ANNUAL FINANCIAL REPORT 2013-2014

MICHIGAN STATE UNIVERSITY

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Michigan State University

MICHIGAN STATE UNIVERSITY

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MICHIGAN STATE UNIVERSITY

October 24, 2014

This report presents Michigan State University's financial position and results of operations for fiscal years ended June 30, 2014, and June 30, 2013. 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 16-17.

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.

When you think of MSU, we want you to think of excellence and value. Our students demand high value and their future employers demand high-quality graduates; we are delivering both. MSU is a top-100 university in the world with 29 programs listed among the top 20 in the U.S. News & World Report rankings, and our employed or continuing education placement rate is 91%. The university has long taken our duty to provide value to our students as a core part of our mission as a land-grant university. After inflation, the cost of providing a MSU education has remained constant over a more than ten year period. This allows our students to graduate with less debt than the state or national average. While tuition costs for students reflect a prolonged era of government disinvestment in higher education, we are encouraged by recent reinvestment as state appropriations are expected to increase 5.9% in fiscal year 2015.

MSU makes an impact across Michigan. The university has a presence in every county in our state through our medical schools, research stations, partner hospitals, and MSU Extension. We take seriously our mission of educating the children of Michigan. By maintaining a level of in-state enrollment that is well above the Big Ten average, MSU is providing a world-class education to the best and brightest of Michigan.

As a major research university, federal sequestration poses challenges to our goal of doubling grants and awards over the next decade. In 2014, MSU partially mitigated the initial impact of sequestration by using one-time American Recovery and Reinvestment Act (ARRA) funds. Meanwhile, the development of the Facility for Rare Isotope Beams (FRIB) project outlines the University's continued leadership in the field of nuclear isotope research. This $730 million partnership with the Department of Energy will bring a consistent flow of federal funds to MSU and will create jobs in Michigan. However, work by Congress to address the federal budget deficit will likely constrain growth in future federal research funds.

We also are high performers in operational efficiency. When compared to participating AAU major research land-grant universities:

- MSU has the lowest energy costs.
- We have the most efficient grounds operations and maintenance staffing.
- MSU has managed to keep our employee health care costs capped at 5%.

This efficiency has enabled us to maintain our high quality despite getting $3,700 less per student from state appropriations compared to our national peers.

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Mark P. Haas
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and Treasurer

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The University's total investments have grown to $2.7 billion due primarily to charitable gifts and strong investment returns. MSU's Common Investment Fund returns were 16.2% and 11.3% in 2014 and 2013 respectively.

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. 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

Introduction

The following discussion provides an overview of the financial position of Michigan State University (the "University") for the fiscal years ended June 30, 2014 and 2013.

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, 2014, 2013, and 2012 follows (the University has no deferred inflows of resources):

	2014	2013	2012
		(in millions)	
Current assets	$ 507	$ 513	$ 444
Noncurrent assets:			
Restricted cash and cash equivalents and restricted investments	16	101	-
Endowment and other investments	2,317	1,945	1,775
Capital assets, net	1,995	1,901	1,819
Other	71	67	69
Total assets	4,906	4,527	4,107
Deferred outflows of resources	60	61	83
Current liabilities	491	488	437
Noncurrent liabilities	1,302	1,275	1,077
Total liabilities	1,793	1,763	1,514
Net position	$ 3,173	$ 2,825	$ 2,676

Current assets:

Current assets consist of cash and cash equivalents, investments, net accounts and interest receivable, and other assets. The net decrease in current assets in 2014 is due primarily to a net $4 million decrease 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).

The net increase in 2013 is due primarily to a net $99 million increase in cash and cash equivalents and investments. This increase is partially offset with a $15 million decrease in collateral from the securities lending program, from which the University elected to withdraw, and a decrease of $13 million in student loans and pledges receivable due in part to the collection of gift pledge amounts for various capital projects in process during the fiscal year.

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 decrease in 2014 represents the spending of Series 2013A bond proceeds consistent with their restricted purpose. The increase in 2013 is due to the issuance of Series 2013A bonds in May 2013.

Endowment and other investments

At June 30, 2014 and 2013, the University's endowment investments totaled $2,082 million (an increase of $498 million) and $1,584 million (an increase of $215 million), respectively. Endowment gifts and University-designated additions to Endowment investments totaled $50 million in 2014 and $39 million in 2013.

Investment gains (realized and unrealized) within the investment portfolio accounted for a net $178 million increase and a net $68 million increase in 2014 and 2013, respectively, while $13 million of unspent spending policy distributions were reinvested into the respective endowments, consistent with the underlying endowment agreements in both 2014 and 2013. In addition, investments of $270 million in 2014 and $100 million in 2013 were reallocated to designated endowment investments, consistent with the University's Board-approved cash management and investment plan. Partially offsetting these increases is a net draw on accumulated capital gains of $13 million and $5 million in 2014 and 2013 respectively, for "Just-In-Time" capital gain and spending policy distributions.

Other investments consist primarily of funded retirement and postemployment benefit reserves, which totaled $96 million and $84 million at June 30, 2014 and 2013, respectively. Also included in other investments is the Liquidity Reserve Pool component of the University's Operating Cash Pool ($79 million in 2014 and $221 million in 2013), which decreased due in part to realigning investment amounts consistent with the University's Board-approved cash management and investment plan.

For the years ended June 30, 2014, 2013, and 2012, the total returns on investments were as follows:

	2014	2013	2012
Operating Cash Pool:			
Liquidity Pool	1.2%	1.1%	1.0%
Liquidity Reserve Pool	4.0%	1.4%	5.1%
Common Investment Fund	16.2%	11.3%	(2.8)%
Other Separately Invested Investments	8.6%	13.8%	(16.1)%

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, 2014, 2013, and 2012, the University's investment in capital assets was as follows:

	2014	2013	2012
		(in millions)	
Land	$ 39	$ 38	$ 35
Buildings and site improvements	2,681	2,518	2,309
Construction in progress	214	184	227
Software and other intangibles	95	93	91
Equipment and other	735	706	672
Museum collections	12	11	10
Less: accumulated depreciation	(1,781)	(1,649)	(1,525)
	$ 1,995	$ 1,901	$ 1,819

Major additions to buildings and site improvements during 2014 include $30 million for Bailey and Rather Hall renovations, $27 million for Armstrong and Bryan Hall renovations, $18 million for Fairchild Theatre Auditorium alterations, $14 million for Butterfield Hall renovations, and $14 million for the Facility for Rare Isotope Beams – New High Bay. 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.

Construction in progress reflects multi-year projects which, once completed and placed into service, are generally categorized as buildings and site improvements. The 2014 balance includes $70 million for the Facility for Rare Isotope Beams, $21 million for the Spartan Stadium – North End Zone addition, $17 million for Landon Hall – Dining, Safety, and Accessibility renovations, $15 million for the Bio Engineering Facility, and $14 million for Steam Distribution Tunnel replacement. 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.

As of June 30, 2014, 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 $740 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 of $1 million and $22 million in 2014 and 2013, respectively, is due primarily to the change in the accumulated fair value of hedging derivative instruments.

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 2014 is due in part to a $12 million increase in trade accounts and interest payable, $6 million increase in unearned revenue, and $3 million increase in accrued personnel costs. Offsetting these increases is an $18 million decrease in the current portion of long-term debt and other obligations. Trade accounts payable balances vary from year to year due in part to timing of University initiatives and payments of related programmatic costs. The net increase in unearned revenue is primarily due to $3 million in lease revenue received in advance of the lease period and $2 million increase in advance athletic ticket sales. The net decrease in the current portion of long-term debt and other obligations is due in part to the refunding of outstanding General Revenue Commercial Paper (short term financing), Series D, totaling $25 million, partially offset with the issuance of General Revenue Commercial Paper, Series B ($3 million) and Series E ($1 million).

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, 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.

Noncurrent liabilities, primarily debt:

At June 30, 2014, the University had noncurrent debt and other obligations outstanding of $905 million compared with $925 million at June 30, 2013. This balance is comprised primarily of outstanding General Revenue Bonds of $864 million and $886 million in 2014 and 2013, respectively (including $40 million and $41 million in 2014 and 2013, respectively, of related original issue premiums). The decrease is primarily due to scheduled principal debt payments of $21 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.

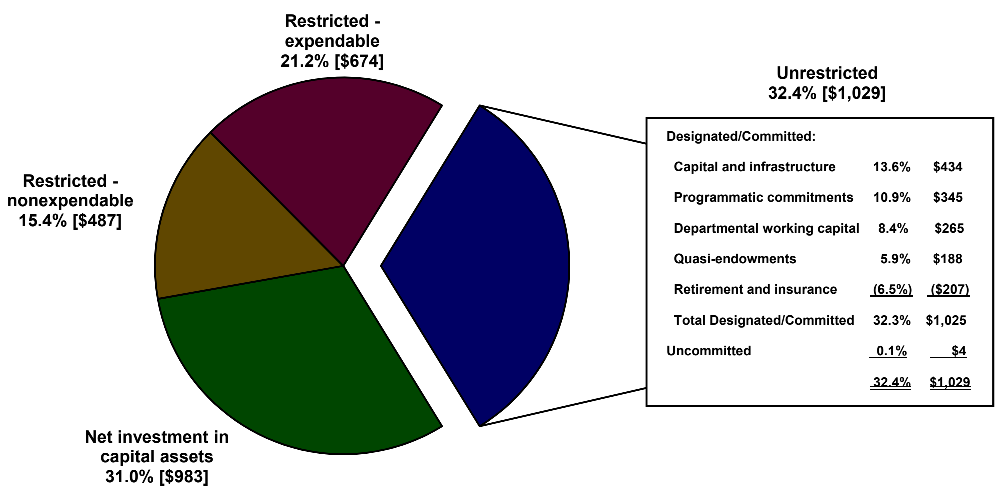
The University faces the continuing challenge of funding its increasing health care and dental benefits costs. This includes the cost of providing postemployment health and dental benefits to eligible employees (other postemployment benefits, or OPEB) through a closed single employer defined benefit plan administered by the University. For the year ended June 30, 2014, the University has estimated the cost (annual expense) of providing OPEB through an actuarial valuation as of January 1, 2014. 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 2014 and 2013 is estimated at $823 million and $901 million, respectively. Of these amounts, the University has recorded a noncurrent liability of $307 million and $263 million for 2014 and 2013, 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 $44 million represents the continued amortization (year seven of thirty) 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, 2014, 2013, and 2012 is summarized as follows:

	2014	2013	2012
		(in millions)	
Net investment in capital assets	$ 983	$ 937	$ 967
Restricted:			
Nonexpendable	487	436	390
Expendable	674	567	547
Total restricted	1,161	1,003	937
Unrestricted	1,029	885	772
Total net position	$ 3,173	$ 2,825	$ 2,676

The following is a breakdown of net position at June 30, 2014. See footnote 15 for further information (amounts are presented in millions of dollars):



TOTAL NET POSITION $3.2 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 2014 summer semester and the first quarter of fiscal year 2015, maintaining reserves for capital projects, continued recognition of the OPEB obligation, working capital for self-supporting departmental activities, and unrestricted quasi and term endowments. The uncommitted balance is $4 million.

The University's ongoing review of its infrastructure indicates a need for approximately $1 billion 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.

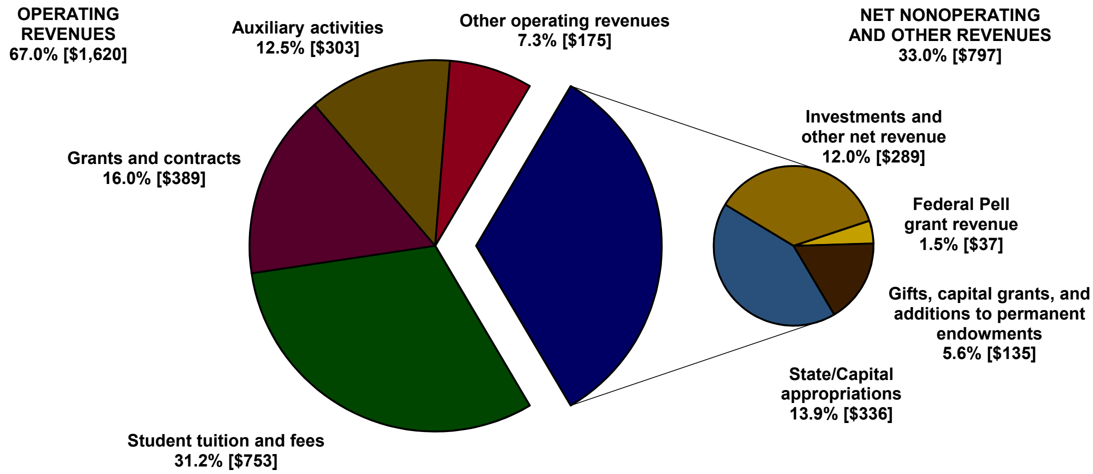
Statement of Revenues, Expenses, and Changes in Net Position

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, 2014, 2013, and 2012 follows:

	2014	2013	2012
		(in millions)	
Operating revenues:			
Student tuition and fees, net of allowances	$ 753	$ 697	$ 640
Grants and contracts	389	396	404
Auxiliary activities	303	305	293
Other operating revenues	175	180	166
Total operating revenues	1,620	1,578	1,503
Operating expenses:			
Instruction and departmental research	632	589	575
Research	312	329	319
Public service	222	233	210
Academic support	95	82	82
Student services	49	46	32
Scholarships and fellowships	60	56	55
Institutional support	115	113	103
Operation and maintenance of plant	139	144	149
Auxiliary enterprises	289	289	275
Depreciation	150	139	128
Other operating expenses, net	6	4	3
Total operating expenses	2,069	2,024	1,931
Operating loss	(449)	(446)	(428)
Nonoperating revenues (expenses):			
State operating appropriation	250	245	241
State AgBioResearch appropriation	30	29	28
State cooperative extension service appropriation	26	25	24
Federal Pell grant revenue	37	38	39
Gifts	55	46	52
Net investment income (loss)	324	187	(22)
Interest expense on capital asset related debt	(41)	(36)	(35)
Other nonoperating revenues, net	6	6	7
Net nonoperating revenues	687	540	334
Income (loss) before other	238	94	(94)
State capital appropriations	30	2	1
Capital grants and gifts	36	15	15
Additions to permanent endowments	44	38	30
Increase (decrease) in net position	348	149	(48)
Net position, beginning of year	2,825	2,676	2,724
Net position, end of year	$ 3,173	$ 2,825	$ 2,676

Total net revenue by source for the year ended June 30, 2014 is presented in millions of dollars:



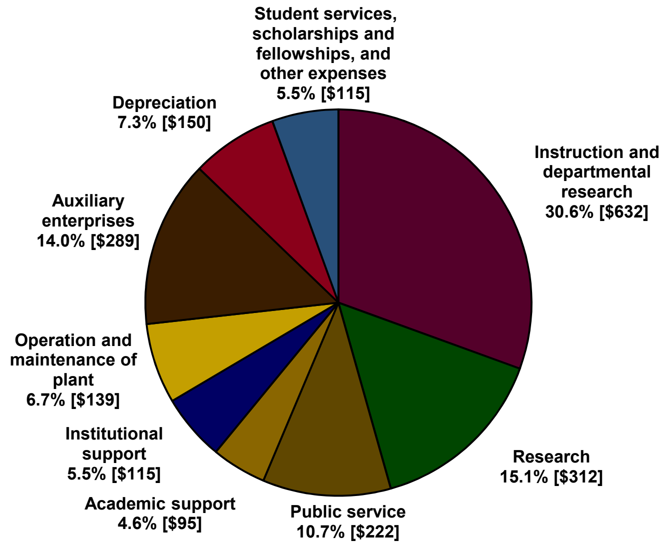
TOTAL REVENUE $2.4 BILLION

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 $753 million and $697 million in 2014 and 2013, respectively. Gross tuition and fees revenue increased 7.8% and 8.1% in 2014 and 2013, respectively, due in part to increases in student credit hours and rates, and changes in the student blend. Other major revenue sources in 2014 include auxiliary activities of $303 million (consistent with 2013), and federal grants and contracts of $309 million, which includes federal sponsored programs of $283 million (a decrease of $27 million), and federal grants and contracts for MSU AgBioResearch and Extension of $26 million (an increase of $22 million). The decrease in federal sponsored programs revenue is reflective of overall reductions in federal research funds available due in part to effects of federal sequestration. The increase in MSU AgBioResearch and Extension federal revenue is primarily due to a delay in 2013 funding of $16 million due to federal sequestration that was subsequently received in 2014.

Net nonoperating and other revenues: A primary source of this net revenue is state appropriations, which totaled $336 million in 2014, an increase of $35 million (11.6%). In 2014, the University received $250 million in funding for general operations, compared to $245 million in 2013. Michigan State University Extension and MSU AgBioResearch appropriations totaled $56 million, compared to $54 million in 2013. In addition, the University received $30 million in state capital appropriations in 2014 ($2 million in 2013), as a result of a community cost-sharing reimbursement agreement whereby the State of Michigan will fund up to $91 million toward the development of the Facility for Rare Isotope Beams. Other significant components of net nonoperating revenues in 2014 include net investment income, which increased $137 million, and gift revenue, which increased $9 million. In 2013, net investment income increased $209 million and gift revenue decreased $6 million.

Operating expenses by source for the year ended June 30, 2014 are presented in millions of dollars:



TOTAL OPERATING EXPENSES $2.1 BILLION

During 2014, $1,166 million was expended for the core missions of the University - instruction and departmental research, research, and public service, an increase of $15 million (1.3%) over 2013. Instruction and departmental research expenses increased $43 million (7.3%), while research expenses decreased $17 million (5.2%). To more consistently report general research expenses, certain research start-up expenses previously reported as research were reclassified to instruction and departmental research. The net increase across these two functions is $26 million (2.8%) which is primarily due to salary increases during 2014. In addition, public service decreased $11 million (4.7%), due in part to decreases in certain medical service plan operations, including Medicaid Enhanced Reimbursement program expenses, and reductions in certain self-insured general and medical professional liability claims expenses. Auxiliary enterprises (activities which provide services to students, faculty, staff, and the public) totaled $289 million (consistent with 2013), while expenses for the operation and maintenance of plant totaled $139 million, a decrease of $5 million (3.5%).

Economic Outlook

There has been a long standing relationship between the level of State appropriation support, maintaining institutional academic competitiveness, and the University's ability to keep tuition increases affordable. If appropriation support had been increased at the rate of inflation over the last ten years, the University's appropriation would be $100 million greater than current levels, adequate to reduce tuition by 12%. Over the past decade, the University has addressed the realities of the State's difficult economy by focusing on diversifying revenue streams, creating operating efficiencies and controlling costs, while preserving existing programmatic strengths. In addition, the University continually evaluates the optimal student mix that allows the University to stay committed to the land-grant mission: delivering our expertise to Michigan residents, and well beyond, as MSU transforms into a world-grant mission, extending the Michigan State University footprint across the globe.

The University budget for fiscal year 2014-15 implemented a blended 2.8% increase in resident undergraduate tuition, while increasing student financial aid by 4.0%. State appropriation support is expected to increase 5.9%, though, as mentioned above, total appropriations continue to lag historic levels. Tuition rates and state appropriation revenue are expected to just keep pace with inflation in future years.

As a major research university, federal sequestration poses challenges to our goal of doubling grants and awards over the next decade. In 2014, MSU partially mitigated the initial impacts of sequestration by using one-time American Recovery and Reinvestment Act (ARRA) funds. Meanwhile, the development of the Facility for Rare Isotope Beams (FRIB) project outlines the University’s continued leadership in the field of nuclear isotope research. This $730 million partnership with the Department of Energy will bring a consistent flow of federal funds to MSU and will create jobs in Michigan. However, work by Congress to address the federal budget deficit will likely constrain growth in future federal research funds.

The University continues to face the competitive pressures of attracting and retaining the highest level of faculty and staff. In addition, the University is assessing recent developments in the ongoing implementation of the Affordable Care Act to ensure compliance in the coming years. As a labor-intensive organization, the University understands that employees are its greatest resource and is committed to developing quality compensation packages that attract the finest faculty and staff to MSU.

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Independent Auditor's Report

To the Board of Trustees
Michigan State University

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan State University (the "University") and its discretely presented component unit, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Michigan State University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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

Opinions

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, 2014 and 2013, and the changes in its financial position and, where applicable, cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-15 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 23, 2014 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 23, 2014

STATEMENTS OF NET POSITION
Michigan State University

	June 30, 2014	June 30, 2013
ASSETS	(in thousands)	
Current assets:		
Cash and cash equivalents	$ -	$ 43,920
Investments	326,510	286,138
Accounts and interest receivable, net	141,572	145,333
Student loans and pledges receivable, net	21,579	23,768
Inventories and other assets	16,867	14,219
Total current assets	506,528	513,378
Noncurrent assets:		
Restricted cash and cash equivalents	10,016	2,335
Restricted investments	5,552	98,761
Endowment investments	2,082,333	1,583,652
Other investments	234,777	361,137
Student loans and pledges receivable, net	63,842	60,053
Investments in joint ventures	6,705	6,664
Derivative instruments - swap asset	286	305
Capital assets, net	1,995,436	1,900,978
Total noncurrent assets	4,398,947	4,013,885
Total assets	**4,905,475**	**4,527,263**
DEFERRED OUTFLOWS OF RESOURCES	**60,296**	**60,927**
LIABILITIES		
Current liabilities:		
Accounts and interest payable	75,643	63,361
Accrued personnel costs	55,677	52,991
Accrued self-insurance liabilities	14,949	14,109
Payroll taxes and other payroll deductions	25,096	26,705
Deposits held for others	25,616	24,265
Unearned revenues	125,254	119,550
Current portion of long term debt and other obligations	168,952	187,356
Total current liabilities	491,187	488,337
Noncurrent liabilities:		
Accrued personnel costs	33,592	33,666
Accrued self-insurance liabilities	6,163	8,252
Derivative instruments - swap liability	50,069	44,229
Net other postemployment benefit obligation	306,503	263,078
Long term debt and other obligations	905,346	925,269
Total noncurrent liabilities	1,301,673	1,274,494
Total liabilities	**1,792,860**	**1,762,831**
NET POSITION		
Net investment in capital assets	982,617	937,127
Restricted:		
Nonexpendable	486,621	435,590
Expendable	674,486	567,275
Unrestricted	1,029,187	885,367
TOTAL NET POSITION	**$ 3,172,911**	**$ 2,825,359**

See accompanying notes

STATEMENTS OF FINANCIAL POSITION

Michigan State University Foundation

	June 30, 2014	June 30, 2013
	(in thousands)	
ASSETS		
Cash equivalents	$ 4,153	$ 5,392
Interest and dividends receivable	72	75
Grants and contracts receivable, net	627	822
Other receivables, net	7	801
Investments:		
Marketable securities	220,495	194,321
Investments in limited partnerships	133,233	122,820
Venture capital	45,996	38,917
Cash value of life insurance	3,173	2,863
Land held for investment	3,420	3,555
Other investments	1,694	1,396
Investment in Research Park	5,883	5,896
Notes receivable/equity in start-up organizations	318	-
Prepaid expenses	29	47
Prepaid rent	3,267	-
Property and equipment, net	6,080	13,994
Intangible assets, net	1,360	1,191
Other assets	3	36
TOTAL ASSETS	**$ 429,810**	**$ 392,126**
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued expenses and other payables	$ 4,389	$ 2,719
Deferred compensation	63	239
Note payable - deferred compensation	-	196
Notes payable	3,895	4,013
Trusts and annuities payable	9,713	10,061
Deposit held for Michigan State University	20,296	17,766
Deferred gain on building sale	1,420	-
Obligations under life estate agreements	123	135
Total liabilities	39,899	35,129
Net assets:		
Unrestricted	337,764	308,882
Temporarily restricted	36,517	33,922
Permanently restricted	15,630	14,193
Total net assets	**389,911**	**356,997**
TOTAL LIABILITIES AND NET ASSETS	**$ 429,810**	**$ 392,126**

See accompanying notes

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Michigan State University

	Year ended June 30, 2014	2013
	(in thousands)	
OPERATING REVENUES		
Student tuition and fees	$ 861,351	$ 799,186
Less: scholarship allowances	107,938	101,851
Net student tuition and fees	753,413	697,335
State of Michigan grants and contracts	8,805	8,839
Federal grants and contracts	308,865	314,186
Local and private sponsored programs	71,435	72,978
Interest and fees on student loans	823	868
Departmental activities (net of scholarship allowances of $4,856 in 2014 and $4,491 in 2013)	173,767	178,871
Auxiliary activities (net of room and board allowances of $20,324 in 2014 and $19,433 in 2013)	303,010	305,327
TOTAL OPERATING REVENUES	**1,620,118**	**1,578,404**
OPERATING EXPENSES		
Instruction and departmental research	631,778	589,106
Research	311,961	328,770
Public service	222,107	233,451
Academic support	94,674	81,869
Student services	48,937	46,492
Scholarships and fellowships	60,388	56,475
Institutional support	114,665	113,473
Operation and maintenance of plant	138,912	143,483
Auxiliary enterprises	289,455	288,797
Depreciation	149,771	138,537
Other operating expenses, net	5,881	3,624
TOTAL OPERATING EXPENSES	**2,068,529**	**2,024,077**
Operating loss	(448,411)	(445,673)
NONOPERATING REVENUES (EXPENSES)		
State operating appropriation	249,598	245,037
State AgBioResearch appropriation	30,244	29,108
State cooperative extension service appropriation	26,045	25,097
Federal Pell grant revenue	37,262	37,804
Gifts	55,177	45,575
Net investment income	323,519	186,889
Interest expense on capital asset related debt	(41,409)	(35,968)
Other nonoperating revenues, net	5,926	5,750
Net nonoperating revenues	686,362	539,292
INCOME BEFORE OTHER	**237,951**	**93,619**
State capital appropriations	29,569	2,340
Capital grants and gifts	35,598	14,449
Additions to permanent endowments	44,434	38,424
Increase in net position	347,552	148,832
Net position, beginning of year	2,825,359	2,676,527
NET POSITION, END OF YEAR	**$ 3,172,911**	**$ 2,825,359**

See accompanying notes

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

	Year ended June 30, 2014			
	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT:		(in thousands)		
Contributions	$ 305	$ 3,394	$ 20	$ 3,719
Income from investments	45,808	4,068	2,011	51,887
Royalty income	1,693			1,693
Rental income	1,293			1,293
Rental expenses	(2,290)			(2,290)
Grants and contracts	4,073			4,073
Other income	569			569
Equity earnings from subsidiaries	115			115
Net assets released from restrictions:				
Satisfaction of program restrictions	180	(157)	(23)	-
Current year transfers	5,281	(4,710)	(571)	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	57,027	2,595	1,437	61,059
EXPENSES:				
Contributions to the University	14,396			14,396
Investment management fees	2,517			2,517
Investment consulting fees	597			597
Adjustments to value of annuities payable	119			119
Management and general	2,295			2,295
Postretirement benefits:				
Net periodic benefit cost	86			86
Provision for uncollectible receivables	64			64
MBI program expenses	6,462			6,462
Spartan Innovations expenses, net	1,609			1,609
TOTAL EXPENSES	28,145	-	-	28,145
Change in net assets	28,882	2,595	1,437	32,914
Net assets, beginning of year	308,882	33,922	14,193	356,997
NET ASSETS, END OF YEAR	$ 337,764	$ 36,517	$ 15,630	$ 389,911

	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	29,237	2,456	1,320	33,013
Royalty income	1,437			1,437
Rental income	1,410			1,410
Rental expenses	(3,015)			(3,015)
Grants and contracts	4,006			4,006
Other income	1			1
Equity earnings from subsidiaries	112			112
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	39,277	3,525	(590)	42,212
EXPENSES:				
Contributions to the University	14,211			14,211
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	2,037			2,037
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	5,792			5,792
Spartan Innovations expenses, net	852			852
TOTAL EXPENSES	27,330	-	-	27,330
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

See accompanying notes

STATEMENTS OF CASH FLOWS
Michigan State University

	Year ended June 30, 2014	2013
	(in thousands)	
Cash flows from operating activities		
Tuition and fees	$ 750,516	$ 702,950
Research grants and contracts	395,489	409,885
Auxiliary activities	317,194	296,242
Departmental activities	169,305	177,775
Interest and fees on student loans	823	868
Loans issued to students	(8,979)	(8,767)
Collection of loans from students	8,596	8,949
Scholarships and fellowships	(95,763)	(91,253)
Payments to suppliers	(437,692)	(451,995)
Payments to employees	(1,331,481)	(1,255,256)
Other receipts (payments)	(6,630)	2,100
Net cash used by operating activities	(238,622)	(208,502)
Cash flows from noncapital financing activities		
State appropriations	304,678	298,243
Federal Pell grant revenue	37,262	37,804
Gifts	55,311	49,465
Endowment gifts	44,258	38,495
William D. Ford Direct Lending receipts	362,111	362,320
William D. Ford Direct Lending disbursements	(362,068)	(362,264)
Net cash provided by noncapital financing activities	441,552	424,063
Cash flows from capital and related financing activities		
Capital appropriations	29,569	2,340
Capital gifts and grants	34,423	21,181
Proceeds from issuance of debt and other long term obligations	4,000	361,652
Purchase of capital assets	(239,626)	(221,321)
Proceeds from sale of capital assets	1,356	691
Principal paid on capital debt	(40,954)	(159,641)
Interest paid	(42,468)	(38,013)
Other receipts	2,971	5,916
Net cash used by capital and related financing activities	(250,729)	(27,195)
Cash flows from investing activities		
Investment income, net	171,381	120,851
Proceeds from sales and maturities of investments	3,661,436	3,590,328
Purchase of investments	(3,821,257)	(3,867,077)
Net cash provided (used) by investing activities	11,560	(155,898)
Net increase (decrease) in cash	(36,239)	32,468
Cash and cash equivalents, beginning of year	46,255	13,787
Cash and cash equivalents, end of year	$ 10,016	$ 46,255

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, 2014	2013
	(in thousands)	
Operating loss	$ (448,411)	$ (445,673)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	149,771	138,537
Change in assets and liabilities:		
Accounts receivable	6,371	(1,293)
Student loans receivable	(383)	182
Inventories and other assets	(2,648)	3,900
Investments in joint ventures	(41)	55
Unamortized bond origination costs	-	4,639
Accounts payable	6,485	(2,919)
Accrued personnel costs	2,612	13,028
Payroll taxes and other payroll deductions	(1,609)	19,205
Deposits held for others	1,351	(3,354)
Unearned revenues	5,704	17,601
Accrued self-insurance liabilities	(1,249)	1,493
Net other postemployment benefit obligation	43,425	46,097
Net cash used by operating activities	$ (238,622)	$ (208,502)

See accompanying notes

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

Organization:

Michigan State University (the "University") was founded in 1855 as the Agricultural College of the State of Michigan. It was the first institution of higher learning in the nation to teach scientific agriculture and in 1863 became a pioneer land grant college under the Morrill Act. The University has grown into a comprehensive research university providing undergraduate, graduate, and professional degree programs. The University is not a component unit of the State of Michigan as defined by the Governmental Accounting Standards Board (GASB).

Basis of presentation:

The University follows all applicable GASB pronouncements. The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for publicly owned colleges and universities and are presented in accordance with the reporting model prescribed in 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 value at the date of the gift. Depreciation is computed using the straight-line method, with a full-year expense in the year of acquisition and none in the year of disposal. Assets are depreciated over the estimated useful lives ranging from four to forty years for the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The University 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 in the Statements of Revenues, Expenses, and Changes in Net Position are those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 34, including state appropriations, federal Pell grant revenue, gifts, and investment income. 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 prior year amounts have been reclassified in the Statement of Cash Flows and Notes to the Financial Statements to conform to the current year's presentation.

2. Cash and cash equivalents

The University's cash and cash equivalents as of June 30, 2014 and 2013 were as follows:

	2014	2013
Cash and cash equivalents, current	$ -	$ 43,920
Restricted cash and cash equivalents, noncurrent	10,016	2,335
Total cash and cash equivalents	$ 10,016	$ 46,255

Of the bank balances for cash, $500 of the total $8,015 in 2014, and $250 of the total $2,128 in 2013 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).

As of June 30, 2014 and 2013, the University had the following investments:

	June 30, 2014				
Investment type	LP	LRP	CIF	Other	Total
Investment pools	$ 11,122	$ 79,158	$ 1,856,458	$ 48,694	$ 1,995,432
U.S. Treasury bonds	124,981	-	22,436	59	147,476
U.S. Government agencies	8,822	-	17,338	-	26,160
Municipal bonds	745	-	778	-	1,523
Corporate bonds	93,251	-	14,736	1,962	109,949
Asset-backed securities	54,101	-	14,144	2,405	70,650
U.S. equities	-	-	214,955	-	214,955
International equities	-	-	39,811	-	39,811
International bonds	39,040	-	4,176	-	43,216
Total	$ 332,062	$ 79,158	$ 2,184,832	$ 53,120	$ 2,649,172

	June 30, 2013				
Investment type	LP	LRP	CIF	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 bonds	85,121	-	6,717	-	91,838
Total	$ 384,899	$ 221,319	$ 1,673,423	$ 50,047	$ 2,329,688

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, 2014 and 2013, 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, 2014 and 2013 are as follows:

June 30, 2014
Fixed Income Investment Maturities

Investment type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
Investment pools	$ -	$ -	$ 82,015	$ 57,127	$ 139,142
U.S. Treasury bonds	-	143,000	2,524	1,952	147,476
U.S. Government agencies	-	5,025	1,019	20,116	26,160
Municipal bonds	-	834	-	689	1,523
Corporate bonds	16,042	83,704	6,380	3,823	109,949
International bonds	2,976	37,714	1,722	804	43,216
Asset-backed securities	1,061	27,462	18,279	23,848	70,650
Total	$ 20,079	$ 297,739	$ 111,939	$ 108,359	$ 538,116

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 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

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, 2014 and 2013 are as follows:

	June 30, 2014							
Rating	Investment pools	U.S. Treasury bonds	U.S. Government agencies	Municipal bonds	Corporate bonds	International bonds	Asset-backed securities	Total
AAA	$ -	$ -	$ -	$ -	$ 61	$ 2,664	$ 28,490	$ 31,215
AA	-	-	-	1,087	11,037	8,437	5,003	25,564
A	-	-	-	436	53,258	20,791	200	74,685
BBB	-	-	-	-	42,719	7,026	1,647	51,392
BB	-	-	-	-	452	127	-	579
Below BB	-	-	-	-	-	-	1,295	1,295
Not rated	139,142	147,476	26,160	-	2,422	4,171	34,015	353,386
Total	$ 139,142	$ 147,476	$ 26,160	$ 1,523	$ 109,949	$ 43,216	$ 70,650	$ 538,116

	June 30, 2013							
Rating	Investment pools	U.S. Treasury bonds	U.S. Government agencies	Municipal bonds	Corporate bonds	International 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

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, 2014 and 2013, 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 $147,417 of the U.S. Treasury bonds, $26,160 of the U.S. Government agencies, $1,523 of the municipal bonds, $109,949 of the corporate bonds, $43,216 of the international bonds, $70,650 of the asset-backed securities, $214,955 of the U.S. equities, $39,811 of the international equities, and $21,552 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, 2014 and 2013 are summarized as follows:

	2014	2013
Short-term investments	$ 4,192	$ 1,865
Domestic equities	73,767	74,665
Foreign equities	84,302	56,537
Fixed income	17,012	21,877
Mutual funds - Equities	27,421	24,926
Mutual funds - Fixed	13,801	14,451
Limited partnerships	133,233	122,820
Venture capital	45,996	38,917
Total	$ 399,724	$ 356,058

Certain 2013 amounts have been reclassified to conform to 2014 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, 2014, the Foundation has an outstanding commitment to fund limited partnership and venture capital investments in the amount of $52,154.

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 ($171,365 and $158,167 in 2014 and 2013, respectively); (2) Valuations obtained from third party pricing services for identical or similar assets ($49,130 and $36,154 in 2014 and 2013, 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 ($179,229 and $161,737 in 2014 and 2013, 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, 2014 and 2013 is summarized as follows:

	2014	2013
State appropriations	$ 55,616	$ 54,408
Research and sponsored programs	58,690	63,866
Departmental activities	18,627	20,515
Capital appropriations	2,019	-
Interest receivable	1,284	1,938
Other	19,632	20,295
	155,868	161,022
Less: allowance for doubtful accounts	14,296	15,689
Total accounts and interest receivable, net	$ 141,572	$ 145,333

6. Student loans and pledges receivable

The composition of student loans and pledges receivable at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
Student loans receivable:		
Perkins Federal Loan Program	$ 38,447	$ 38,085
Health Professions Student Loan Programs	8,756	8,388
Other	3,977	4,129
	51,180	50,602
Less: allowance for doubtful accounts	5,515	5,320
Total student loans receivable, net	45,665	45,282
Pledges receivable:		
Capital	28,392	27,089
Operations	16,778	16,612
	45,170	43,701
Less: allowance for doubtful accounts	5,414	5,162
Total pledges receivable, net	39,756	38,539
Total student loans and pledges receivable, net	85,421	83,821
Less current portion - student loans	8,794	9,238
Less current portion - pledges	12,785	14,530
Noncurrent portion	$ 63,842	$ 60,053

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, 2014, 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, 2014 and 2013, the University distributed $361,671 and $361,833, 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, 2014, 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	$ 14,609
2015	10,885
2016	8,661
2017	6,064
2018	2,943
2019 and beyond	2,008
Total discounted pledges receivable	45,170
Less: allowance for uncollectible pledges	5,414
Total pledges receivable, net	$ 39,756

7. Investments in joint ventures

The University is a member of four separate 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, 2014 and 2013 follows:

	2013	Additions	Disposals	Transfers	2014
Non-depreciated capital assets:					
Land	$ 38,282	$ 653	$ -	$ -	$ 38,935
Construction in progress	184,254	187,917	(57)	(158,475)	213,639
Museum collections	11,247	1,342	-	-	12,589
Total non-depreciated capittal assets	233,783	189,912	(57)	(158,475)	265,163
Depreciated capital assets:					
Buildings and site improvements	2,517,980	7,853	(485)	155,355	2,680,703
Software and other intangibles	93,151	1,825	-	635	95,611
Equipment and other	706,048	46,511	(20,165)	2,485	734,879
Less: accumulated depreciation					-
Buildings and site improvements	(1,047,471)	(86,567)	187	-	(1,133,851)
Software and other intangibles	(54,320)	(19,122)	-	-	(73,442)
Equipment and other	(548,193)	(44,082)	18,648	-	(573,627)
Total depreciated capital assets	1,667,195	(93,582)	(1,815)	158,475	1,730,273
Total capital assets	$ 1,900,978	$ 96,330	$ (1,872)	$ -	$ 1,995,436

	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 capittal 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

9. Deferred outflows of resources

The composition of deferred outflows of resources at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
Accumulated changes in fair value of hedging derivative instruments	$ 45,803	$ 45,300
Loss on refunding of debt at June 30, 2010	14,493	15,627
Total deferred outflows of resources	$ 60,296	$ 60,927

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 $5,164 as of June 30, 2014. The discount rate used was 2%, which is based on industry standards.

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 $3,660 as of June 30, 2014. The discount rate used was 6%.

Changes in the total reported general, professional, and self-insured employee benefit liabilities during 2014, 2013, and 2012 were as follows:

	2014	2013	2012
Balance, beginning of year	$ 22,361	$ 20,868	$ 21,954
Claims incurred and changes in estimates	141,840	146,156	140,950
Claim payments	(143,089)	(144,663)	(142,036)
Balance, end of year	21,112	22,361	20,868
Less: current portion	14,949	14,109	13,619
Noncurrent portion	$ 6,163	$ 8,252	$ 7,249

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, 2014 and 2013 were as follows:

	2014	2013
University contributions	$ 72,870	$ 70,315
Employee contributions	36,435	35,157

In addition, the University has a single-employer, defined benefit plan covering 470 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 $5,695 based on an actuarial valuation as of January 1, 2014. 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, 2014.

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 15,100 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, 2014, the University has estimated the cost (annual expense) of providing retiree health and dental care benefits through an actuarial valuation as of January 1, 2014. 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:

	2014	2013	2012
Annual required contribution	$ 70,095	$ 74,423	$ 73,935
Interest on the prior year's net OPEB obligation	18,415	15,189	11,873
Less: adjustment to the annual required contribution	(15,425)	(12,368)	(9,413)
Annual OPEB cost	73,085	77,244	76,395
Amounts contributed:			
Payments of current premiums and claims	(29,660)	(31,147)	(29,022)
Advance funding	-	-	-
Increase in net OPEB obligation	43,425	46,097	47,373
OPEB obligation - beginning of year	263,078	216,981	169,608
OPEB obligation - end of year	$ 306,503	$ 263,078	$ 216,981

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,		
	2014	2013	2012
Annual OPEB cost	$ 73,085	$ 77,244	$ 76,395
Percentage contributed	40.6%	40.3%	38.0%
NET OPEB obligation	$ 306,503	$ 263,078	$ 216,981

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

	Valuation as of January 1,		
	2014	2013	2012
Actuarial value of assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)	823,312	901,127	850,695
Unfunded AAL (UAAL)	$ 823,312	$ 901,127	$ 850,695
Funded ratio	0.0%	0.0%	0.0%
Annual covered payroll (annual payroll of active employees covered by the plan)	$ 710,116	$ 797,207	$ 802,106
UAAL as a percentage of covered payroll	115.9%	113.0%	106.1%

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, 2014 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 23 years remaining.

13. Long term debt and other obligations

Long term debt and other obligations for the years ended June 30, 2014 and 2013 are summarized as follows:

	2013	Borrowed	Retired	2014	Current Portion
General Revenue Bonds:					
Series 2013A	$ 170,950	$ -	$ -	$ 170,950	$ 3,150
Series 2010A	205,000	-	-	205,000	-
Series 2010C	260,830	-	12,215	248,615	12,685
Series 2007A	18,660	-	3,380	15,280	3,550
Series 2007B	25,000	-	-	25,000	-
Series 2005	54,140	-	-	54,140	-
Series 2003A	48,205	-	-	48,205	-
Series 2000A	77,135	-	-	77,135	-
	859,920	-	15,595	844,325	19,385
General Revenue Commercial Paper:					
Series B taxable	87,855	3,000	-	90,855	90,855
Series D tax-exempt	81,045	-	25,225	55,820	55,820
Series E tax-exempt	-	1,000	-	1,000	1,000
	168,900	4,000	25,225	147,675	147,675
Federal student loan deposits	38,181	443	-	38,624	-
Line of credit	1,311	-	400	911	-
Lease obligations and other	44,313	-	1,550	42,763	1,892
	$ 1,112,625	$ 4,443	$ 42,770	$ 1,074,298	$ 168,952

	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 D tax-exempt	55,475	-	55,475	-	-
Series E 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

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.

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 is 7.2% for payments processed on or after October 1, 2013 and on or before September 30, 2014. The sequestration reduction rate was 8.7% from March 1, 2013 to September 30, 2013. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration rate is subject to change.

The Series 2010C bonds bear interest at fixed rates from 2% to 5.125% 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 0.07% to 0.09% and taxable balances bear interest at rates from 0.09% to 0.14%, with principal and accrued interest payments due within a maximum of 270 days from the date of issuance.

Hedging derivative instrument payments and hedged debt: Using rates as of June 30, 2014, 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
2015	$ 19,385	$ 32,663	$ -	$ 258	$ 7,834	$ 60,140
2016	20,170	31,709	-	258	7,801	59,938
2017	21,015	30,679	-	258	7,767	59,719
2018	19,800	29,671	-	258	7,732	57,461
2019	20,635	28,664	-	258	7,695	57,252
2020-2024	66,055	131,551	48,585	1,083	34,515	281,789
2025-2029	37,585	120,526	90,415	546	19,137	268,209
2030-2034	47,030	112,195	62,600	207	4,261	226,293
2035-2039	81,010	98,680	2,880	37	-	182,607
2040-2044	113,550	75,500	-	-	-	189,050
2045-2049	157,940	37,453	-	-	-	195,393
2050-2054	35,670	1,388	-	-	-	37,058
Total	$ 639,845	$ 730,679	$ 204,480	$ 3,163	$ 96,742	$ 1,674,909

Interest expense was $41,409 (net of $2,816 capitalized interest) and $35,968 (net of $2,709 capitalized interest) for 2014 and 2013, respectively.

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

At June 30, 2014, the University owed $911 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 2015.

The University holds $75,000 in revolving lines of credit that are available for maintaining the required operating cash reserves of the University and providing necessary funds to meet extraordinary cash flow needs, if necessary. For the year ended June 30, 2014, no amounts had been drawn on these lines of credit.

Lease obligations and other is comprised of lease obligations of $1,479 ($140 current) and unamortized bond premium of $41,284 ($1,752 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 2014 and 2013 were as follows:

	2014	2013
Balance, beginning of year	$ 86,657	$ 73,629
Additions	5,751	15,701
Reductions	(3,139)	(2,673)
Balance, end of year	89,269	86,657
Less: current portion	55,677	52,991
Noncurrent portion	$ 33,592	$ 33,666

14. Derivative instruments

At June 30, 2014 and 2013, 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, 2014 and 2013 are as follows:

	June 30, 2014		June 30, 2013	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivative instruments - swap asset:				
Investment derivatives:				
Pay-variable interest rate swaps	$ 58,755	$ 286	$ 64,085	$ 305
Derivative instruments - swap liability:				
Cash flow hedging derivatives				
Pay-fixed interest rate swaps	$ 208,945	$ (45,803)	$ 209,610	$ (45,300)
Investment derivatives:				
Pay-variable interest rate swaps	416,070	13,175	431,500	17,811
Pay-fixed interest rate swaps	71,685	(17,441)	71,685	(16,740)
Total Derivative instruments - swap liability	$ 696,700	$ (50,069)	$ 712,795	$ (44,229)

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, 2014 and 2013, the fair value of hedging derivative instruments decreased $503 and increased $21,134, respectively, while the fair value of investment derivative instruments decreased $5,356 and increased $5,818, 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, 2014 and 2013, along with the notional amounts and credit rating of the associated counterparty as of June 30, 2014.

Type	Cash Flow Hedge for Debt Series	2014 Notional Amount	Effective Date	Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating	2014 Fair Value	2013 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	$ (17,621)	$ (17,528)
Pay-fixed interest rate swap	CP Series B	2,175	10/17/2002	8/15/2018	4.330%	USD-LIBOR-BBA one month	Deutsche Bank AG / A2	(194)	(266)
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	(455)	(484)
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	(9,946)	(9,668)
Pay-fixed interest rate swap	CP Series B	8,850	11/3/2008	2/15/2033	5.330%	USD-LIBOR-BBA one month	Barclays Bank PLC / A2	(2,340)	(2,359)
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	(11,367)	(11,065)
Pay-fixed interest rate swap	2007B & CP Series D	22,000	5/17/2007	2/15/2028	4.139%	67% USD-LIBOR-BBA three month plus .58%	JP Morgan Chase Bank / Aa3	(3,880)	(3,930)
		$ 208,945						$ (45,803)	$ (45,300)

The following table displays the terms and fair values of the University's investment derivative instruments outstanding at June 30, 2014 and 2013, along with the notional amounts and credit rating of the associated counterparty as of June 30, 2014:

Type	Associated Debt Series	2014 Notional Amount	Effective Date	Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating	2014 Fair Value	2013 Fair Value
Pay-variable interest rate swap	2000A, 2003A, 2005, 2010C	$ 254,875	8/15/2009	2/15/2034	67% of USD-LIBOR-BBA one-month	67% USD-ISDA Swap Rate ten year less 0.407%	Deutsche Bank AG / A2	$ 11,208	$ 14,291
Pay-variable interest rate swap	CP Series B	13,065	5/26/2006	2/15/2033	USD-LIBOR-BBA one-month	USD-LIBOR-BBA ten year less 0.575%	Deutsche Bank AG / A2	873	1,129
Pay-variable interest rate swap	2010C	39,165	5/17/2010	8/15/2032	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 0.44%	Deutsche Bank AG / A2	191	204
Pay-variable interest rate swap	2010C	58,755	5/17/2010	8/15/2032	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 0.44%	Bank of New York Mellon / Aa2	286	305
Pay-variable interest rate swap	2007A, 2007B, 2010C	108,965	5/17/2007	2/15/2037	SIFMA Municipal Swap Index	67% USD-ISDA Swap Rate ten year plus 0.0063%	JP Morgan Chase Bank / Aa3	903	2,187
Pay-variable 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 0.63%	JP Morgan Chase Bank / Aa3	(17,441)	(16,740)
		$ 546,510						$ (3,980)	$ 1,376

Subsequent to the original effective dates, the University amended three of its pay-variable, receive-variable interest rate swaps per the terms listed in the table below. After the amendment periods, these interest rate swaps revert back to the original terms as outlined in the table above.

2014 Notional Amount	Amendment Effective Date	Amendment Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating
$ 254,875	8/15/2011	8/14/2014	0%	1.407%	Deutsche Bank
	8/15/2014	8/14/2019	0%	0.857%	AG / A2
$ 13,065	8/15/2011	8/14/2014	0%	2.1725%	Deutsche Bank
	8/15/2014	8/14/2019	0%	1.3530%	AG / A2
$ 108,965	8/1/2011	7/31/2014	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 1.8653%	JP Morgan Chase Bank /
	8/1/2014	2/14/2021	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 1.1245%	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, the University executes interest rate swaps with various counterparties, and 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, 2014 was $13,461. This represents the maximum loss that would be recognized at the reporting date if the counterparties to those derivatives failed to perform as contracted. This maximum exposure is offset by negative hedging and investment derivative fair values included in netting arrangements with the same counterparties as the derivative instruments in asset positions. The net exposure to credit risk with any individual counterparty is $286.

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

Credit Rating	Deutsche Bank AG Threshold	Deutsche Bank AG Minimum Transfer	JP Morgan Chase Bank N.A. Threshold	JP Morgan Chase Bank N.A. Minimum Transfer	Bank of New York Mellon Threshold	Bank of New York Mellon Minimum Transfer	Barclays Bank PLC Threshold	Barclays Bank PLC 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, 2014, 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, 2014 was ($49,783). The related collateral postings totaled $17,294 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, 2014 and 2013 are as follows:

	2014	2013
Restricted - nonexpendable:		
Permanent endowments	$ 486,621	$ 435,590
Restricted - expendable:		
Gifts, endowment income and sponsored programs	$ 423,151	$ 341,021
Quasi and term endowments	191,241	169,133
Capital projects	51,600	48,789
Student loans	8,494	8,332
Total Restricted - expendable	$ 674,486	$ 567,275
Total Restricted Net Position	$ 1,161,107	$ 1,002,865
Unrestricted:		
Designated/Committed	$ 1,024,692	$ 874,092
Uncommitted	4,495	11,275
Total Unrestricted Net Position	$ 1,029,187	$ 885,367

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, 2014, 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 $739,620 and are to be funded from debt proceeds, capital grants, private gifts, and other University funds. Certain University facilities have been, or are scheduled to be, financed in whole or in part by SBA bond issues secured by a pledge of rentals to be received from the State of Michigan pursuant to lease agreements among the SBA, the State of Michigan, and the University. During the lease terms, the SBA will hold title to the respective buildings, the State of Michigan will make all lease payments to the SBA, and the University will pay certain operating and maintenance costs. The SBA will be obligated to sell each building to the University for one dollar, after full payment of all rentals due under the related lease.

At June 30, 2014, 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, 2014, $410,292 of the initial $976,362 investment commitment remains outstanding.

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 Analysis and Reporting.

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

Independent Auditor's Report

To Management and the Board of Trustees
Michigan State University

We have audited, in accordance with 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 (the "University") and its discretely presented component unit as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 23, 2014. Our report includes a reference to other auditors who audited the financial statements of Michigan State University Foundation, as described in our report onMichigan 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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

To Management and the Board of Trustees
Michigan State University

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 the entity'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 23, 2014

MICHIGAN STATE
UNIVERSITY