Haas
Vice President for Finance and Treasurer

OFFICE OF THE
VICE PRESIDENT FOR
FINANCE

Mark P. Haas
Vice President for Finance
and Treasurer

Michigan State University
Hannah Administration Building
426 Auditorium Road, Room 412
East Lansing, Michigan
48824

Phone 517.355.5014
Fax 517.353.6772
www.finance.msu.edu

Introduction

The following discussion provides an overview of the financial position of Michigan State University (the "University") for the years ended June 30, 2013 and 2012.

Effective for the year ended June 30, 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These standards introduce and define deferred outflows of resources and deferred inflows of resources as elements of the annual financial report and incorporate these elements in the computation of the University's net position, previously referred to as net assets. These elements represent the consumption (deferred outflow) or acquisition (deferred inflow) of resources by the University that are applicable to a future reporting period, but do not require any further exchange of goods or services (see footnote 9 for further information). As prescribed by GASB 63 and 65, certain prior period amounts have been reclassified to conform to the current year's presentation.

Included in this discussion is an analysis of the University's Statement of Net Position, which presents the assets, liabilities, and net position of the University, and when applicable, deferred outflows of resources and deferred inflows of resources. All are measured as of the end of the fiscal year. Further, 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 which 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 dedicated to benefit the University. Because these 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 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 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.

The University's financial statements, related footnote disclosures, and discussion and analysis (which excludes the Foundation), have been prepared by management. The discussion and analysis should be read in conjunction with the financial statements and footnotes.

Statement of Net Position

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 of resources, liabilities, and deferred inflows of resources are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation.

A summarized comparison of the University's assets, deferred outflows of resources, liabilities and net position at June 30, 2013, 2012, and 2011 follows (the University has no deferred inflows of resources):

	2013	2012	2011
		(in millions)	
Current assets	$ 513	$ 444	$ 428
Noncurrent assets:			
Restricted cash and cash equivalents and restricted investments	101	-	111
Endowment and other investments	1,945	1,775	1,764
Capital assets, net	1,901	1,819	1,703
Other	67	69	87
Total assets	4,527	4,107	4,093
Deferred outflows of resources	61	83	54
Current liabilities	488	437	410
Noncurrent liabilities	1,275	1,077	1,013
Total liabilities	1,763	1,514	1,423
Net position	$ 2,825	$ 2,676	$ 2,724

Current assets:

Current assets consist of cash and cash equivalents, investments, net accounts and interest receivable, and other assets. The net increase in current assets in 2013 is due primarily to a net $99 million increase in cash and cash equivalents and investments (primarily a function of the University's operating, financing, and investing activities as reported in the Statement of Cash Flows). This increase is partially offset with a $15 million decrease in collateral from the securities lending program, from which the University elected to withdraw. In addition, student loans and pledges receivable decreased $13 million due in part to the collection of gift pledge amounts for various capital projects in process during the fiscal year.

The net increase in current assets in 2012 is due in part to a net $3 million increase in pledges receivable and a net $37 million increase in cash and cash equivalents and investments. Partially offsetting these amounts was a $9 million decrease in state appropriation accounts receivable and a $20 million decrease in federal, state, and local sponsored program accounts receivable due in part to timing differences between amounts expended in accordance with grant or contract guidelines and actual cash draws from the grantor.

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. The increase in 2013 is due to the current year issuance of bonds (Series 2013A in May 2013 – see noncurrent liabilities section). The decreases in 2012 represent the spending of Series 2010A bond proceeds consistent with their restricted purpose.

Endowment and other investments

At June 30, 2013 and 2012, the University's endowment investments totaled $1,584 million (an increase of $215 million) and $1,369 million (a decrease of $26 million), respectively. Endowment gifts and University-designated additions to Endowment investments totaled $39 million in 2013 and $40 million in 2012. Investment gains and fair value changes (realized and unrealized) within the investment portfolio accounted for a net $80 million increase and a net $102 million decrease in 2013 and 2012, respectively, while the spending policy draw on the endowment's accumulated net capital gains (net of reinvested funds) totaled $4 million in 2013 and $24 million in 2012. In addition, investments of $100 million in 2013 and $60 million in 2012 were reallocated to designated endowment investments, consistent with the University's Board approved cash management and investment plan.

Other investments consist primarily of the Liquidity Reserve Pool component of the University's Operating Cash Pool, which totaled $221 million and $257 million at June 30, 2013 and 2012, respectively. Funded retirement and postemployment benefit reserves ($84 million in 2013 and $78 million in 2012) are also included in other investments.

For the years ended June 30, 2013, 2012, and 2011, the total returns on investments were as follows:

	2013	2012	2011
Operating Cash Pool:			
Liquidity Pool	1.1%	1.0%	1.4%
Liquidity Reserve Pool	1.4%	5.1%	5.0%
Common Investment Fund	11.3%	(2.8)%	20.6%
Other Separately Invested Investments	13.8%	(16.1)%	35.9%

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, 2013, 2012, and 2011, the University's investment in capital assets was as follows:

	2013	2012 *(in millions)*	2011
Land	$ 38	$ 35	$ 32
Buildings and site improvements	2,518	2,309	2,156
Construction in progress	184	227	205
Software and other intangibles	93	91	87
Equipment and other	706	672	626
Museum collections	11	10	9
Less: accumulated depreciation	(1,649)	(1,525)	(1,412)
	$ 1,901	$ 1,819	$ 1,703

Major additions to buildings and site improvements during 2013 include $44 million for the Eli and Edythe Broad Art Museum, $36 million for the Wells Hall addition and Old Horticulture Building renovation, $21 million for the renovation of the West Circle Steam Loop, $17 million for the Bott Building for Nursing Education and Research, and $17 million for T.B. Simon Power Plant Coal Handling Improvements. Major additions to buildings and site improvements during 2012 include $48 million for the Brody Hall renovation,

$44 million for Plant Science Building expansion, $19 million for Case Hall First Floor Renovations of Dining Hall, and $15 million for the Cyclotron Building Office Additions.

Construction in progress reflects multi-year projects which, once completed and placed into service, are generally categorized as buildings and site improvements. The 2013 balance includes $34 million for the Facility for Rare Isotope Beams, $30 million for Bailey and Rather Hall renovations, $26 million for Armstrong and Bryan Hall renovations, and $12 million for Fairchild Theatre Auditorium alterations. The 2012 balance includes $39 million for the Eli and Edythe Broad Art Museum, $33 million for the Wells Hall addition and Old Horticulture Building renovation, $27 million for Bailey and Rather Hall renovations, $24 million for the Facility for Rare Isotope Beams, $16 million for T.B. Simon Power Plant Coal Handling Improvements, and $14 million for the Bott Building for Nursing Education and Research.

As of June 30, 2013, the University had initiated plans and incurred certain contractual commitments related to the construction and renovation of various facilities. The costs to complete the projects are estimated to be $247 million and are to be funded from debt proceeds, capital grants, private gifts, and other University funds.

Deferred outflows of resources:

Deferred outflows of resources consist of accumulated changes in the fair value of hedging derivative instruments and deferred losses on a refunding of debt in fiscal year 2010. The net decrease in deferred outflows of resources in 2013 is due primarily to a net $21 million change in the accumulated fair value of hedging derivative instruments. Conversely, the net increase in deferred outflows of resources in 2012 is due primarily to a net $31 million change in the accumulated fair value of hedging derivative instruments. See footnotes 9 and 14 for more information.

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 increase in 2013 is due in part to a $24 million increase in the current portion of long-term debt and other obligations, a $19 million increase in the amounts held from employee payroll tax withholdings and benefit deductions, and an $18 million increase in unearned revenues. Offsetting these increases is a decrease of $15 million in obligations under the securities lending program, from which the University elected to withdraw. The net increase in the current portion of long-term debt and other obligations is due in part to a net issuance of $66 million of General Revenue Commercial Paper (short term financing), Series D, which was used to finance or reimburse all or part of the costs of capital projects ($11 million), and refund outstanding General Revenue Commercial Paper, Series C ($55 million). In addition, a net issuance of $11 million of General Revenue Commercial Paper, Series B was used to finance or reimburse all or part of the costs of capital projects. The net increase in unearned revenues is due primarily to a $16 million increase in sponsored program funding (federal, state, local and private) received but not yet expended. Employee payroll tax withholdings and benefit deductions vary from year to year due in part to timing of remitting amounts to appropriate agencies.

The net increase in 2012 is due in part to a $67 million increase in the current portion of long-term debt and other obligations, offset with decreases of $25 million in trade accounts payable and $15 million in balances held from employee payroll tax withholdings and benefit deductions. The net increase in the current portion of long-term debt and other obligations is due in part to a net issuance of $43 million of General Revenue

Commercial Paper, Series B, which was used to finance or reimburse all or part of the costs of capital projects ($34 million), and refund outstanding General Revenue Bonds, Series 2003C ($9 million). In addition, a net issuance of $8 million of General Revenue Commercial Paper, Series C and $15 million of General Revenue Commercial Paper, Series D was used to finance or reimburse all or part of the costs of capital projects. Trade accounts payable balances vary from year to year due in part to timing of University initiatives and payments of related programmatic costs.

Noncurrent liabilities, primarily debt:

At June 30, 2013, the University had noncurrent debt and other obligations outstanding of $925 million compared with $749 million at June 30, 2012. This balance is comprised primarily of outstanding General Revenue Bonds of $886 million and $708 million in 2013 and 2012, respectively (including $41 million and $19 million in 2013 and 2012, respectively, of related original issue premiums). The increase is primarily due to debt proceeds received during 2013 totaling $194 million through the issuance of Series 2013A bonds (including $23 million of original issue premium), which was primarily used to finance or reimburse all or part of the costs of eligible capital projects. Offsetting this increase is a reduction in noncurrent debt and other obligations due to scheduled principal debt payments of $16 million on outstanding General Revenue Bonds. The University periodically reviews its debt capacity and related capital asset needs to optimize the use of its long-term resources. The University's outstanding General Revenue debt carries an investment grade credit rating from Moody's and Standard & Poor's of Aa1 and AA, respectively.

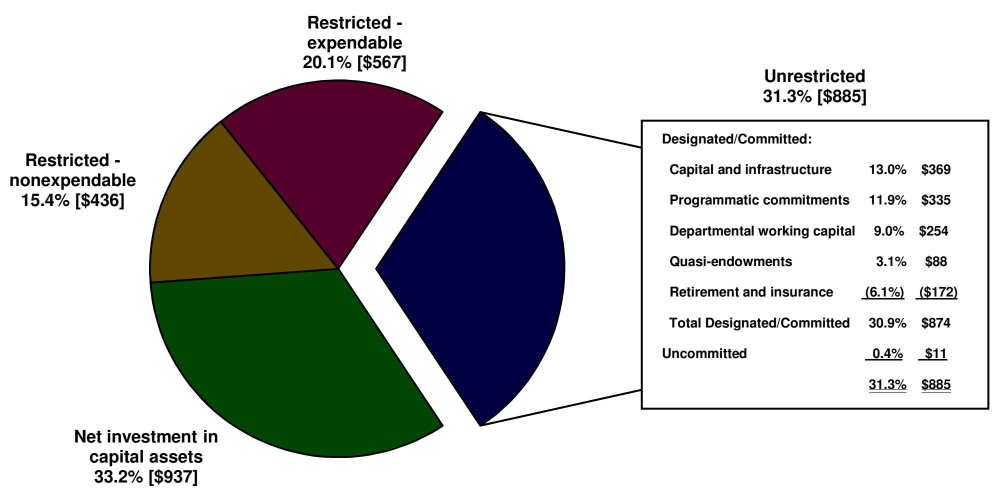
The University faces the continuing challenge of funding its increasing health care and dental benefits costs. This includes the cost of providing postemployment health and dental benefits to eligible employees (other postemployment benefits, or OPEB) through a closed single employer defined benefit plan administered by the University. For the year ended June 30, 2013, the University has estimated the cost (annual expense) of providing OPEB through an actuarial valuation as of January 1, 2012 and adjusted for 2012-13 health care cost experience. The actuarial valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover current year costs and amortize any unfunded actuarial liabilities over a period of thirty years. The University's total unfunded OPEB obligation in 2013 and 2012 is estimated at $901 million and $851 million, respectively. Of these amounts, the University has recorded a noncurrent liability of $263 million and $217 million for 2013 and 2012, respectively, representing the net OPEB obligation (the cumulative difference between the annual required contribution less actual retiree health and dental payments made during the respective fiscal years). This increase of $46 million represents the continued amortization (over thirty years) of the total unfunded OPEB obligation.

Net position:

Net position represents residual University assets and deferred outflows after liabilities are deducted. The University's net position at June 30, 2013, 2012, and 2011 is summarized as follows:

	2013	2012 *(in millions)*	2011
Net investment in capital assets	$ 937	$ 967	$ 991
Restricted:			
Nonexpendable	436	390	353
Expendable	567	547	591
Total restricted	1,003	937	944
Unrestricted	885	772	789
Total net position	$ 2,825	$ 2,676	$ 2,724

The following is a breakdown of net position at June 30, 2013. See footnote 15 for further information (amounts are presented in millions of dollars):



TOTAL NET POSITION $2.8 BILLION

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 their 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.

Although unrestricted net position is not subject to externally imposed restrictions, 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 2013 summer semester and the first quarter of fiscal year 2014, maintaining reserves for capital projects, the continued recognition of the OPEB obligation, working capital for self-supporting departmental activities, and unrestricted quasi and term endowments. The uncommitted balance is $11 million.

The University's ongoing review of its infrastructure indicates a need for approximately $900 million over the next 10 years to modernize and renovate aging teaching, research, housing and other support facilities, utility systems, and roads, consistent with its just-in-time maintenance strategy, and to upgrade administrative and other campus-wide technology systems. The University intends to address these maintenance and technology needs through the use of capital and infrastructure reserves, appropriate use of additional borrowing, and efforts to obtain gifts, grants, and capital appropriations.

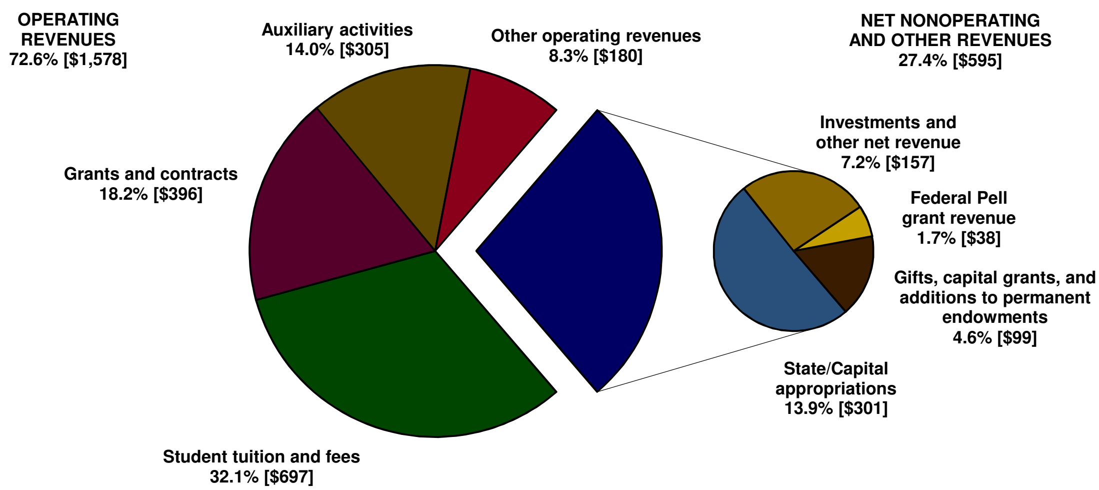
Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position present 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, 2013, 2012, and 2011 follows:

	2013	2012	2011
		(in millions)	
Operating revenues:			
Student tuition and fees, net of allowances	$ 697	$ 640	$ 568
Grants and contracts	396	404	373
Auxiliary activities	305	293	280
Other operating revenues	180	166	168
Total operating revenues	1,578	1,503	1,389
Operating expenses:			
Instruction and departmental research	589	575	561
Research	329	319	294
Public service	233	210	220
Academic support	82	82	78
Student services	46	32	32
Scholarships and fellowships	56	55	53
Institutional support	113	103	94
Operation and maintenance of plant	144	149	138
Auxiliary enterprises	289	275	269
Depreciation	139	128	116
Other operating expenses, net	4	3	3
Total operating expenses	2,024	1,931	1,858
Operating loss	(446)	(428)	(469)
Nonoperating revenues (expenses):			
State operating appropriation	245	241	284
State AgBioResearch appropriation	29	28	33
State cooperative extension service appropriation	25	24	29
Federal Pell grant revenue	38	39	43
Gifts	46	52	46
Net investment income (loss)	187	(22)	289
Interest expense on capital asset related debt	(36)	(35)	(39)
Other nonoperating revenues, net	6	7	5
Net nonoperating revenues	540	334	690
Income (loss) before other	94	(94)	221
State capital appropriations	2	1	-
Capital grants and gifts	15	15	18
Additions to permanent endowments	38	30	17
Increase (decrease) in net position	149	(48)	256
Net position, beginning of year	2,676	2,724	2,468
Net position, end of year	$ 2,825	$ 2,676	$ 2,724

Total net revenue by source for the year ended June 30, 2013 is presented in millions of dollars:



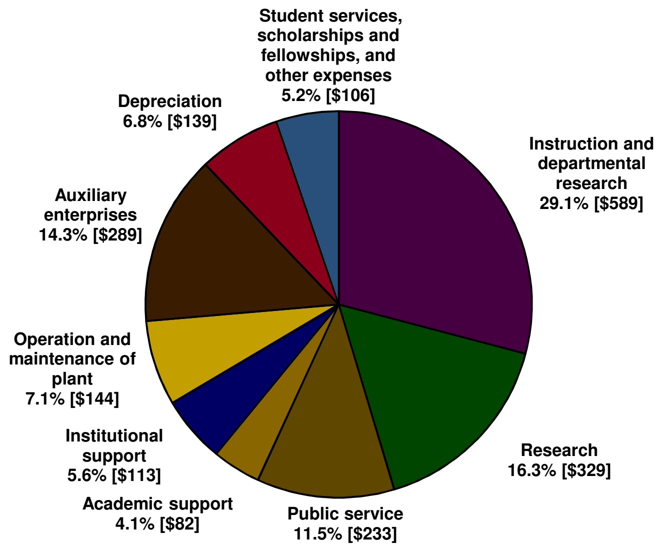
TOTAL REVENUE $2.2 BILLION

The University is supported by a diverse stream of revenue which supplements its student tuition and fees, including 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 realized from these efforts to fund its operations.

Operating revenues: The most significant source of operating revenue for the University is tuition and fees (net of scholarship allowances), totaling $697 million and $640 million in 2013 and 2012, respectively. Gross tuition and fees revenue increased 8.1% and 11.8% in 2013 and 2012, respectively, due in part to increases in student credit hours and rates, and changes in the student blend. Other major revenue sources in 2013 include auxiliary activities of $305 million (an increase of $13 million), and federal grants and contracts of $314 million, which includes federal sponsored programs of $310 million (consistent with 2012), and federal grants and contracts for MSU AgBioResearch and Extension of $4 million (a decrease of $16 million). This decrease is primarily due to federal sequestration, which delayed the authorization of approximately $16 million of federal funding to the University until August and September 2013. In accordance with accounting standards, this funding will be recognized as revenue in fiscal year 2014.

Net nonoperating and other revenues: A primary source of this net revenue is state appropriations, which totaled $301 million in 2013, an increase of $7 million (2.4%). In 2013, the University received $245 million in funding for general operations, compared to $241 million in 2012. Michigan State University Extension and MSU AgBioResearch appropriations totaled $54 million, compared to $52 million in 2012. In addition, the University received $2 million in state capital appropriations in 2013, compared to $1 million in 2012. Other significant components of net nonoperating revenues in 2013 include net investment income, which increased $209 million generally due to a recovery in the financial markets, and gift revenue (decreased $6 million). In 2012, net investment income decreased $311 million due to financial market conditions and gift revenue increased $6 million.

Operating expenses by source for the year ended June 30, 2013 are presented in millions of dollars:



TOTAL OPERATING EXPENSES $2.0 BILLION

During 2013, $1,151 million was expended for the core missions of the University - instruction and departmental research, research, and public service, an increase of $47 million (4.3%) over 2012. Instruction and departmental research expenses increased $14 million (2.4%), due primarily to salary increases during 2013. Research increased $10 million (3.1%) due in part to realigning the reporting of certain research start-up expenses to more consistently align reporting with other research related expenses. In addition, public service increased $23 million (11.0%), due in part to increased medical service plan operations, including surgical and medical center services. Auxiliary enterprises (activities which provide services to students, faculty, staff, and the public) increased $14 million (5.1%), while expenses for the operation and maintenance of plant decreased $5 million (3.4%).

Economic Outlook

For the fiscal year 2013-14, the University approved a 1.9% increase in resident lower division undergraduate tuition, while increasing student financial aid by 4.5%, and received a 1.8% increase in state appropriations. Over the last five years, Michigan State University has increased financial aid by 50%, seeking to assure access for all students. The University is positioned to seize new opportunities in this increasingly competitive global environment with an eye towards navigating the impact of the implementation of the Affordable Care Act, other federal budget constraints, and longer term campus infrastructure needs. MSU's ongoing strategic disposition assures that it will continue to make a significant positive impact in Michigan and around the world.

The University's revenue mix is closely associated with the level of State support. Over the past decade, the continued economic pressures affecting the State have resulted in a decrease of approximately $75 million in state appropriations. Given this decline, the prominence of state funding in the overall institutional revenue mix has fallen from being the largest source of funds in 1990 to fourth in 2013. This trend illustrates the increasing reliance on tuition and fees, gifts, and research as sources of revenue. If state appropriations had kept pace with inflation of approximately two percent over this period, student tuition and fees could be cut by approximately 20% from today's levels.

The University embraces its land-grant heritage and its special mission of world-class instruction, research, and public service. Consistently ranked among the world's top research universities, Michigan State University nevertheless remains among the most efficient of its peer research institutions by focusing on controlling costs and maximizing value across its programs.

Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

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, 2013 and 2012, 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 an opinion on these financial statements based on our audit. 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

To the Board of Trustees
Michigan State University

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan State University and its discretely presented component unit as of June 30, 2013 and 2012, and the changes in its financial position, and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1to the basic financial statements, effective July 1, 2012, the University adopted new accounting guidance under Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements introduce and define those elements as a consumption of net assets by the University that is applicable to a future reporting period, and an acquisition of net assets by the University that is applicable to a future reporting period, respectively. The standards also incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. Our opinion is not modified in respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis on pages 4-14 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 supplementary 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 audit 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013 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 24, 2013

STATEMENTS OF NET POSITION

Michigan State University

	June 30, 2013	June 30, 2012
ASSETS	(in thousands)	
Current assets:		
Cash and cash equivalents	$ 43,920	$ 13,787
Investments	286,138	217,327
Collateral from securities lending	-	15,357
Accounts and interest receivable, net	145,333	142,871
Student loans and pledges receivable, net	23,768	36,977
Inventories and other assets	14,219	18,119
Total current assets	513,378	444,438
Noncurrent assets:		
Restricted cash and cash equivalents	2,335	-
Restricted investments	98,761	-
Endowment investments	1,583,652	1,368,659
Other investments	361,137	406,514
Student loans and pledges receivable, net	60,053	57,719
Investments in joint ventures	6,664	6,719
Derivative instruments - swap asset	305	352
Unamortized bond origination costs	-	4,639
Capital assets, net	1,900,978	1,818,707
Total noncurrent assets	4,013,885	3,663,309
Total assets	**4,527,263**	**4,107,747**
DEFERRED OUTFLOWS OF RESOURCES	**60,927**	**83,194**
LIABILITIES		
Current liabilities:		
Accounts and interest payable	63,361	66,649
Accrued personnel costs	52,991	40,887
Obligations under securities lending	-	15,357
Accrued self-insurance liabilities	14,109	13,619
Payroll taxes and other payroll deductions	26,705	7,500
Deposits held for others	24,265	27,619
Unearned revenues	119,550	101,949
Current portion of long term debt and other obligations	187,356	163,403
Total current liabilities	488,337	436,983
Noncurrent liabilities:		
Accrued personnel costs	33,666	32,742
Accrued self-insurance liabilities	8,252	7,249
Derivative instruments - swap liability	44,229	71,228
Net other postemployment benefit obligation	263,078	216,981
Long term debt and other obligations	925,269	749,231
Total noncurrent liabilities	1,274,494	1,077,431
Total liabilities	**1,762,831**	**1,514,414**
NET POSITION		
Net investment in capital assets	937,127	966,908
Restricted:		
Nonexpendable	435,590	389,884
Expendable	567,275	547,789
Unrestricted	885,367	771,946
TOTAL NET POSITION	**$ 2,825,359**	**$ 2,676,527**

See accompanying notes

STATEMENTS OF FINANCIAL POSITION
Michigan State University Foundation

	June 30, 2013	June 30, 2012
	(in thousands)	
ASSETS		
Cash equivalents	$ 5,392	$ 3,972
Interest and dividends receivable	75	172
Grants and contracts receivable, net	822	221
Other receivables, net	801	763
Investments:		
Marketable securities	194,321	189,454
Investments in limited partnerships	122,820	115,878
Venture capital	38,917	37,702
Cash value of life insurance	2,863	2,576
Land held for investment	3,555	4,269
Other investments	1,396	1,624
Investment in Research Park	5,896	5,908
Prepaid expenses	47	107
Property and equipment, net	13,994	12,508
Intangible assets, net	1,191	1,007
Other assets	36	44
TOTAL ASSETS	**$ 392,126**	**$ 376,205**
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued expenses and other payables	$ 2,719	$ 3,445
Deferred compensation	239	177
Note payable - deferred compensation	196	196
Notes payable	4,013	4,549
Trusts and annuities payable	10,061	9,374
Deferred gifts	-	433
Deposit held for Michigan State University	17,766	15,775
Obligations under life estate agreements	135	141
Total liabilities	35,129	34,090
Net assets:		
Unrestricted	308,882	296,935
Temporarily restricted	33,922	30,397
Permanently restricted	14,193	14,783
Total net assets	**356,997**	**342,115**
TOTAL LIABILITIES AND NET ASSETS	**$ 392,126**	**$ 376,205**

See accompanying notes

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Michigan State University

	Year ended June 30, 2013	2012
	(in thousands)	
OPERATING REVENUES		
Student tuition and fees	$ 799,186	$ 739,335
Less: scholarship allowances	101,851	98,845
Net student tuition and fees	697,335	640,490
State of Michigan grants and contracts	8,839	9,617
Federal grants and contracts	314,186	330,094
Local and private sponsored programs	72,978	64,592
Interest and fees on student loans	868	907
Departmental activities (net of scholarship allowances of $4,491 in 2013 and $4,617 in 2012)	178,871	164,972
Auxiliary activities (net of room and board allowances of $19,433 in 2013 and $19,862 in 2012)	305,327	292,752
TOTAL OPERATING REVENUES	**1,578,404**	**1,503,424**
OPERATING EXPENSES		
Instruction and departmental research	589,106	574,818
Research	328,770	318,952
Public service	233,451	210,245
Academic support	81,869	81,814
Student services	46,492	31,992
Scholarships and fellowships	56,475	54,755
Institutional support	113,473	102,733
Operation and maintenance of plant	143,483	148,968
Auxiliary enterprises	288,797	275,391
Depreciation	138,537	128,079
Other operating expenses, net	3,624	3,260
TOTAL OPERATING EXPENSES	**2,024,077**	**1,931,007**
Operating loss	(445,673)	(427,583)
NONOPERATING REVENUES (EXPENSES)		
State operating appropriation	245,037	241,121
State AgBioResearch appropriation	29,108	28,260
State cooperative extension service appropriation	25,097	24,366
Federal Pell grant revenue	37,804	38,724
Gifts	45,575	52,040
Net investment income (loss)	186,889	(21,895)
Interest expense on capital asset related debt	(35,968)	(35,264)
Other nonoperating revenues, net	5,750	6,191
Net nonoperating revenues	539,292	333,543
INCOME (LOSS) BEFORE OTHER	**93,619**	**(94,040)**
State capital appropriations	2,340	1,200
Capital grants and gifts	14,449	14,979
Additions to permanent endowments	38,424	29,856
Increase (decrease) in net position	148,832	(48,005)
Net position, beginning of year	2,676,527	2,724,532
NET POSITION, END OF YEAR	**$ 2,825,359**	**$ 2,676,527**

See accompanying notes

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Michigan State University Foundation

	Year ended June 30, 2013			
	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT:	(in thousands)			
Contributions	$ 93	$ 5,129	$ 26	$ 5,248
Income from investments	2,860	1,742	546	5,148
Royalty income	1,437			1,437
Rental income	1,410			1,410
Rental expenses	(3,015)			(3,015)
Net realized and unrealized gain on securities	26,377	714	774	27,865
Grants and contracts	4,006			4,006
Other income	1			1
Net assets released from restrictions:				
Satisfaction of program restrictions	520	(506)	(14)	-
Current year transfers	5,476	(3,554)	(1,922)	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	39,165	3,525	(590)	42,100
EXPENSES:				
Contributions to the University	13,247			13,247
Patent expense	964			964
Expenses related to land held for investment	106			106
Investment management fees	2,382			2,382
Investment consulting fees	693			693
Adjustments to value of annuities payable	357			357
Management and general	4,699			4,699
Postretirement benefits:				
Net periodic benefit cost	86			86
Changes other than net periodic benefit cost	152			152
Provision for uncollectible receivables	462			462
Impairment adjustment on other investments	200			200
MBI program expenses	3,982			3,982
Equity earnings - subsidiaries	(112)			(112)
TOTAL EXPENSES	27,218	-	-	27,218
Change in net assets	11,947	3,525	(590)	14,882
Net assets, beginning of year	296,935	30,397	14,783	342,115
NET ASSETS, END OF YEAR	$ 308,882	$ 33,922	$ 14,193	$ 356,997

	Year ended June 30, 2012			
	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT:	(in thousands)			
Contributions	$ 48	$ 6,925	$ 624	$ 7,597
Income from investments	5,563	234	516	6,313
Royalty income	1,369			1,369
Rental income	1,246			1,246
Rental expenses	(3,070)			(3,070)
Net realized and unrealized loss on securities	(1,279)	(690)	(237)	(2,206)
Grants and contracts	2,772			2,772
Other income	10			10
Net assets released from restrictions:				
Satisfaction of program restrictions	299	(289)	(10)	-
Current year transfers	6,505	(6,096)	(409)	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	13,463	84	484	14,031
EXPENSES:				
Contributions to the University	15,135			15,135
Patent expense	965			965
Expenses related to land held for investment	128			128
Investment management fees	1,757			1,757
Investment consulting fees	383			383
Adjustments to value of annuities payable	81			81
Management and general	4,023			4,023
Postretirement benefits:				
Net periodic benefit cost	67			67
Changes other than net periodic benefit costs	500			500
MBI program expenses	2,992			2,992
Equity losses - subsidiaries	(111)			(111)
TOTAL EXPENSES	25,920	-	-	25,920
Change in net assets	(12,457)	84	484	(11,889)
Net assets, beginning of year	309,392	30,313	14,299	354,004
NET ASSETS, END OF YEAR	$ 296,935	$ 30,397	$ 14,783	$ 342,115

See accompanying notes

STATEMENTS OF CASH FLOWS
Michigan State University

	Year ended June 30, 2013	2012
Cash flows from operating activities	(in thousands)	
Tuition and fees	$ 702,950	$ 644,138
Research grants and contracts	409,885	427,297
Auxiliary activities	296,242	294,918
Departmental activities	177,775	157,997
Interest and fees on student loans	868	907
Loans issued to students	(8,767)	(10,095)
Collection of loans from students	8,949	9,509
Scholarships and fellowships	(91,253)	(76,923)
Payments to suppliers	(451,995)	(446,169)
Payments to employees	(1,255,256)	(1,246,182)
Other receipts (payments)	2,100	(23,951)
Net cash used by operating activities	(208,502)	(268,554)
Cash flows from noncapital financing activities		
State appropriations	298,243	303,175
Federal Pell grant revenue	37,804	38,724
Gifts	49,465	49,802
Endowment gifts	38,495	29,787
William D. Ford Direct Lending receipts	362,320	365,317
William D. Ford Direct Lending disbursements	(362,264)	(365,608)
Net cash provided by noncapital financing activities	424,063	421,197
Cash flows from capital and related financing activities		
Capital appropriations	2,340	1,200
Capital gifts and grants	21,181	29,056
Proceeds from issuance of debt and other long term obligations	361,652	102,875
Purchase of capital assets	(221,321)	(239,153)
Proceeds from sale of capital assets	691	424
Principal paid on capital debt	(159,641)	(61,484)
Interest paid	(38,013)	(39,260)
Other receipts	5,916	7,873
Net cash used by capital and related financing activities	(27,195)	(198,469)
Cash flows from investing activities		
Investment income, net	120,851	68,865
Proceeds from sales and maturities of investments	1,432,505	1,763,973
Purchase of investments	(1,709,254)	(1,815,398)
Net cash provided (used) by investing activities	(155,898)	17,440
Net increase (decrease) in cash	32,468	(28,386)
Cash and cash equivalents, beginning of year	13,787	42,173
Cash and cash equivalents, end of year	$ 46,255	$ 13,787

See accompanying notes

STATEMENTS OF CASH FLOWS (Continued)
Michigan State University

Reconciliation of net operating loss to cash flows from operating activities:	**Year ended June 30, 2013**	**2012**
	(in thousands)	
Operating loss	$ (445,673)	$ (427,583)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	138,537	128,079
Change in assets and liabilities:		
Accounts receivable	(1,293)	17,986
Student loans receivable	182	(586)
Inventories and other assets	3,900	186
Investments in joint ventures	55	(43)
Unamortized bond origination costs	4,639	67
Accounts payable	(2,919)	(22,354)
Accrued personnel costs	13,028	(7,564)
Payroll taxes and other payroll deductions	19,205	(14,688)
Deposits held for others	(3,354)	(4,135)
Unearned revenues	17,601	15,794
Accrued self-insurance liabilities	1,493	(1,086)
Net other postemployment benefit obligation	46,097	47,373
Net cash used by operating activities	$ (208,502)	$ (268,554)

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 as prescribed in Governmental Accounting Standards Board (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. Substantially all unrestricted net position is 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 which meets the criteria set forth for component units under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as amended by GASB 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) which 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 Footnote 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, 2727 Alliance Drive, Suite C, Lansing, Michigan 48910-3338.

Summary of significant accounting policies:

Cash and cash equivalents – For purposes of the Statement of Cash Flows, the University defines cash and cash equivalents as highly liquid, short-term (90 days or less) investments that bear little or no market risk. 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 – All investments are stated at fair value. Investments in publicly traded securities are stated at fair value as established by major securities markets. Non-publicly traded investments are valued based on independent appraisals and estimates considering market prices of similar investments.

Capital assets – Capital assets are stated at cost or, when donated, at fair market value at date of gift. Depreciation is computed using the straight-line method, with a full-year expense in the year of acquisition and none in the year of disposal. Assets are depreciated over the estimated useful lives 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 does not capitalize certain works of art or historical treasures (except for certain museum collections) that are held for exhibition, education, research, or public service. These collections are neither disposed of for financial gain nor encumbered in any way. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Deferred outflows of resources – Deferred outflows of resources consist of accumulated changes in the fair value of hedging derivative instruments and deferred losses 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.

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 on 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. Restricted and unrestricted resources are spent and tracked at the discretion of the recipient University department within the guidelines of donor restrictions, if any.

Student tuition and fees – Student tuition and fee revenues are reported 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, 5% of the average market value of endowment investments for the twenty quarters of the five calendar years prior to the beginning of the fiscal year has been authorized for expenditure.

Eliminations – In preparing the financial statements, the University eliminates inter-fund assets and liabilities that would otherwise be reflected twice in the Statements of Net Position. Similarly, revenues and expenses related to internal service activities are also eliminated from the Statement of Revenues, Expenses, and Changes in Net Position. Student tuition and residence 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.

Reclassifications – Certain derivative instrument amounts from the prior year have been reclassified to conform to the current year's presentation, taking into account various netting arrangements with counterparties.

Change in accounting policy – Effective with the fiscal year ended June 30, 2013 the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements introduce and define deferred outflows of resources and deferred inflows of resources as elements of the annual financial report and incorporate these elements in the computation of the University's net position, previously referred to as net assets. These elements represent the consumption (deferred outflows) or acquisition (deferred inflows) of resources that are applicable to a future reporting period, but do not require any further exchange of goods or services. In accordance with the statements, the University has reported deferred outflows of resources from the refunding of debt in fiscal year 2010 and the accumulated change in the fair value of hedging derivative instruments (see footnote 9 for additional information).

2. Cash and cash equivalents

The University's cash and cash equivalents as of June 30, 2013 and 2012 were as follows:

	2013	2012
Cash and cash equivalents, current	$ 43,920	$ 13,787
Restricted cash and cash equivalents, noncurrent	2,335	-
Total cash and cash equivalents	$ 46,255	$ 13,787

Of the bank balances for cash, $250 of the total $2,128 in 2013, and no amounts or balances in 2012 were 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

The University manages investments in accordance with the 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).

Securities Lending Transactions: As of August 22, 2012, the University withdrew from participation in a Board-authorized securities lending program whereby University securities were contractually loaned to approved borrowers in exchange for the receipt of collateral which was invested. The University had loaned securities with a market value of approximately $14,912 at June 30, 2012. One of the University's custodians was an agent in lending the University's domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. At June 30, 2012, the University had no credit risk exposure to borrowers because the amounts the University owed the borrowers exceed the amounts the borrowers owed the University. The contract with the lending agent required the agent to indemnify the University if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent). All securities loans could be terminated on demand by either the University or the borrower. As a means of managing the University's interest rate risk, the securities lending agreement limited the difference between the average weighted maturity of securities loans and the average weighted maturity of the cash collateral investment portfolio to a maximum of 90 days. At June 30, 2012, the difference was less than 90 days.

As of June 30, 2013 and 2012, the University had the following investments:

	June 30, 2013					
Investment type	LP	LRP	CIF	Securities Lending	Other	Total
Investment pools	$ 10,876	$ 221,319	$ 1,370,081	$ -	$ 45,060	$ 1,647,336
U.S. Treasury bonds	54,084	-	20,886	-	62	75,032
U.S. Government agencies	46,075	-	38,314	-	-	84,389
Municipal bonds	733	-	994	-	-	1,727
Corporate bonds	117,806	-	17,761	-	2,425	137,992
Asset-backed securities	70,204	-	19,762	-	2,500	92,466
U.S. Equities	-	-	186,132	-	-	186,132
International equities	-	-	12,776	-	-	12,776
International governmental bonds	85,121	-	6,717	-	-	91,838
Total	$ 384,899	$ 221,319	$ 1,673,423	$ -	$ 50,047	$ 2,329,688

	June 30, 2012					
Investment type	LP	LRP	CIF	Securities Lending	Other	Total
Investment pools	$ 10,600	$ 256,964	$ 1,162,341	$ 9,157	$ 44,667	$ 1,483,729
U.S. Treasury bonds	35,225	-	24,663	-	19,625	79,513
U.S. Government agencies	21,449	-	36,811	-	-	58,260
Municipal bonds	-	-	1,067	-	-	1,067
Corporate bonds	99,870	-	22,140	-	2,425	124,435
Asset-backed securities	50,183	-	14,220	6,200	-	70,603
U.S. Equities	-	-	180,146	-	-	180,146
International equities	-	-	9,859	-	-	9,859
International governmental bonds	-	-	245	-	-	245
Total	$ 217,327	$ 256,964	$ 1,451,492	$ 15,357	$ 66,717	$ 2,007,857

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, 2013 and 2012, 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 maturities of fixed income investments as of June 30, 2013 and 2012 are as follows:

June 30, 2013
Fixed Income Investment Maturities

Investment type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
Investment pools	$ -	$ 98,524	$ 137,891	$ 21,933	$ 258,348
U.S. Treasury bonds	-	72,508	1,564	960	75,032
U.S. Government agencies	26,592	15,245	2,064	40,488	84,389
Municipal bonds	-	798	60	869	1,727
Corporate bonds	40,586	86,264	7,720	3,422	137,992
International governmental bonds	23,762	59,726	4,108	4,242	91,838
Asset-backed securities	240	53,190	14,404	24,632	92,466
Total	$ 91,180	$ 386,255	$ 167,811	$ 96,546	$ 741,792

June 30, 2012
Fixed Income Investment Maturities

Investment type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
Investment pools	$ 9,157	$ 130,606	$ 190,371	$ 20,392	$ 350,526
U.S. Treasury bonds	3,501	67,476	4,898	3,638	79,513
U.S. Government agencies	-	10,383	5,174	42,703	58,260
Municipal bonds	-	71	128	868	1,067
Corporate bonds	17,795	92,819	6,161	7,660	124,435
International governmental bonds	-	-	101	144	245
Asset-backed securities	6,379	25,833	21,865	16,526	70,603
Total	$ 36,832	$ 327,188	$ 228,698	$ 91,931	$ 684,649

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.

Credit Risk: As a means of managing credit risk on its fixed income investments, University investment policy limits investments at time of purchase to the following ratings issued by nationally recognized statistical rating organizations: 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. Thereafter, the minimum quality for separately managed funds in all three portfolios is limited to AA. University policy does not address credit risk by investment type.

The Standard & Poor's credit ratings for fixed income investments at June 30, 2013 and 2012 are as follows:

June 30, 2013

Rating	Investment pools	U.S. Treasury bonds	U.S. Government agencies	Municipal bonds	Corporate bonds	International governmental bonds	Asset-backed securities	Total
AAA	$ -	$ -	$ 2,785	$ -	$ -	$ 19,561	$ 45,510	$ 67,856
AA	-	-	14,702	1,166	13,266	17,305	5,901	52,340
A	-	-	-	561	67,969	31,196	505	100,231
BBB	-	-	-	-	47,835	9,832	6,030	63,697
BB	-	-	-	-	1,095	166	-	1,261
Below BB	-	-	-	-	-	-	3,799	3,799
Not rated	258,348	75,032	66,902	-	7,827	13,778	30,721	452,608
Total	$ 258,348	$ 75,032	$ 84,389	$ 1,727	$ 137,992	$ 91,838	$ 92,466	$ 741,792

June 30, 2012

Rating	Investment pools	U.S. Treasury bonds	U.S. Government agencies	Municipal bonds	Corporate bonds	International governmental bonds	Asset-backed securities	Total
AAA	$ 9,157	$ -	$ 2,066	$ -	$ 13,092	$ -	$ 28,068	$ 52,383
AA	-	-	8,760	414	27,670	101	4,942	41,887
A	-	-	834	653	47,419	-	1,274	50,180
BBB	-	-	-	-	30,454	144	4,984	35,582
BB	-	-	-	-	1,460	-	4	1,464
Below BB	-	-	-	-	-	-	3,488	3,488
Not rated	341,369	79,513	46,600	-	4,340	-	27,843	499,665
Total	$ 350,526	$ 79,513	$ 58,260	$ 1,067	$ 124,435	$ 245	$ 70,603	$ 684,649

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 time of manager appointment and consist of U.S. equities, inflation hedge funds, limited partnerships, absolute return funds, and fixed income assets.

As of June 30, 2013 and 2012, 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.

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. Of the University's investments $74,970 of the U.S. Treasury bonds, $84,389 of the U.S. Government agencies, $1,727 of the municipal bonds, $137,992 of the corporate bonds, $91,838 of the international fixed income securities, $92,466 of the asset-backed securities, $186,131 of the U.S. equities, $12,776 of the international equities, and $16,424 of the external investment pools are held by the University's counterparty, not in the name of the University.

Foreign Currency Risk: University investment policy limits foreign currency risk on its LRP portfolio to 30% of the portfolio's market value.

4. Foundation investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the Statements of Financial Position.

The Foundation has entered into various limited partnerships and managed accounts with investment managers. These investments are secured by the underlying value of the securities composing the portfolios.

Foundation investments at June 30, 2013 and 2012 are summarized as follows:

	2013	2012
Short-term investments	$ 1,865	$ 530
Domestic equities	74,665	74,480
Foreign equities	56,537	28,596
Other equities	-	726
Fixed income	21,877	48,348
Mutual funds – Equities	24,926	17,410
Mutual funds – Fixed	14,451	19,364
Limited partnerships	122,820	115,878
Venture capital	38,917	37,702
	$ 356,058	$ 343,034

Certain 2012 amounts have been reclassified to conform to 2013 presentations.

Marketable securities: The fair values for marketable debt and equity securities are based on quoted market prices. Securities traded on national securities exchanges 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 asked prices.

Limited partnership investments: The carrying amount reported in the Statements of Financial Position is stated at market value or estimated market value.

Venture capital investments: The carrying amount reported in the Statement of Financial Position is stated at market value or estimated market value. Management, external consultants, and the Board of Directors evaluate these investments for impairments on a quarterly basis. As of June 30, 2013, the Foundation has an outstanding commitment to fund limited partnership and venture capital investments in the amount of $32,918.

In determining the fair value of investments, the Foundation utilizes a fair value hierarchy that ranks the quality and reliability of the information used to determine fair values and is based on certain assumptions that market participants would use in pricing the asset, including assumptions about risk and/or the risks inherent in the inputs to the valuation techniques. The Foundation’s total investment fair value measurement is categorized by the following valuation techniques: (1) Valuations from quoted prices in active markets that are traded by dealers and brokers ($158,167 and $150,584 in 2013 and 2012, respectively); (2) Valuations obtained from third party pricing services for identical or similar assets ($36,154 and $38,870 in 2013 and 2012, respectively); (3) Valuations from other techniques including option pricing models, discounted cash flow models, and other similar techniques, and not based on market exchange transactions ($161,737 and $153,580 in 2013 and 2012, respectively).

Research park investment (not included in the above summary): The Foundation is also invested in a research park development, which consists of land transferred at historical cost from the University plus costs incurred to develop the infrastructure of the research park.

5. Accounts and interest receivable

The composition of accounts and interest receivable at June 30, 2013 and 2012 is summarized as follows:

	2013	2012
State appropriations	$ 54,408	$ 53,408
Research and sponsored programs	63,866	59,273
Departmental activities	20,515	20,670
Interest receivable	1,938	1,626
Other	20,295	23,072
	161,022	158,049
Less: allowance for doubtful accounts	15,689	15,178
Total accounts and interest receivable, net	$ 145,333	$ 142,871

6. Student loans and pledges receivable

The composition of student loans and pledges receivable at June 30, 2013 and 2012 is summarized as follows:

	2013	2012
Student loans receivable:		
Federal Family Education Loan Program	$ 1,648	$ 2,092
Perkins Federal Loan Program	38,085	38,001
Other	10,869	10,528
	50,602	50,621
Less: allowance for doubtful accounts	5,320	5,157
Total student loans receivable, net	45,282	45,464
Pledges receivable:		
Capital	27,089	34,587
Operations	16,612	21,058
	43,701	55,645
Less: allowance for doubtful accounts	5,162	6,413
Total pledges receivable, net	38,539	49,232
Total student loans and pledges receivable, net	83,821	94,696
Less current portion - student loans	9,238	9,409
Less current portion - pledges	14,530	27,568
Noncurrent portion	$ 60,053	$ 57,719

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 University holds and services student loans related to the discontinued U.S. Department of Education Federal Family Education Loan Program. As of June 30, 2013, the University held a non-revolving line of credit, used to facilitate the servicing of the loans (see Footnote 13).

For the year ended June 30, 2013 and 2012, the University distributed $361,833 and $364,921, 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.

Payments on pledges receivable at June 30, 2013, 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 5%.

2014	$ 16,555
2015	8,839
2016	6,690
2017	5,240
2018	3,332
2019 and beyond	3,045
Total discounted pledges receivable	43,701
Less: allowance for uncollectible pledges	5,162
Total pledges receivable, net	$ 38,539

7. Investments in joint ventures

The University is a member of several incorporated nonprofit joint ventures, most of which are accounted for under the equity method. The University and Sparrow Health System are members of Mid-Michigan MRI, Inc., which provides high technology cross-sectional diagnostic imaging services. University Rehabilitation Alliance, Inc. has the University and Peckham Vocational Industries of Lansing as members and is an enterprise for the treatment of persons with brain injury. Alliance Corporation is an enterprise formed with Spectrum Health System to support and direct the collaboration of physicians and researchers to enhance patient treatments and increase the investigation of leading-edge medical research. The University is a 50% member in each of the foregoing nonprofit corporations. Additionally, the University is a one-third member in Radiation Oncology Alliance, a nonprofit corporation formed with McLaren Greater Lansing and the University of Michigan to provide radiation oncology services. 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 48824-1046.

8. Capital assets and collections

Capital asset and collection activity for the years ended June 30, 2013 and 2012 follows:

	2012	Additions	Disposals	Transfers	2013
Non-depreciated capital assets:					
Land	$ 34,821	$ 3,465	$ (4)	$ -	$ 38,282
Construction in progress	226,638	160,852	(160)	(203,076)	184,254
Museum collections	9,760	1,487	-	-	11,247
Total non-depreciated capital assets	271,219	165,804	(164)	(203,076)	233,783
Depreciated capital assets:					
Buildings and site improvements	2,309,126	8,941	(992)	200,905	2,517,980
Software and other intangibles	91,184	1,967	-	-	93,151
Equipment and other	671,902	45,754	(13,779)	2,171	706,048
Less: accumulated depreciation					
Buildings and site improvements	(973,260)	(75,084)	873	-	(1,047,471)
Software and other intangibles	(35,690)	(18,630)	-	-	(54,320)
Equipment and other	(515,774)	(44,823)	12,404	-	(548,193)
Total depreciated capital assets	1,547,488	(81,875)	(1,494)	203,076	1,667,195
Total capital assets	$ 1,818,707	$ 83,929	$ (1,658)	$ -	$ 1,900,978

	2011	Additions	Disposals	Transfers	2012
Non-depreciated capital assets:					
Land	$ 32,143	$ 2,678	$ -	$ -	$ 34,821
Construction in progress	205,028	141,569	-	(119,959)	226,638
Museum collections	8,871	889	-	-	9,760
Total non-depreciated capital assets	246,042	145,136	-	(119,959)	271,219
Depreciated capital assets:					
Buildings and site improvements	2,155,955	45,898	(4,741)	112,014	2,309,126
Software and other intangibles	87,264	3,920	-	-	91,184
Equipment and other	625,836	49,224	(11,103)	7,945	671,902
Less: accumulated depreciation					
Buildings and site improvements	(909,712)	(68,056)	4,508	-	(973,260)
Software and other intangibles	(17,453)	(18,237)	-	-	(35,690)
Equipment and other	(484,567)	(41,785)	10,578	-	(515,774)
Total depreciated capital assets	1,457,323	(29,036)	(758)	119,959	1,547,488
Total capital assets	$ 1,703,365	$ 116,100	$ (758)	$ -	$ 1,818,707

9. Deferred outflows of resources

The composition of deferred outflows of resources at June 30, 2013 and 2012 is summarized as follows:

	2013	2012
Accumulated changes in fair value of hedging derivative instruments	$ 45,300	$ 66,434
Loss on refunding of debt at June 30, 2010	15,627	16,760
Total deferred outflows of resources	$ 60,927	$ 83,194

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. To manage these risks, the University uses commercial insurance with various self-insured retentions. Self-insured amounts are calculated based on current and historical claims experience.

The University's liability for various medical professional liability claims is funded based on actuarial valuations. The University carries excess commercial medical professional liability insurance to manage the liability. The liability is reported at its present value of $6,888 as of June 30, 2013. The discount rate used was 2%.

The University is also self-insured for various employee benefits which 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 $3,713 as of June 30, 2013. The discount rate used was 6%.

Changes in the total reported general, professional, and self-insured employee benefit liabilities during 2013, 2012, and 2011 were as follows:

	2013	2012	2011
Balance, beginning of year	$ 20,868	$ 21,954	$ 21,702
Claims incurred and changes in estimates	85,673	90,052	100,822
Claim payments	(84,180)	(91,138)	(100,570)
Balance, end of year	22,361	20,868	21,954
Less: current portion	14,109	13,619	15,073
Noncurrent portion	$ 8,252	$ 7,249	$ 6,881

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.

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

11. Retirement benefits

The University has a defined contribution base retirement program administered through TIAA-CREF 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.

Participating employees contribute 5% of their base salary or wages and the University contributes 10% of the employee's base salary or wages subject to applicable Internal Revenue Service limits. Participants may elect to contribute additional amounts to a supplemental 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, 2013 and 2012 were as follows:

	2013	2012
University contributions	$ 70,315	$ 67,386
Employee contributions	35,157	33,693

In addition, the University has a single-employer, defined benefit plan covering 536 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, which are estimated to be $6,777 based on an actuarial valuation as of January 1, 2013. The benefits are based on the employee's compensation during the last three years of employment and/or years of service. There were no required annual contributions and no pension costs for each of the three preceding years ended June 30, 2013.

12. Other postemployment benefits (OPEB)

Plan Description: 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. 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 17,600 members. The plan does not issue a separate stand-alone financial statement. Effective for new employees hired on or after July 1, 2010, the University discontinued providing retiree health and dental care benefits.

Funding Policy: The University's medical plans are self-funded and each plan's premiums are updated annually based on actual claims. The University contributes to the lowest cost health plan's single rate cost for which retirees are eligible. No payment is required by retirees who select the lowest cost health plan for coverage. In the event a retiree selects an alternative health plan, the retiree is responsible for payment of the difference in premium costs. Retirees are responsible for various co-payments. The University funds OPEB on a pay-as-you-go basis, and there is no obligation to make contributions in advance of when the insurance premiums or claims are due for payment.

Funding Progress: For the year ended June 30, 2013, the University has estimated the cost (annual expense) of providing retiree health and dental care benefits through an actuarial valuation as of January 1, 2012 and adjusted for 2012-13 health care cost experience. In accordance with GASB Statement No. 45, the valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. This valuation's computed contribution and actual funding are summarized as follows:

	2013	2012	2011
Annual required contribution	$ 74,423	$ 73,935	$ 66,616
Interest on the prior year's net OPEB obligation	15,189	11,873	8,976
Less adjustment to the annual required contribution	(12,368)	(9,413)	(6,939)
Annual OPEB cost	77,244	76,395	68,653
Amounts contributed:			
Payments of current premiums and claims	(31,147)	(29,022)	(27,279)
Advance funding	-	-	-
Increase in net OPEB obligation	46,097	47,373	41,374
OPEB obligation - beginning of year	216,981	169,608	128,234
OPEB obligation - end of year	$ 263,078	$ 216,981	$ 169,608

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years are as follows:

	Fiscal Year Ended June 30,		
	2013	2012	2011
Annual OPEB cost	$ 77,244	$ 76,395	$ 68,653
Percentage contributed	40.3%	38.0%	39.7%
Net OPEB obligation	$ 263,078	$ 216,981	$ 169,608

The funding progress of the plan as of the most recent and two preceding valuation dates are as follows:

	2013	2012	2011
Actuarial value of assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)	901,127	850,695	791,921
Unfunded AAL (UAAL)	$ 901,127	$ 850,695	$ 791,921
Funded ratio	0.0%	0.0%	0.0%
Annual covered payroll (annual payroll of active employees covered by the plan)	$ 797,207	$ 802,106	$ 783,187
UAAL as a percentage of covered payroll	113.0%	106.1%	101.1%

Actuarial methods and assumptions: 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. Amounts are determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 7% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term and short-term investment returns on the University's own assets to be used for funding the current liability, and an annual health care cost trend rate of 5% which includes a 4% inflation assumption. The UAAL is being amortized over 30 years as a level percentage of projected payroll on a closed basis, with 24 years remaining.

13. Long term debt and other obligations

Long term debt and other obligations for the years ended June 30, 2013 and 2012 are summarized as follows:

	2012	Borrowed	Retired	2013	Current Portion
General Revenue Bonds:					
Series 2013A	$ -	$ 170,950	$ -	$ 170,950	$ -
Series 2010A	205,000	-	-	205,000	-
Series 2010C	272,625	-	11,795	260,830	12,215
Series 2007A	21,880	-	3,220	18,660	3,380
Series 2007B	25,000	-	-	25,000	-
Series 2005	54,140	-	-	54,140	-
Series 2003A	48,205	-	-	48,205	-
Series 2000A	77,135	-	-	77,135	-
	703,985	170,950	15,015	859,920	15,595
General Revenue Commercial Paper:					
Series B taxable	76,755	11,100	-	87,855	87,855
Series C tax-exempt	55,475	-	55,475	-	-
Series D tax-exempt	15,000	156,115	90,070	81,045	81,045
	147,230	167,215	145,545	168,900	168,900
Federal student loan deposits	37,694	487	-	38,181	-
Line of credit	1,742	-	431	1,311	1,311
Lease obligations and other	21,983	23,487	1,157	44,313	1,550
	$ 912,634	$ 362,139	$ 162,148	$1,112,625	$ 187,356

	2011	Borrowed	Retired	2012	Current Portion
General Revenue Bonds:					
Series 2010A	$ 205,000	$ -	$ -	$ 205,000	$ -
Series 2010C	284,155	-	11,530	272,625	11,795
Series 2007A	24,970	-	3,090	21,880	3,220
Series 2007B	25,000	-	-	25,000	-
Series 2005	54,140	-	-	54,140	-
Series 2003A	48,205	-	-	48,205	-
Series 2003C	9,620	-	9,620	-	-
Series 2000A	77,140	-	5	77,135	-
	728,230	-	24,245	703,985	15,015
General Revenue Commercial Paper:					
Series B taxable	33,880	72,875	30,000	76,755	76,755
Series C tax-exempt	47,475	15,000	7,000	55,475	55,475
Series D tax-exempt	-	15,000	-	15,000	15,000
	81,355	102,875	37,000	147,230	147,230
Federal student loan deposits	37,298	396	-	37,694	-
Line of credit	2,428	-	686	1,742	-
Lease obligations and other	22,589	-	606	21,983	1,158
	$ 871,900	$ 103,271	$ 62,537	$ 912,634	$ 163,403

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

- Series 2007B: from fiscal 2020 through 2037
- Series 2005: from 2021 through 2034
- Series 2003A: from 2021 through 2033
- Series 2000A: from 2022 through 2031

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

On May 15, 2013, the University issued fixed-rate General Revenue Bonds, Series 2013A for $170,950 with a net original issue premium of $23,487. Proceeds provided $112,469 for capital projects, $81,100 to convert commercial paper into long-term debt, and $868 for issuance costs. The Series 2013A bonds bear interest at fixed rates from 2.5% 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 6.17% 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 (8.7%) will be applied until the end of the federal fiscal year (September 30, 2013) or intervening Congressional action, at which time the sequestration rate is subject to change.

The Series 2010C bonds bear interest at fixed rates from 2% to 5.13% and mature either serially through fiscal 2029 or are subject to mandatory redemption from 2030 through 2044.

The Series 2007A bonds bear interest at 5% and mature serially through fiscal 2019.

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 0.12% and taxable balances bear interest at rates from 0.09% to 0.16%, with principal and accrued interest payments due within a maximum of 270 days from the date of issuance.

During the year ended June 30, 2012, the University used $9,375 par value of Commercial Paper Series B to refund $9,375 par value of Series 2003C bonds.

Hedging derivative instrument payments and hedged debt: Using rates as of June 30, 2013, 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 Footnote 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
2014	$ 15,595	$ 33,530	$ -	$ 301	$ 7,808	$ 57,234
2015	19,385	32,663	-	301	7,777	60,126
2016	20,170	31,709	-	301	7,744	59,924
2017	21,015	30,679	-	301	7,711	59,706
2018	19,800	29,671	-	301	7,676	57,448
2019-2023	79,010	135,019	32,210	1,368	36,030	283,637
2024-2028	37,850	122,246	89,020	789	22,532	272,437
2029-2033	46,015	114,009	74,750	287	6,462	241,523
2034-2038	70,750	102,206	8,500	68	108	181,632
2039-2043	105,935	80,770	-	-	-	186,705
2044-2048	150,010	46,787	-	-	-	196,797
2049-2053	69,905	4,921	-	-	-	74,826
Total	$ 655,440	$ 764,210	$ 204,480	$ 4,017	$ 103,848	$ 1,731,995

Interest expense was $35,968 (net of $2,709 capitalized interest) and $35,264 (net of $3,795 capitalized interest) for 2013 and 2012, respectively.

Federal student loan deposits represent funds from the federal government related to various federal student loan programs.

At June 30, 2013, the University owed $1,311 on a $4,100 non-revolving line of credit related to the University's servicing of unsold graduate and professional degree student loans under the Federal Family Education Loan Program (see Footnote 6). This line of credit bears interest equal to the British Bankers Association (BBA) London Interbank Offering Rate (LIBOR) Daily Floating Rate plus 1%. Payments of accrued interest are due monthly, with all unpaid accrued interest and principal due in October 2013.

Lease obligations and other is comprised of lease obligations of $1,613 ($134 current) and unamortized bond premium of $42,700 ($1,416 current). Bond premium amounts are amortized over the applicable bond issue life.

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 2013 and 2012 were as follows:

	2013	2012
Balance, beginning of year	$ 73,629	$ 81,193
Additions	15,701	2,910
Reductions	(2,673)	(10,474)
Balance, end of year	86,657	73,629
Less: current portion	52,991	40,887
Noncurrent portion	$ 33,666	$ 32,742

14. Derivative instruments

At June 30, 2013 and 2012, the University was invested in eight 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, 2013 and 2012 are as follows:

	2013		2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivative instruments - swap asset:				
Investment derivatives:				
Pay-variable interest rate swaps	$ 64,085	$ 305	$ 69,240	$ 352
Derivative instruments - swap liability:				
Cash flow hedging derivatives:				
Pay-fixed interest rate swaps	$ 209,610	$ (45,300)	$ 210,245	$ (66,434)
Investment derivatives:				
Pay-variable interest rate swaps	431,500	17,811	446,355	22,062
Pay-fixed interest rate swaps	71,685	(16,740)	71,685	(26,856)
Total Derivative instruments - swap liability	$ 712,795	$ (44,229)	$ 728,285	$ (71,228)

In accordance with GASB Statement No. 53, an interest rate swap is considered an effective cash flow hedge if the swap payment received substantially offset 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, 2013 and 2012, the fair value of hedging derivative instruments increased $21,134 and decreased $30,664, respectively, while the fair value of investment derivative instruments increased $5,818 and decreased $13,495, 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 eight 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.

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, 2013 and 2012, along with the notional amounts and credit rating of the associated counterparty as of June 30, 2013.

Type	Cash Flow Hedge for Debt Series	2013 Notional Amount	Effective Date	Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating	2013 Fair Value	2012 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/A2	$ (17,528)	$ (24,742)
Pay-fixed interest rate swap	CP Series B	2,570	10/17/2002	8/15/2018	4.330%	USD-LIBOR-BBA one month	Deutsche Bank AG/A2	(266)	(382)
Pay-fixed interest rate swap	CP Series B	2,040	10/17/2002	8/15/2022	5.280%	USD-LIBOR-BBA one month	Deutsche Bank AG/A2	(484)	(664)
Pay-fixed interest rate swap	2003A	48,205	11/3/2008	2/15/2033	3.618%	67% USD-LIBOR-BBA one month	Barclays Bank PLC/A2	(9,668)	(14,672)
Pay-fixed interest rate swap	CP Series B	9,120	11/3/2008	2/15/2033	5.330%	USD-LIBOR-BBA one month	Barclays Bank PLC/A2	(2,359)	(3,545)
Pay-fixed interest rate swap	2005	54,140	11/3/2008	2/15/2034	3.647%	67% USD-LIBOR-BBA one month	Barclays Bank PLC/A2	(11,065)	(16,715)
Pay-fixed interest rate swap	2007B & CP Series C	22,000	5/17/2007	2/15/2028	4.139%	67% USD-LIBOR-BBA three month plus .58%	JP Morgan Chase Bank/Aa3	(3,930)	(5,714)
		$ 209,610						$ (45,300)	$ (66,434)

The following table displays the terms and fair values of the University's investment derivative instruments outstanding at June 30, 2013 and 2012, along with the notional amounts and credit rating of the associated counterparty as of June 30, 2013.

Type	Associated Debt Series	2013 Notional Amount	Effective Date	Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating	2013 Fair Value	2012 Fair Value
Pay-variable interest rate swap	2000A, 2003A, 2005, 2010C	$ 262,705	8/15/2009	2/15/2034	67% of USD-LIBOR- BBA one-month	67% USD-ISDA Swap Rate ten year less .407%	Deutsche Bank AG/A2	$ 14,291	$ 16,160
Pay-variable interest rate swap	CP Series B	13,730	5/26/2006	2/15/2033	USD-LIBOR-BBA one-month	USD-LIBOR-BBA ten year less .575%	Deutsche Bank AG/A2	1,129	1,269
Pay-variable interest rate swap	2010C	42,720	5/17/2010	8/15/2032	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus .44%	Duetsche Bank AG/A2	204	235
Pay-variable interest rate swap	2010C	64,085	5/17/2010	8/15/2032	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus .44%	Bank of New York Mellon / Aa1	305	352
Pay-variable interest rate swap	2007A, 2007B, 2010C	112,345	5/17/2007	2/15/2037	SIFMA Municipal Swap Index	67% USD-ISDA Swap Rate ten year plus .0063%	JP Morgan Chase Bank / Aa3	2,187	4,398
Pay-fixed interest rate swap	2007B, CP Series B & D	71,685	5/17/2010	2/15/2037	4.226%	67% USD-LIBOR-BBA three month plus .63%	JP Morgan Chase Bank / Aa3	(16,740)	(26,856)
		$ 567,270						$ 1,376	$ (4,442)

During the year ended June 30, 2012, amendments to three of the University's pay-variable, receive-variable interest rate swaps became effective per the terms listed in the table below. After the amendment period, these interest rate swaps revert back to the original terms as outlined in the table above.

2013 Notional Amount	Amendment Effective Date	Amendment Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating
$262,705	8/15/2011	8/14/2014	0%	1.407%	Deutsche Bank AG/A2
$ 13,730	8/15/2011	8/14/2014	0%	2.1725%	Deutsche Bank AG/A2
$112,345	8/1/2011	7/31/2014	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 1.8653%	JP Morgan Chase Bank/Aa3

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, 2013 was $18,116. 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 fully 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 $305.

To mitigate credit risk, the University executes interest rate swaps with various counterparties and it is the University's policy to require collateralization. The following table demonstrates the thresholds and minimum transfers for collateralization:

	Deutsche Bank AG		JP Morgan Chase Bank N.A.		Bank of New York Mellon		Barclays Bank PLC	
Credit Rating	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 trustee 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 CP Series D debt, and should the rates resulting from the USD-LIBOR-BBA swaps not equal the rate the University pays on the CP Series B 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, 2013, the University's credit ratings were Aa1 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, 2013 was ($43,924). The related collateral postings totaled $16,368 posted by the University to its counterparties and $0 held by the University posted by its counterparties.

15. Net position

Restricted and unrestricted net position for the years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Restricted - nonexpendable:		
Permanent endowments	$ 435,590	$ 389,884
Restricted - expendable:		
Gifts, endowment income and sponsored programs	$ 341,021	$ 328,363
Quasi and term endowments	169,133	159,941
Capital projects	48,789	51,259
Student loans	8,332	8,226
Total Restricted - expendable	$ 567,275	$ 547,789
Total Restricted Net Position	$ 1,002,865	$ 937,673
Unrestricted:		
Designated/Committed	$ 874,092	$ 760,418
Uncommitted	11,275	11,528
Total Unrestricted Net Position	$ 885,367	$ 771,946

Restricted – Net position is restricted when it is subject to externally imposed constraints.

Unrestricted – Unrestricted net position is not subject to externally imposed constraints. However, this net position is subject to internal designations. Unrestricted net position includes amounts designated for specific purposes by action of the Board or management or may otherwise be subject to pending contractual commitments with external parties. Substantially all unrestricted net position is internally designated for programmatic initiatives or capital asset renewals.

16. 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.

17. Commitments

At June 30, 2013, the University had 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 $247,092 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 between the SBA, the State of Michigan, and the University. During the lease terms, the SBA will hold title to the respective buildings, the State of Michigan will make all lease payments to the SBA, and the University will pay 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, 2013, the University had entered into various limited partnerships with investment managers of oil and gas, real estate, venture capital, private equity, and restructuring funds. As of June 30, 2013, $199,714 of the initial $550,963 investment commitment remains outstanding.

18. New accounting pronouncements

The University will be required to implement the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27,* effective with the fiscal year ending June 30, 2015. The University will be required to address modifications to certain requirements for financial reporting of pension plans. The University has not yet determined the full impact of this standard on its financial statements.

Financial report prepared under the direction of Mark P. Haas, Vice President for Finance and Treasurer; Glen J. Klein, Director of Investments and Financial Management; Gregory J. Deppong, Controller; and John L. Thelen, Manager of Financial and Cost Analysis.

Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

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 the 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 and its discretely presented component unit as of and for the years ended June 30, 2013 and 2012, and related notes to the financial statements, which collectively comprise Michigan State University's basic financial statements, and have issued our report thereon dated October 24, 2013. Our Michigan State University Foundation, as described in our report on Michigan State University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Michigan State University Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Michigan State University's internal control over financial reporting (internal control) to determine the 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 entity'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.

To Management and the Board of Trustees
Michigan State University

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Michigan State 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Michigan State 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 24, 2013

MICHIGAN STATE
UNIVERSITY