



Mississippi State  
UNIVERSITY

CONSOLIDATED  
FINANCIAL  
REPORT

For the Year Ended June 30, 2005

# Mississippi State UNIVERSITY

Office of the President

November 21, 2005

Members of the Board of Trustees  
Institutions of Higher Learning  
State of Mississippi  
3825 Ridgewood Road  
Jackson, MS 39211-6453

Dear Board Members:

I am pleased to present the annual financial report of Mississippi State University for the fiscal year ended June 30, 2005. We wish to express our thankfulness for your support, guidance and suggestions.

Please let us know if you desire additional information or interpretation of the report.

Sincerely,



J. Charles Lee  
President

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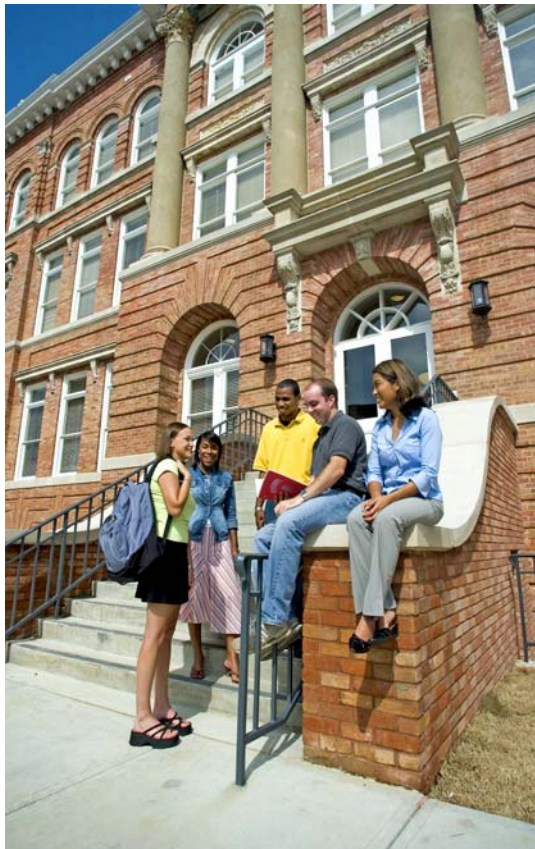


**Consolidated Financial Report  
Mississippi State University  
Year Ended June 30, 2005**

**Overview**

Mississippi State University (referred to as the University) presents its financial statements for June 30, 2005 (end of the fiscal year) in accordance with Governmental Accounting Standards Board (GASB) Statement 34 as a special purpose government engaged solely in business-type activities (BTA). According to paragraphs 44 through 47 of GASB Statement 35 and related paragraph 67 of GASB Statement 34, the University is a public institution that regularly receives state appropriations and covers a major portion of its costs through external user charges for its services and is therefore allowed to report as a BTA. The University is one of eight universities under the direction of the Board of Trustees of Institutions of Higher Learning.

The student population is 15,934 with the main campus in Starkville, Mississippi, and off-campus locations at Meridian and Vicksburg. Mississippi State University is a land-grant institution with strong ties to the U.S. Department of Agriculture and has County Extension Offices in eighty-two counties and eight Branch Experiment Stations.



The following discussion and analysis of the University's financial statements provide an overview of its financial activities for the year ending June 2005. Fiscal year 2004 data are presented for comparative purposes. The statements are composed of the statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows (direct method), and notes to the financial statements.

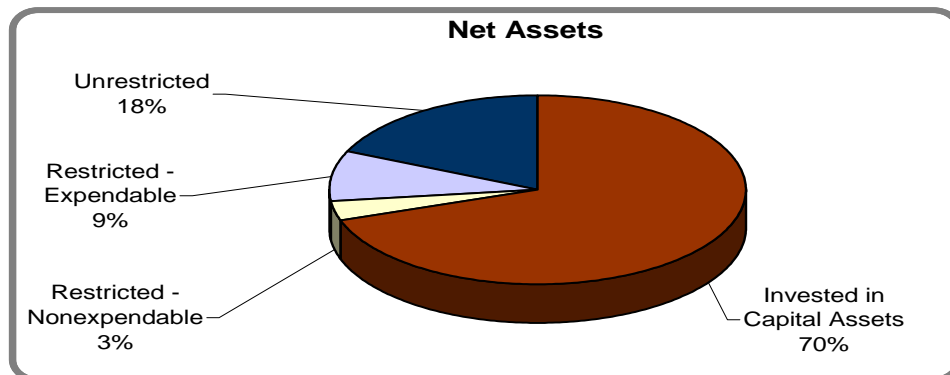
**Statement of Net Assets**

The purpose of the Statement of Net Assets is to present at a point in time (end of the fiscal year) assets, liabilities and net assets of Mississippi State University. The University has chosen a net asset presentation. The concept of fund balance is no longer appropriate for financial

statement presentation and the term net assets replaces fund balances. The statement uses a classified format presenting current and non-current assets and liabilities, as well as, three net asset categories (unrestricted, restricted and invested in capital assets).

**STATEMENT OF NET ASSETS**

	<u>FY 2005</u>	<u>FY 2004</u>
<b>Assets:</b>		
Current Assets	\$117,295,674	\$94,884,323
Capital Assets Net	451,700,620	421,713,761
Other Noncurrent Assets	95,775,923	98,687,628
<b>Total Assets</b>	<u>664,772,217</u>	<u>615,285,712</u>
<b>Liabilities:</b>		
Current Liabilities	44,738,865	31,987,382
Noncurrent Liabilities	123,725,441	106,347,768
<b>Total Liabilities</b>	<u>168,464,306</u>	<u>138,335,150</u>
<b>Net Assets:</b>		
Invested in Capital Assets (net of related debt)	346,451,603	341,858,642
Restricted-Nonexpendable Scholarships	11,415,490	11,151,833
Restricted-Nonexpendable Research	4,500,000	4,500,000
Restricted-Nonexpendable Other Purposes	239,789	239,789
Restricted-Expendable Scholarships	2,914,570	2,409,376
Restricted-Expendable Research	19,472,424	13,244,412
Restricted-Expendable Loans	7,666,913	3,746,247
Restricted-Expendable Capital Projects	3,761,189	7,838,029
Restricted-Expendable Debt Service	8,707,208	1,389,238
Unrestricted	91,178,725	90,572,995
<b>Total Net Assets</b>	<u>\$496,307,911</u>	<u>\$476,950,562</u>



The total assets of the institution increased by \$49,486,505. Current assets of the university increased by \$22,411,351. This was due to an increase in cash and cash equivalents of \$8,570,377, short term investments of \$4,716,157, and accounts receivable net of allowance of \$8,146,563. Student notes receivables increased by \$315,716, and prepaid expenses increased by \$1,454,157. Inventories decreased by \$791,619 due to the expensing of several projects directly to work in progress at year end.

Changes to noncurrent assets consisted of an increase in endowment investments of \$500,441, a decrease in other long-term investments of \$3,010,983, a decrease in student notes receivable of \$401,163 and an increase in capital assets net of accumulated depreciation of \$29,986,859.

Total liabilities of the institution increased by \$30,129,156. Current liabilities increased by \$12,751,483 due to an increase in long-term liabilities current portion of \$7,830,746, accounts payable and accrued liabilities of \$3,425,797 and deferred revenues of \$1,705,155. The current portion of accrued leave decreased by \$218,465. Other current liabilities increased \$8,250.

Changes to noncurrent liabilities consisted of an increase to deposits refundable of \$5,180, an increase to accrued leave liabilities of \$742,443 and a decrease in other noncurrent liabilities of

\$85,372. The most significant change was to long-term liabilities with an increase of \$16,715,422.

Total net assets of the institution increased by \$19,357,349. Invested in capital assets net of related debt increased by \$4,592,961. Unrestricted net assets increased by \$605,730. Restricted nonexpendable net assets increased by \$263,657. Restricted expendable assets increased by \$13,895,002.

### **Statement of Revenues, Expenses and Changes in Net Assets**

The purpose of this statement is to present to the reader not only the revenues and expenses of the University but to also make a distinction between operating and nonoperating categories. Operating revenues are received for providing goods and services to the customers of the institution. Operating expenses are paid to acquire or produce goods and services provided in turn for operating revenues. Nonoperating revenue is revenue received for which goods and services are not provided. For example, state appropriations are nonoperating revenues since they are provided by the State of Mississippi Legislature to the Institutions of Higher Learning without the Legislature requiring a direct service in return.

	<u>FY 2005</u>	<u>FY 2004</u>
Operating revenues	\$291,821,555	\$284,142,942
Operating expenses	457,959,407	438,847,165
Operating loss	<u>(166,137,852)</u>	<u>(154,704,223)</u>
Nonoperating revenues and expenses	<u>172,727,201</u>	<u>161,434,717</u>
Income (loss) before other revenues, expenses, gains or losses	<u>6,589,349</u>	<u>6,730,494</u>
Other revenues, expenses, gains or losses	<u>12,768,000</u>	<u>20,395,047</u>
Increase in net assets	19,357,349	27,125,541
Net assets - beginning of year, as originally reported	<u>476,950,562</u>	<u>449,825,021</u>
Net assets - end of year	<u><u>\$496,307,911</u></u>	<u><u>\$476,950,562</u></u>

The statement of revenues, expenses and changes in net assets reflects a positive year with an increase in net assets at the end of the year in the amount of \$19,357,349. The following overview discusses variances that exceed 5% from FY 2004 totals:

- **Scholarship Allowances 5.3% Decrease** – In previous fiscal years all nonresident tuition for the Broadcast Meteorology Program was assessed and also waived. For fiscal year 2005 nonresident tuition was not assessed for this program.
- **Federal Grants and Contracts 6.0% Increase** – Restricted accounts receivable accruals increased 28% over fiscal year 2004.
- **State Grants and Contracts 8.4% Increase** – The University recognized \$3,837,012 for the Meridian Project from Lauderdale County.
- **Nongovernmental Grants and Contracts 25.6% Decrease** – Revenue from MS Rice Promotion Board and Soybean Promotion Board for fiscal years 2004 and 2005 was

recognized in 2004. Revenue for 2005 was \$903,851.

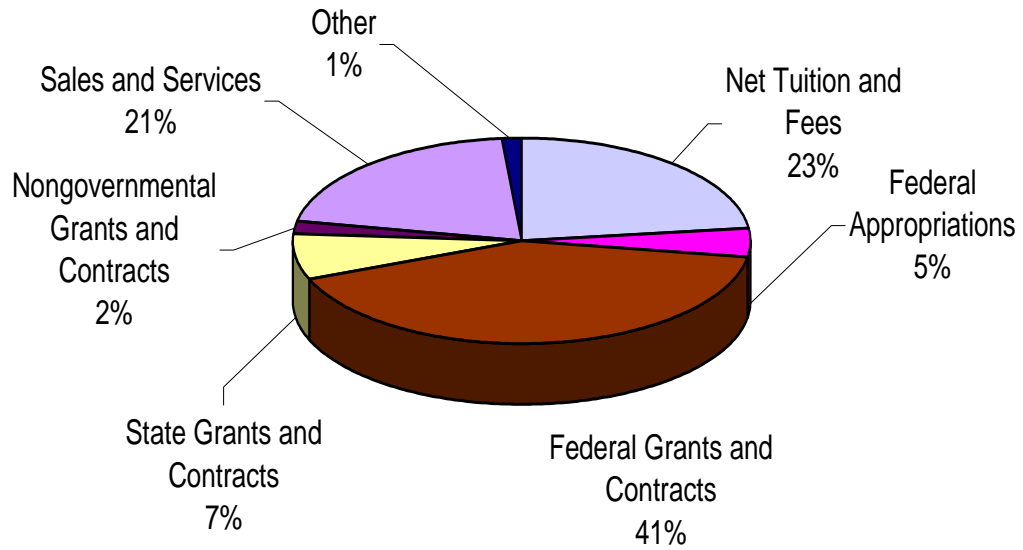
- **Athletics Sales 13.0% Decrease** – Conference Bowl Shares were not recognized in FY05 due to NCAA sanctions.
- **Fringe Benefits 9.5% Increase** – Fringe benefit expenditures associated with employer health premiums rose 22% over fiscal year 2004.
- **Contractual Services 11.4% Increase** – Repair and maintenance expenditures rose 183% over fiscal year 2004.
- **Utilities 7.6% Increase** – Natural gas costs rose 30% over the previous fiscal year.
- **Commodities 12.2% Decrease** – Additions of capitalized equipment increased by 49% over the prior fiscal year. As a result, a decrease in commodity expenditures was required to offset the reversal of the items that were capitalized.

- **Gifts and Grants 38.7% Increase** – Foundation gifts increased 87% for the fiscal year. Majority of the increase was recognized from the Bulldog Club Foundation and the Riley Foundation.
- **Investment Income, Net of Investment Expense 233.5% Increase** – Unrealized loss on investments decreased approximately \$2.5 million as compared to fiscal year 2004.
- **Interest Expense on Capital Asset (Related Debt) 24.0% Increase** – Bond interest payments for fiscal year 2005 increased 28%.
- **Other Nonoperating Revenues 20.8% Increase** – National Direct Student Loan Program fund balance decreased for the year. Due to the required reclassification of 85% of the balance to a current liability a year-end adjustment to nonoperating revenue was necessary to compensate for the reduction for the year.
- **Other Nonoperating Expenses 13.0% Decrease** – The adjustment made last fiscal year to compensate for the increase in balance of the National Direct Student loan program was not necessary due to the fact the balance decreased for the year.
- **Capital Grants and Gifts 16.4%** – Majority of increase due to federal grants received for Meridian project and Newberry land gift.
- **State Appropriations Restricted for Capital Purposes 26.8% Decrease** – Bureau of Buildings appropriations for the current fiscal year decreased 27%.
- **Other Deletions 311.9% Increase** – Majority of increase due to loss on disposal of equipment. Deletions of equipment increased by 256% over the prior fiscal year.

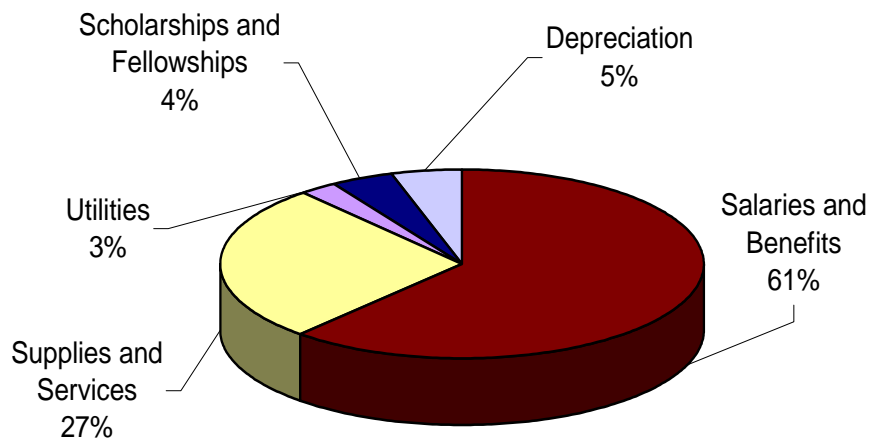




### Operating Revenues FY 05



### Operating Expenses by Object FY 05



## Statement of Cash Flows

The purpose of this statement is to present information about cash receipts and cash payments during the year. Information is presented using the direct method and has four categories: operating activities, non-capital financing activities, capital financing activities and investing activities.

The primary cash receipts from operating activities for fiscal year 2005 consist of tuition

and fees in the amount of \$66,552,865 and grants and contracts in the amount of \$142,453,832. Cash outlays include payments to employees in the amount of \$278,645,608 and payments to suppliers in the amount of \$119,646,251. State appropriations are the primary source of non-capital financing in the amount of \$149,169,179.

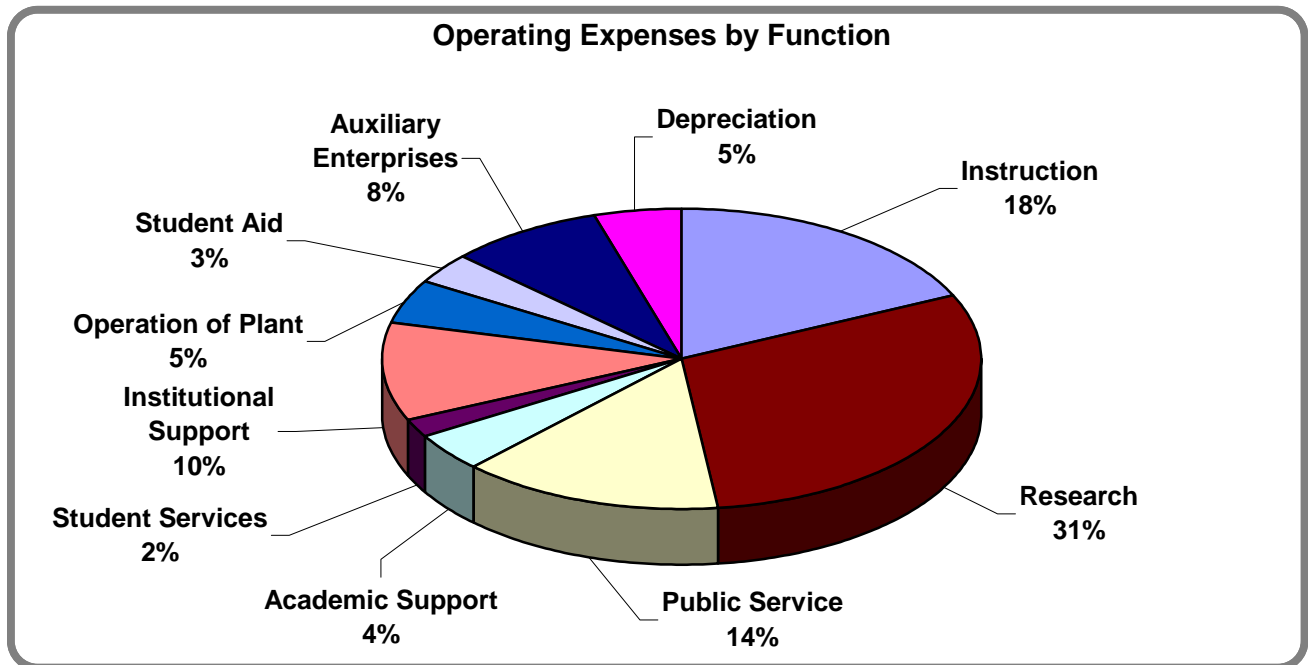
	<u>FY 2005</u>	<u>FY 2004</u>
Cash provided (used) by:		
Operating activities	(\$144,769,178)	(\$129,048,530)
Noncapital financing activities	169,485,739	165,200,020
Capital financing activities	(20,589,754)	(31,460,788)
Investing activities	4,443,570	(5,847,811)
Net change in cash	<u>8,570,377</u>	<u>(1,157,109)</u>
Cash, beginning of year	45,233,143	46,390,252
Cash, end of year	<u><u>\$53,803,520</u></u>	<u><u>\$45,233,143</u></u>



**Functional Classification of Operating Expenses**

**Year Ended June 30, 2005  
Natural Classification**

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$60,250,042	\$16,076,504	\$1,245,637	\$3,832,497	\$116,320	\$772,129	\$994,876		\$83,288,005
Research	63,360,227	17,060,549	3,681,333	37,605,272	2,258,613	649,685	11,707,230		136,322,908
Public Service	38,879,864	10,640,223	2,897,297	9,528,854	473,809	87,306	2,386,187		64,893,539
Academic Support	11,043,423	2,725,379	311,216	2,621,650	13,692	6,005	2,442,574		19,163,938
Student Services	6,097,192	1,680,885	195,925	967,531	12,372	680	913,935		9,868,519
Institutional Support	18,041,898	3,018,450	233,146	15,444,660	109,086	222,951	10,907,910		47,978,102
Operation of Plant	10,314,735	2,958,355	57,026	0	7,630,149	0	990,265		21,950,530
Student Aid	869,361	1,564,572	12,290	155,200	0	12,030,507	58,905		14,690,835
Auxiliary Enterprises	14,231,993	3,398,274	1,955,383	9,059,491	1,401,254	4,662,755	3,433,297		38,142,448
Depreciation								21,660,583	21,660,583
<b>Total Operating Expenses</b>	<b>\$223,088,734</b>	<b>\$59,123,190</b>	<b>\$10,589,254</b>	<b>\$79,215,154</b>	<b>\$12,015,295</b>	<b>\$18,432,018</b>	<b>\$33,835,179</b>	<b>\$21,660,583</b>	<b>\$457,959,407</b>



**Capital Asset and Debt Administration**

Buildings

- Landscape Architecture Buildings (3) - \$3,712,744.49
- Poultry Diagnostic Laboratory - \$476,848.17
- Hand Chemical Lab Phase II - \$2,268,089.74
- Newberry Building and Land - \$585,000.00 (Gift)
- Delta Research & Extension Center Renovation - \$590,693.00

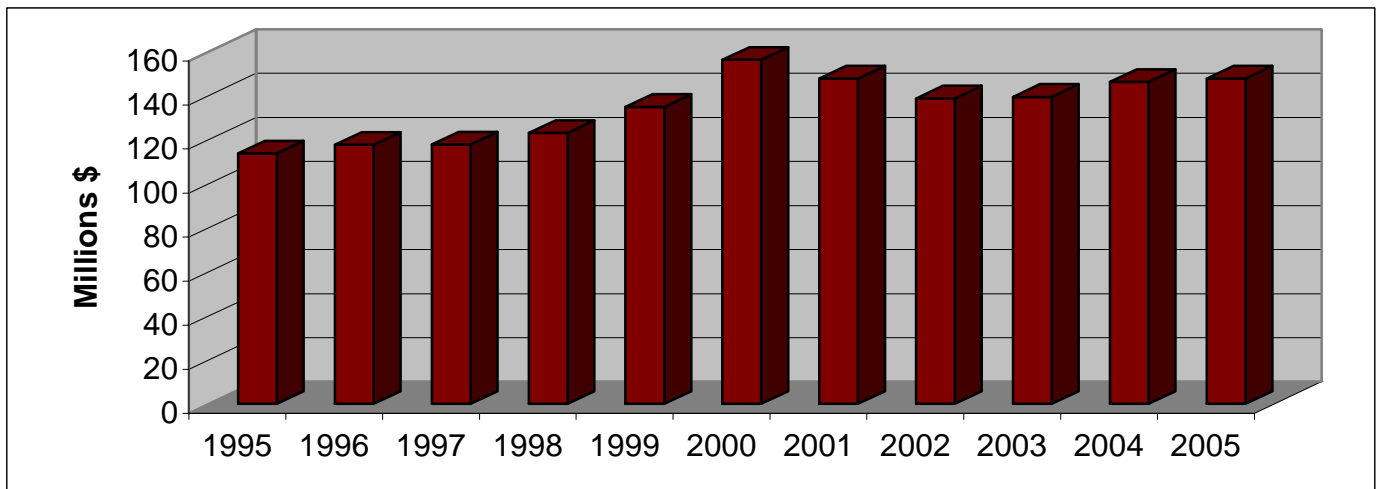
Improvements

- Blackjack Road Improvements - \$2,070,305.18

In FY 2005 the university issued revenue bonds through the MSU Educational Building Corporation in the amount of \$28,790,000 primarily for construction of the Roy H. Ruby Residence Hall.

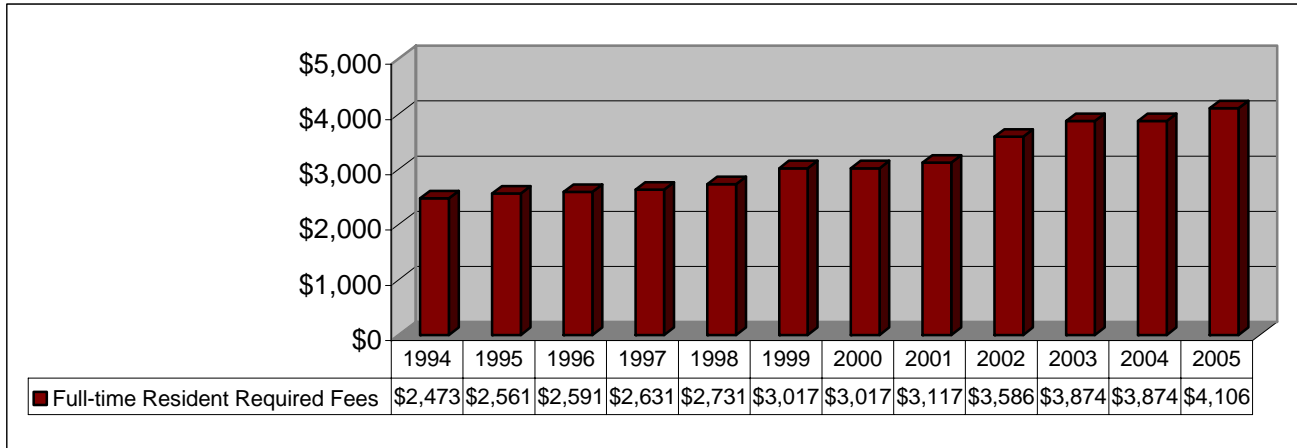
**Trends**

**Total State Appropriations:**

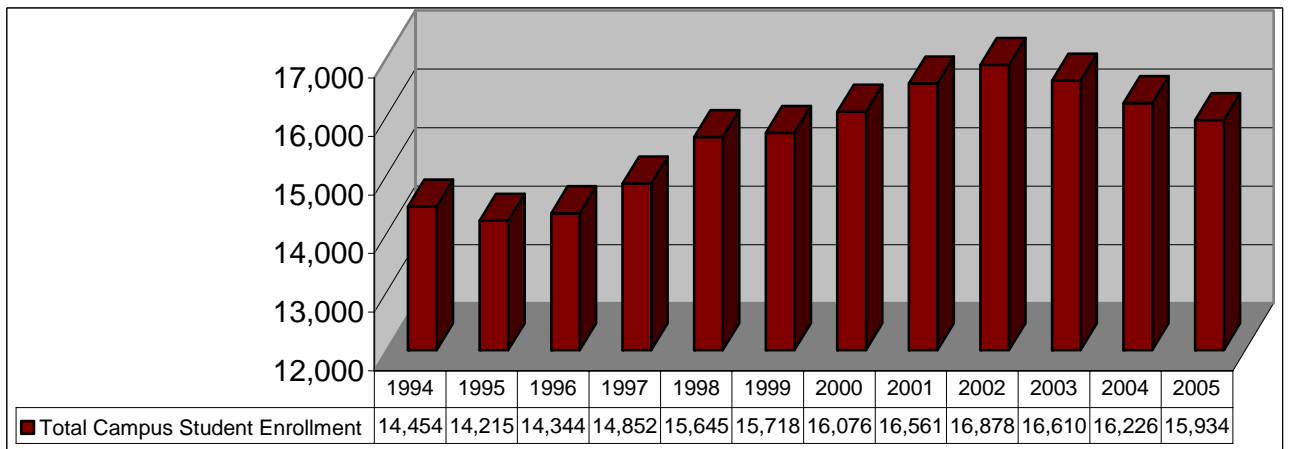


**Trends (continued)**

**Full-time Resident Tuition and Required Fees:**



**Total Campus Student Enrollment:**





## Economic Outlook

The year ending June 30, 2005, saw Mississippi State make progress in key priority areas, despite continuing uncertainty over state support. The university's primary goals are to:

- Expand enrollment, ensure access, and enhance the academic experience for all students
- Increase research capacity, technology commercialization, and outreach to business and industry
- Transform the campus infrastructure to improve operations and reflect institutional status
- Improve assessment and accountability
- Move MSU to the top tier among national universities in reputation and visibility

During FY 2005, enrollment increased for the first time since 2001. The university strengthened the academic experience with the introduction of new learning communities, a new computer-based mathematics learning laboratory, and enhancements of the honors program.

MSU attracted \$128 million in research support from external sources, while intellectual property disclosures and licensing revenue substantially increased. The university played an important role in attracting new aerospace and defense related industries to the state, and a new Industrial Outreach Service completed its first full year of assistance to state manufacturers.

Enhancements of the physical campus included major improvements in streets and parking. The university's first new residence hall in more than 35 years opened in fall 2005, and construction started on additional new residence halls to accommodate 800 students and an expanded honors program. At the end of the year, the more than \$100 million in new construction under way or on the drawing boards included a new bookstore, agricultural and biological engineering building, indoor football/baseball practice facility, and music education facility, along with major renovations of the business building and student union. Numerous repair and renovation projects also are helping to reduce the backlog of deferred maintenance.

Improvements in assessment and accountability included full implementation of a performance-based budget system, progress on a new space allocation model, and tighter controls on expenditures for cell phones, vehicles, and office furnishings.

MSU's overall ranking among national research universities in the *U.S. News & World Report* "Best Colleges" edition continued to improve, and the university was among the top 100 institutions cited by *Washington Monthly* for contributions through research, community service, and promoting social mobility.

The university's financial resources remain adequate. A 5 percent tuition increase effective in fall 2005 offset a further slight decline in state support and rising expenditures related to energy and the employer share of insurance premiums, among other areas. Mississippi State remains committed to a long-term financial plan that will not only sustain the university, but allow it to maintain competitiveness and growth.

C. Ray Hayes  
Vice President for Finance and Administration

**MISSISSIPPI STATE UNIVERSITY  
STATEMENT OF NET ASSETS**

<b>Assets</b>	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$53,803,520	\$45,233,143
Short Term Investments (note #3)	12,384,341	7,668,184
Accounts Receivable, Net (note #4)	39,574,631	31,428,068
Student Notes Receivable (note #5)	3,820,568	3,504,852
Inventories	2,204,229	2,995,848
Prepaid Expenses	5,508,385	4,054,228
<b>Total Current Assets</b>	<b>117,295,674</b>	<b>94,884,323</b>
<b>Non-Current Assets:</b>		
Endowment Investments (note #3)	18,331,617	17,831,176
Other Long Term Investments (note #3)	64,243,587	67,254,570
Student Notes Receivable, Net (note #5)	13,200,719	13,601,882
Capital Assets, Net of Accumulated Depreciation (note #6)	451,700,620	421,713,761
<b>Total noncurrent assets</b>	<b>547,476,543</b>	<b>520,401,389</b>
<b>Total Assets</b>	<b>664,772,217</b>	<b>615,285,712</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	23,091,944	19,666,147
Deferred Revenues	7,971,523	6,266,368
Accrued Leave Liabilities - Current Portion (note #7)	1,563,088	1,781,553
Long Term Liabilities - Current Portion (note #7)	11,931,852	4,101,106
Other Current Liabilities	180,458	172,208
<b>Total Current Liabilities</b>	<b>44,738,865</b>	<b>31,987,382</b>

**MISSISSIPPI STATE UNIVERSITY  
STATEMENT OF NET ASSETS**

**(Continued)**

	<b>2005</b>	<b>2004</b>
<b>Non-Current Liabilities:</b>		
Deposits Refundable (note #7)	92,541	87,361
Accrued Leave Liabilities (note #7)	16,362,287	15,619,844
Long Term Liabilities (note #7)	92,469,434	75,754,012
Other Non-Current Liabilities (note #7)	14,801,179	14,886,551
<b>Total Non-Current Liabilities</b>	<b>123,725,441</b>	<b>106,347,768</b>
<b>Total Liabilities</b>	<b>168,464,306</b>	<b>138,335,150</b>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	346,451,603	341,858,642
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	11,415,490	11,151,833
Research	4,500,000	4,500,000
Other purposes	239,789	239,789
Expendable:		
Scholarships and Fellowships	2,914,570	2,409,376
Research	19,472,424	13,244,412
Capital Projects	3,761,189	7,838,029
Debt Service	8,707,208	1,389,238
Loans	7,666,913	3,746,247
Unrestricted	91,178,725	90,572,995
<b>Total Net Assets</b>	<b>\$496,307,911</b>	<b>\$476,950,562</b>
<b>SUPPLEMENTAL INFORMATION</b>		
Academic Programs and Research	17,200,036	16,687,285
Capital Projects	5,873,851	10,497,282
Repairs and Maintenance	7,654,017	6,763,642
Remaining Purposes	60,450,821	56,624,785
	<b>\$91,178,725</b>	<b>\$90,572,995</b>

**MISSISSIPPI STATE UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	June 30,	
	2005	2004
<b>Operating Revenues:</b>		
Tuition and Fees	\$86,250,497	\$84,421,028
Less: Scholarship Allowances	(19,178,775)	(20,259,976)
Net Tuition and Fees	67,071,722	64,161,052
Federal Appropriations	13,574,507	14,066,727
Federal Grants and Contracts	120,269,354	113,428,708
State Grants and Contracts	20,886,317	19,273,087
Nongovernmental Grants and Contracts	5,939,176	7,988,097
Sales and Services of Educational Departments	23,810,918	22,716,751
Auxiliary Enterprises:		
Student Housing	9,208,327	8,918,137
Food Services	5,391,140	5,387,708
Bookstore		
Athletics	14,359,990	16,505,193
Other Auxiliary Revenues	7,257,490	7,510,647
Interest Earned on Loans to Students	267,685	274,103
Other Operating Revenues	3,784,929	3,912,732
<b>Total Operating Revenues</b>	<b>291,821,555</b>	<b>\$284,142,942</b>
<b>Operating Expenses:</b>		
Salaries and Wages	223,088,734	213,270,003
Fringe benefits	59,123,190	53,970,604
Travel	10,589,254	10,824,997
Contractual Services	79,215,154	71,082,349
Utilities	12,015,295	11,169,128
Scholarships and Fellowships	18,432,018	18,344,251
Commodities	33,835,179	38,525,812
Depreciation Expense	21,660,583	21,660,021
<b>Total Operating Expenses</b>	<b>457,959,407</b>	<b>\$438,847,165</b>
<b>Operating Income (Loss)</b>	<b>(166,137,852)</b>	<b>(\$154,704,223)</b>

**MISSISSIPPI STATE UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**(Continued)**

	<b>2005</b>	<b>2004</b>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	147,671,741	146,152,071
Gifts and Grants	24,232,457	17,471,361
Investment Income, Net of Investment Expense	5,177,005	1,552,501
Interest Expense on Capital Asset- Related Debt	(3,829,683)	(3,088,317)
Other Nonoperating Revenues	155,568	128,736
Other Nonoperating Expenses	(679,887)	(781,635)
<b>Total Net Nonoperating Revenues (Expenses)</b>	<b>172,727,201</b>	<b>161,434,717</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains and Losses</b>	6,589,349	6,730,494
Capital Grants and Gifts	2,840,308	2,439,235
State Appropriations Restricted for Capital Purposes	13,832,958	18,903,986
Other Deletions	(3,905,266)	(948,174)
<b>Net Increase in Net Assets</b>	<b>19,357,349</b>	<b>27,125,541</b>
<b>Net Assets</b>		
Net Assets - Beginning of Year, as Originally Reported	476,950,562	449,825,021
Net Assets - Beginning of Year, as Restated	476,950,562	449,825,021
<b>Net Assets - End of Year</b>	<b>\$496,307,911</b>	<b>\$476,950,562</b>



**MISSISSIPPI STATE UNIVERSITY  
STATEMENT OF CASH FLOWS**

	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash Flows from Operating Activities:</b>		
Tuition and Fees	\$66,552,865	\$63,491,772
Grants and Contracts	142,453,832	144,182,725
Sales and Services of Educational Departments	23,752,451	23,638,814
Payments to Suppliers	(119,646,251)	(121,803,304)
Payments to Employees for Salaries and Benefits	(278,645,608)	(262,718,590)
Payments for Utilities	(12,015,295)	(11,169,128)
Payments for Scholarships and Fellowships	(18,432,018)	(18,344,251)
Loans Issued to Students and Employees	(6,446,952)	(6,742,714)
Collection of Loans to Students and Employees	6,540,618	5,944,299
Auxiliary Enterprise Charges:		
Student Housing	9,208,577	8,998,304
Food Services	5,415,628	5,383,091
Bookstore		
Athletics	14,773,919	16,411,752
Other Auxiliary Enterprises	7,262,374	7,511,602
Other Receipts	14,456,682	16,167,098
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(144,769,178)</b>	<b>(129,048,530)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>		
State Appropriations	149,169,179	145,181,422
Gifts and Grants for Other Than Capital Purposes	20,531,576	20,394,245
Federal Loan Program Receipts	55,691,915	50,540,675
Federal Loan Program Disbursements	(55,564,422)	(50,630,556)
Other Sources	8,251	4,784
Other Uses	(350,760)	(290,550)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>169,485,739</b>	<b>165,200,020</b>

**MISSISSIPPI STATE UNIVERSITY  
STATEMENT OF CASH FLOWS**

**(continued)**

	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash Flows from Capital Financing Activities:</b>		
Proceeds from Capital Debt	29,518,115	17,000,000
Cash Paid for Capital Assets	(38,938,103)	(31,644,182)
Capital Grants and Contracts Received	2,223,442	2,439,235
Proceeds from Sales of Capital Assets	339,877	124,181
Principal Paid on Capital Debt and Leases	(8,044,358)	(3,828,094)
Interest Paid on Capital Debt and Leases	(3,949,300)	(3,088,317)
Other Uses	(1,739,427)	(12,463,611)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(20,589,754)</b>	<b>(31,460,788)</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales and Maturities of Investments	8,650,142	20,765,515
Interest Received on Investments	3,783,428	2,854,467
Purchases of Investments	(7,990,000)	(29,467,793)
<b>Net Cash Provided by Investing Activities</b>	<b>4,443,570</b>	<b>(5,847,811)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>8,570,377</b>	<b>(1,157,109)</b>
<b>Cash and Cash Equivalents - Beginning of the Year</b>	<b>45,233,143</b>	<b>46,390,252</b>
<b>Cash and Cash Equivalents - End of the Year</b>	<b>\$53,803,520</b>	<b>\$45,233,143</b>

**RECONCILIATION OF OPERATING INCOME (LOSS)  
TO NET CASH USED BY OPERATING ACTIVITIES**

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating Income (Loss)</b>	(\$166,137,852)	(\$154,704,223)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	21,660,583	21,660,021
Other		1,919,362
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables, Net	(5,822,517)	2,932,706
Inventories	791,618	(244,278)
Prepaid Expenses	172,926	(1,603,145)
Other Assets		(117,810)
Increase (Decrease) in Liabilities:		
Accounts Payables and Accrued Liabilities	4,351,440	590,844
Deferred Revenues	668,405	1,121,152
Accrued Leave Liability	(523,978)	(674,524)
Other Liabilities	70,197	71,365
<b>Total Adjustments:</b>	21,368,674	25,655,693
<b>Net Cash Provided (Used) by Operating Activities:</b>	<b>(\$144,769,178)</b>	<b>(\$129,048,530)</b>

**NON-CASH TRANSACTIONS**

1.) Equipment	2,573,414	300,978
Capital Lease	(2,573,414)	(300,978)
2.) Construction in Progress	13,832,958	18,903,986
Bureau of Buildings Appropriations	(13,832,958)	(18,903,986)

**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity** – The Mississippi Constitution was amended in 1943 to create a Board of Trustees of State Institutions of Higher Learning. This constitutional Board provides management and control of Mississippi's system of public higher education.

The constitution provides that the Board members be appointed by the Governor with the approval of the Senate. The Board of Trustees consists of twelve (12) members. Four (4) members of the Board of Trustees shall be appointed from each of the three (3) Mississippi Supreme Court districts and, as such vacancies occur, the Governor shall make appointments from the Supreme Court district having the smallest number of Board members until the membership includes four (4) members from each district.

The members of the Board of Trustees as constituted on January 1, 2004, shall continue to serve until expiration of their respective terms of office. Appointments made to fill vacancies created by expiration of members' terms of office occurring after January 1, 2004, shall be as follows: The initial term of the members appointed in 2004 shall be for eleven (11) years; the initial term of the members appointed in 2008 shall be for ten (10) years; and the initial term of the members appointed in 2012 shall be for nine (9) years. After the expiration of the initial terms, all terms shall be for (9) years.

Mississippi State University has established its own educational building corporation (a nonprofit corporation incorporated in the State of Mississippi) in accordance with Section 37-101-61 of the Mississippi Code Annotated of 1972. The purpose of this corporation is for the acquisition, construction and equipping of facilities and land for the university. In accordance with Governmental Accounting Standards Board Statement Number 14, this educational building corporation is deemed a component unit of the State of Mississippi Institutions of Higher Learning and is included as a blended component unit in the general purpose financial statements.

The State of Mississippi Institutions of Higher Learning is considered a component unit of the State of Mississippi reporting entity.

**Basis of Presentation** – The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities*, issued in June and November, 1999. The university now follows the "business type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive one-look at the universities financial activities.

**Basis of Accounting** – The financial statements of the university have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay. All significant intra-agency transactions have been eliminated.

**Cash Equivalents** -- For purposes of the statement of cash flows, the university considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Investments** – The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets. Investments for which there are no quoted market prices are not material.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable, Net** – Accounts receivable consist of tuition and fee charges to students. Accounts receivables also include amounts due from federal and state governments, and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the university grants and contracts. Accounts receivables are recorded net of an allowance for doubtful account.

**Student Notes Receivable, Net** – Student notes receivable consist of federal, state and institutional loans made to students for the purpose of paying tuition and fee charges. Loan balances that are expected to be paid during the next fiscal year are presented on the statement of net assets as current assets. Those balances that are either in deferment status or expected to be paid back beyond the next fiscal year are presented as non-current assets on the statement of net assets.

**Inventories** – Inventories consist of physical plant, agriculture, printing and food service supplies. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out (“FIFO”) basis or the average cost basis.

**Non-Current Cash and Investments** – Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or non-current assets, are classified as non-current assets in the statement of net assets.

**Capital Assets** – Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Livestock for educational purposes is adjusted at year-end to reflect market price. Renovations to buildings, and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional categories. See Note #6 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activity facilities.

**Deferred Revenues** – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**Compensated Absences** – Twelve-month employees earn annual personal leave at a rate of 12 hours per month for zero to three years of service; 14 hours per month for three to eight years of service; 16 hours per month for eight to 15 years of service; and from 15 years of service and over, 18 hours per month are earned. There is no requirement that annual leave be taken, and there is no maximum accumulation. At termination, these employees are paid for up to 240 hours of accumulated leave.

Nine-month employees earn major medical leave at a rate of 13 1/3 hours per month for one month to three years of service; 14 1/5 hours per month for three to eight years of service; 15 2/5 hours per month for eight to 15 years of service; and from 15 years of service and over, 16 hours per month are earned are paid for up to 240 hours of accumulated major medical leave.



**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Classification of Revenues** – The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

*Operating revenues:* Operating revenues include activities that have the characteristic of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans. Gifts (pledges) that are received on an installment basis are recorded at net present value.

*Nonoperating revenues:* Non-Operating revenues include activities that have the characteristic of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34 such as state appropriations and investment income.

**Scholarship Discounts and Allowances** – Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a university basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

**Net Assets** – GASB No. 34 reports equity as "Net Assets" rather than "Fund Balance". Net assets are classified according to external donor restrictions or availability of assets for satisfaction of university obligations. Non-expendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes and funds held in Federal loan programs.

The unrestricted net asset balance of \$91,178,725 at June 30, 2005 includes \$17,200,036 reserved for academic programs and research, \$5,873,851 reserved for capital projects, \$7,654,017 reserved for repairs and maintenance, with \$60,450,821 remaining for other purposes.

**Note 2 – Change in Accounting Principle**

For the year ended June 30, 2005 there were no changes in accounting principle.

**Note 3 - Cash and Investments**

## Policies:

- A. Cash and Short-term Investments – Investment policies for cash and short-term investments as set forth by the IHL Board of Trustees policy and state statute authorize the university to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market funds, U.S. Treasury bills and notes, and repurchase agreements.

For purposes of the statement of cash flows, the university considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the universities endowments are included in non-current investments.

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code Annotated (1972). Under this program, the universities' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

- B. Investments – Investment policy at each university is governed by state statute (Section 27-105-33, MS Code Ann. 1972) and the Uniform Management of Institutional Funds Act of 1998. An institution may at its discretion adopt policies affecting investments beyond the standards cited above.

The following table presents the fair value of investments by type at June 30, 2005:

<b>Investment Type</b>	<b>Fair Value</b>
U.S. Government Agency Obligations	\$80,449,842
Repurchase Agreements	
U.S. Treasury Obligations	
Certificates of Deposit	21,770
Corporate Bonds	539,074
Commercial Mortgage Backed Securities	
Collateralized Mortgage Obligations	501,079
Municipal Bonds	166,888
Mutual Funds	10,765,069
Asset Backed Securities	
Equity Securities	2,276,034
International Obligations	
Landgrant	239,789
Total	<u><u>\$94,959,545</u></u>

**Note 3 – Cash and Investments (Continued)****Interest Rate Risk**

Per GASB Statement No. 40, Interest Rate Risk is defined as the risk a government may face should interest rate variances affect the fair value of investments. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses Interest Rate Risk. As of June 30, 2005, the institution had the following investments subject to Interest Rate Risk:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Agency Obligations	\$79,826,416	\$11,265,345	\$53,112,845	\$13,284,468	\$2,163,758
Repurchase Agreements					
U.S. Treasury Obligations					
Corporate Bonds					
Commercial Mortgage Backed Securities					
Collateralized Mortgage Obligations	501,079				501,079
Municipal Bonds	166,888			166,888	
Asset Backed Securities					
International Obligations					
Certificates of Deposit	21,770	21,770			
Total	\$80,516,153	\$11,287,115	\$53,112,845	\$13,451,356	\$2,664,837

**Credit Risk**

The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses Credit Risk. As of June 30, 2005 the institution had the following investment Credit Risk:

	Fair Value
A+	\$166,888
AAA	79,467,047
Not Rated	15,325,610
Total	\$94,959,545

Index: S&P

**Note 3 – Cash and Investments (Continued)****Concentration of Credit Risk**

Per GASB Statement No. 40, Concentration of Credit Risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses Concentration of Credit Risk.

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
FHLB	\$32,606,033	40.85%
FNMA	23,039,548	28.86%
FHLMC	19,882,721	24.91%
FFCB	3,916,977	4.91%
GNMA Derivative	381,137	0.48%
Total	<u>\$79,826,416</u>	

**Note 4 - Accounts Receivable**

Accounts receivable consisted of the following at June 30, 2005:

	<u>June 30, 2005</u>
Student Tuition	\$9,750,014
Other Operating Activities	7,139,727
Contributions and Gifts	5,578,094
Federal, State, and Private Grants and Contracts	19,457,097
State Appropriations	765,665
Accrued Interest	544,389
Total Accounts Receivable	<u>43,234,986</u>
Less Allowance for Doubtful Accounts	3,660,355
Net Accounts Receivable	<u>\$39,574,631</u>

**Note 5 - Notes Receivable from Students**

Notes receivable from students are payable in installments over a period of up to ten years, commencing three to twelve months from the date of separation from the institution. The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the institution at June 30, 2005:

	<u>Interest Rates</u>	<u>June 30, 2005</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Perkins Student Loans	3% to 9%	\$17,753,939	\$3,600,000	\$14,153,939
Institutional Loans	0% to 9%	784,316	220,568	563,748
Total Notes Receivable		<u>18,538,255</u>	<u>3,820,568</u>	<u>14,717,687</u>
Less Allowance for Doubtful Accounts		1,516,968		1,516,968
Net Notes Receivable		<u><u>\$17,021,287</u></u>	<u><u>\$3,820,568</u></u>	<u><u>\$13,200,719</u></u>

**Note 6 - Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2005 is presented as follows:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
Nondepreciable Capital Assets:				
Land	\$12,093,530	\$581,866		\$12,675,396
Construction in Progress	61,081,881	36,944,429	11,550,130	86,476,180
Livestock	1,803,485	124,083	339,877	1,587,691
 Total Nondepreciable Capital Assets	 <u>74,978,896</u>	 <u>37,650,378</u>	 <u>11,890,007</u>	 <u>100,739,267</u>
Depreciable Capital Assets:				
Improvements other than Building	43,217,576	2,268,977		45,486,553
Buildings	360,024,362	7,848,699	3,708,471	364,164,590
Equipment	105,252,637	18,515,486	15,015,119	108,753,004
Library Books	60,107,231	3,748,699	70,396	63,785,534
 Total Depreciable Capital Assets	 <u>568,601,806</u>	 <u>32,381,861</u>	 <u>18,793,986</u>	 <u>582,189,681</u>
Less Accumulated Depreciation for:				
Improvements other than Building	6,945,671	1,736,255		8,681,926
Buildings	103,318,037	6,737,699	2,308,147	107,747,589
Equipment	69,351,203	9,550,590	9,920,653	68,981,140
Library Books	42,252,029	3,636,040	70,396	45,817,673
 Total Accumulated Depreciation	 <u>221,866,940</u>	 <u>21,660,584</u>	 <u>12,299,196</u>	 <u>231,228,328</u>
 Capital Assets, Net	 <u><u>\$421,713,762</u></u>	 <u><u>\$48,371,655</u></u>	 <u><u>\$18,384,797</u></u>	 <u><u>\$451,700,620</u></u>

**Note 6 – Capital Assets (continued)**

Depreciation is computed on a straight-line basis with the exception of the library books category, which is computed using a composite method. The following useful lives, salvage values and capitalization thresholds are used to compute depreciation:

	<u>Estimated Useful Lives</u>	<u>Salvage Value</u>	<u>Capitalization Threshold</u>
Buildings	40 years	20%	\$50,000
Improvements Other than Buildings	20 years	20%	25,000
Equipment	3-15 years	1-10%	5,000
Library Books	10 years	0%	0

**Note 7 - Long-term Liabilities**

Long-term liabilities of the university consist of notes and bonds payable, capital lease obligations and certain other liabilities that are expected to be liquidated at least one year from June 30, 2005. The various leases cover a period not to exceed five years. The university has the option to prepay all outstanding lease payments less any unearned interest to fully satisfy the obligation. There is also a fiscal funding addendum stating that if funds are not appropriated for periodic payment for any future fiscal period, the lessee will not be obligated to pay the remainder of the total payments due beyond the end of the current fiscal period.

Information regarding original issue amounts, interest rates and maturity dates for bonds, notes and capital leases included in the long-term liabilities balance at June 30, 2005, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Description and Purpose	Original Issue	Annual Interest Rate	Maturity	July 1, 2004	Additions	Deletions	June 30, 2005	Due Within One Year
<b>Bonded Debt</b>								
Dormitory Revenue System	\$2,250,000	3.00%	2020	\$1,290,000		\$60,000	\$1,230,000	\$65,000
Student Apartments	2,038,000	3.00%	2021	1,255,000		55,000	1,200,000	55,000
EBC93 - Revenue Bonds	5,460,000	2.75%-5.00%	2008	1,775,000		1,775,000	0	0
EBC95 - Revenue Bonds	3,000,000	4.50%-6.15%	2015	1,975,000		1,975,000	0	0
EBC96 - Revenue Bonds	11,920,000	3.70%-5.00%	2016	9,000,000		490,000	8,510,000	7,375,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2024	28,320,000		855,000	27,465,000	890,000
EBC01 - Revenue Bonds	16,920,000	4.00%-5.50%	2026	15,575,000		715,000	14,860,000	745,000
EBC04 - Revenue Bonds	17,000,000	2.00%-5.00%	2028	17,000,000		245,000	16,755,000	475,000
EBC04A - Revenue Bonds	28,790,000	2.00%-5.00%	2030		28,790,000		28,790,000	900,000
<b>Total Bonded Debt</b>				<u>76,190,000</u>	<u>28,790,000</u>	<u>6,170,000</u>	<u>98,810,000</u>	<u>10,505,000</u>
<b>Capital Leases</b>								
Farm Equipment				625,704	1,775,611	733,851	1,667,464	361,569
Computer Equipment				789,625	1,515,527	589,947	1,715,206	598,142
Vehicles				208,105	113,895	121,945	200,054	74,652
Other				2,041,685	395,492	428,616	2,008,562	392,489
<b>Total Capital Leases</b>				<u>3,665,119</u>	<u>3,800,526</u>	<u>1,874,359</u>	<u>5,591,286</u>	<u>1,426,852</u>
<b>Other Long-term Liabilities</b>								
- Accrued Leave Liabilities				17,401,397	523,978		17,925,375	1,563,088
- Deposits Refundable				87,361	5,180		92,541	
<b>Total Other Liabilities</b>				<u>17,488,758</u>	<u>529,158</u>	<u>0</u>	<u>18,017,916</u>	<u>1,563,088</u>
Federal Portion of NDSL				14,886,551		85,372	14,801,179	
<b>Total</b>				<u>112,230,428</u>	<u>33,119,684</u>	<u>8,129,731</u>	<u>137,220,381</u>	<u>13,494,940</u>
Due Within One Year							<u>13,494,940</u>	
<b>Total Long-term Liabilities</b>							<u>\$123,725,441</u>	



**Note 7 – Long-term Liabilities (Continued)**

<u>Fiscal Year</u>	<u>Bonded Debt</u>	<u>Capital Leases</u>	<u>Interest</u>	<u>Total</u>
2006	\$10,505,000	\$1,426,852	\$4,556,093	\$16,487,945
2007	3,790,000	2,290,610	4,370,911	10,451,521
2008	3,930,000	974,628	4,181,448	9,086,076
2009	4,040,000	641,161	3,648,144	8,329,305
2010	3,935,000	257,548	3,487,297	7,679,845
2011-2015	22,265,000	487	14,608,104	36,873,591
2016-2020	21,055,000		9,049,433	30,104,433
2021-2025	18,800,000		4,480,376	23,280,376
2026-2030	10,490,000		1,100,910	11,590,910
Totals	<u>\$98,810,000</u>	<u>\$5,591,286</u>	<u>\$49,482,716</u>	<u>\$153,884,002</u>

**Note 8 - Operating Leases**

Leased property under operating leases is composed of office rent, land, computer software and equipment. The following is a schedule by years of the future minimum rental payments required under those operating leases:

<u>Year Ending June 30</u>	<u>Amount</u>
2006	\$2,462,854
2007	2,462,854
2008	2,462,854
2009	2,462,854
2010	2,462,854
Total minimum payments required	<u>\$12,314,270</u>

The total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the fiscal year ending June 30, 2005 was \$2,462,854.

**Note 9 - Natural Classifications with Functional Classifications**

The universities operating expenses by functional classification were as follows for the year ended June 30, 2005:

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$60,250,042	\$16,076,504	\$1,245,637	\$3,832,497	\$116,320	\$772,129	\$994,876		\$83,288,005
Research	63,360,227	17,060,549	3,681,333	37,605,272	2,258,613	649,685	11,707,230		136,322,908
Public Service	38,879,864	10,640,223	2,897,297	9,528,854	473,809	87,306	2,386,187		64,893,539
Academic Support	11,043,423	2,725,379	311,216	2,621,650	13,692	6,005	2,442,574		19,163,938
Student Services	6,097,192	1,680,885	195,925	967,531	12,372	680	913,935		9,868,519
Institutional Support	18,041,898	3,018,450	233,146	15,444,660	109,086	222,951	10,907,910		47,978,102
Operation of Plant	10,314,735	2,958,355	57,026	0	7,630,149	0	990,265		21,950,530
Student Aid	869,361	1,564,572	12,290	155,200	0	12,030,507	58,905		14,690,835
Auxiliary Enterprises	14,231,993	3,398,274	1,955,383	9,059,491	1,401,254	4,662,755	3,433,297		38,142,448
Depreciation								21,660,583	21,660,583
Total Operating Expenses	<u>\$223,088,734</u>	<u>\$59,123,190</u>	<u>\$10,589,254</u>	<u>\$79,215,154</u>	<u>\$12,015,295</u>	<u>\$18,432,018</u>	<u>\$33,835,179</u>	<u>\$21,660,583</u>	<u>\$457,959,407</u>

**Note 10 - Construction Commitments and Financing**

The university has contracted for various construction projects as of June 30, 2005. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

	Total Costs to Complete	Funded by Federal Sources	State Sources	Institutional Funds	Other
105-261 McCain Hall Renovation	\$7,347,226	\$925,000	\$4,366,581	\$2,055,645	
105-267 Montgomery Hall Renovation	5,125,248		5,125,248		
105-276 Bowen Hall Renovations	3,827,896		3,827,896		
105-278 Lee Hall Renovation - Phase II	4,170,258		4,170,258		
105-284 Capital Street Building Renovation	2,725,926		1,727,028	998,898	
105-285 Colvard Student Union Preplanning	617,690		617,690		
105-291 Montgomery Hall Communications	76,847		76,847		
105-293 Hand Chem Lab - Phase III	7,181,744		7,181,744		
105-294 Simulation Design Center	6,006,100		6,006,100		
105-302 Electrical Distributions	560,000		400,000	160,000	
105-303 2003 ADA Program (Replace Sidewalks)	335,000		335,000		
105-304 North MS R&E Center Expansion	960,000		960,000		
105-309 Colvard Student Union Renovation	16,337,000		16,337,000		
105-310 Harned Hall Renovation - Phase I	5,000,000		5,000,000		
205-183 North Entrance Landscape Improvements	450,000		450,000		
205-190 Marks-Rothenburg Building & Opera House - Meridian	23,752,563	7,185,815	599,894		15,966,854
205-191 Power Generation Plant	17,000,000			17,000,000	
205-198 McCain Parking Lot	200,263			200,263	
205-203 2003 Street & Parking Program Phase II	1,050,000			1,050,000	
205-204 Cullis Wade Welcome Center & Museum	9,000,000			9,000,000	
205-207 Roy Ruby Residence Hall (EBC 2004)	19,385,000			19,385,000	
205-210 New Residence Hall - Phase II (EBC 2005)	40,000,000			40,000,000	
Palmeiro Center	3,791,280			3,791,280	
2005 Campus Lighting Program	100,000			100,000	
113-079 Gulf Coast Research & Extension Building	3,726,394		3,726,394		
113-082 Furniture Research Building	4,838,639		2,999,008	743,735	1,095,896
113-094 Stoneville Multi-Purpose Building	2,775,000	800,000	1,200,000	775,000	
113-097 Pace Seed Technology Building Reno	3,000,000		3,000,000		
113-099 MS Veterinary Diagnostic Lab (Phase I)	18,000,000		18,000,000		
113-102 Agricultural & Biological Engineering Bldg	9,500,000		9,500,000		
113-104 Communications Pace Seed Lab	196,500		196,500		
113-110 Pre-plan Wise Center Renovation	9,000,000		9,000,000		
113-111 Communications MS Vet Lab	30,000		30,000		
<b>Total</b>	<b><u>\$226,066,573</u></b>	<b><u>\$8,910,815</u></b>	<b><u>\$104,833,186</u></b>	<b><u>\$95,259,821</u></b>	<b><u>\$17,062,750</u></b>

**Note 11 - Pension Plan**

Plan Description – The State of Mississippi Institutions of Higher Learning participates in the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

PERS members are required to contribute 7.25% of their annual salary and the institution is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the state of Mississippi legislature. The institution's contributions to PERS for the years ending June 30, 2005, 2004, and 2003 were \$14,922,385, \$14,362,646, \$14,003,765, respectively, equal to the required contributions for each year.

House Bill No. 1070, adopted during the 1990 general session of the Mississippi state legislature, established an optional retirement plan (ORP) for teaching and administrative faculty of the state Institutions of Higher Learning who initially were employed on or after July 1, 1990. Contributions to the optional retirement plan are the same as those required for PERS participation, except that the university's contribution is split between the ORP and the PERS. ORP members are required to contribute 7.25% on total earnings up to a maximum of \$150,000 and the university contributes 7.25% to the ORP and 2.50% to PERS. The university's and the member's contributions are portable. The institution's contributions to the ORP for June 30, 2005, 2004, and 2003 were \$4,176,339, \$3,843,060, and \$3,442,690, respectively, equal to the required contributions for each year.

**Note 12 - Donor Restricted Endowments**

The net appreciation on investments of donor restricted endowments that is available for authorization for expenditure is \$533,402. This amount is included on the Statement of Net Assets as Restricted Expendable.

Most endowments operate on the total-return concept as permitted by the Uniform Management of Institutional Funds Act (Sections 79-11-601 through 79-11-617, MS code, Ann. 1972) as enacted in 1998. The annual spending rate for these endowments is 5% of the three-year moving average of fiscal year end endowment fund market values using the most previous fiscal years, plus any funds available but not spent in previous fiscal years.

**Note 13 – Federal Direct Lending and FFEL Programs**

The University distributed \$55,564,422 for the year ended June 30, 2005, for student loans through the U. S. Department of Education lending programs. These distributions and their related funding sources are included as "Non-Capital Financing distributions in the Cash Flows Statement.

**Note 14 - Foundations and Affiliated Parties**

Mississippi State University Foundation (Foundation) is a legally separate, tax-exempt organization supporting Mississippi State University (University). The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The 44-member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted 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.

During the year ended June 30, 2005, the Foundation made distributions of \$15,861,494 to or on behalf of the University for both restricted and unrestricted purposes. Immediately following this note are the financial statements for the Foundation. Any questions regarding the Foundation statements or requests for additional information may be addressed to the Administrative Office, Hunter Henry Center, P. O. Box 6149, Mississippi State, MS 39762.

**Note 15 – Subsequent Events**

Subsequent to year-end, the University experienced the aftermath of Hurricanes Katrina and Rita resulting in damage to numerous facilities at the main campus, Meridian campus and locations on the Gulf Coast. At this point the amount of damage cannot be quantified and will be reported in the fiscal year 2006 annual financial report.

Also, subsequent to year-end, the University will refund the 1996 bond issue of the Educational Building Corporation in the amount of \$7,126,424 in FY 2007. This accounts for the significant increase in cash and cash equivalents in fiscal year 2005 over the prior fiscal year.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

## **Independent Auditors' Report**

The Board of Directors  
Mississippi State University Foundation, Inc.:

We have audited the accompanying statements of financial position of Mississippi State University Foundation, Inc. (the Foundation) as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation at June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

October 5, 2005, except for  
the fifth paragraph of note 6,  
which is as of October 18, 2005

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Statements of Financial Position

June 30, 2005 and 2004

<b>Assets</b>	<b>2005</b>	<b>2004</b>
Cash	\$ 1,028,074	505,264
Accrued interest, other receivables and prepaid assets	1,290,535	1,391,303
Receivable from Alumni Foundation	21,827	8,556
Receivable from Mississippi State University	1,176,128	—
Notes receivable (note 4)	476,591	512,947
Pledges receivable, net (note 3)	16,968,492	31,881,138
Investments (note 2)	171,774,383	141,358,419
Present value of amounts due from externally managed trusts	38,336,881	31,497,667
Unamortized bond issuance costs	79,147	90,729
Land, buildings and equipment (note 5)	12,383,167	13,856,720
Total assets	\$ <u>243,535,225</u>	<u>221,102,743</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,063,916	786,617
Payable to Alumni Association	129,459	—
Annuities payable	3,096,882	2,856,125
Liability for amounts held for others	668,145	5,996,652
Long-term debt (note 6)	7,139,107	7,811,600
Total liabilities	<u>12,097,509</u>	<u>17,450,994</u>
Net assets:		
Unrestricted	17,453,832	12,914,774
Temporarily restricted (note 7)	51,373,812	49,764,271
Permanently restricted (note 7)	162,610,072	140,972,704
Total net assets	<u>231,437,716</u>	<u>203,651,749</u>
Commitments (note 9)		
Total liabilities and net assets	\$ <u>243,535,225</u>	<u>221,102,743</u>

See accompanying notes to financial statements.



**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Statement of Activities  
Year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contributions	\$ 3,765,889	6,342,729	17,077,049	27,185,667
Net investment income (note 2)	7,495,520	5,358,942	381,373	13,235,835
Change in value of split interest agreements	—	2,140,751	3,859,190	5,999,941
Other	2,206,912	248,296	—	2,455,208
Net assets released from restrictions	<u>12,161,421</u>	<u>(12,481,177)</u>	<u>319,756</u>	<u>—</u>
Total revenues and support	<u>25,629,742</u>	<u>1,609,541</u>	<u>21,637,368</u>	<u>48,876,651</u>
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	15,861,494	—	—	15,861,494
Contributions and support for Mississippi State University Alumni Association	<u>635,821</u>	<u>—</u>	<u>—</u>	<u>635,821</u>
Total program services	<u>16,497,315</u>	<u>—</u>	<u>—</u>	<u>16,497,315</u>
Supporting services:				
General and administrative	2,470,299	—	—	2,470,299
Fund raising	<u>2,123,070</u>	<u>—</u>	<u>—</u>	<u>2,123,070</u>
Total supporting services	<u>4,593,369</u>	<u>—</u>	<u>—</u>	<u>4,593,369</u>
Total expenditures	<u>21,090,684</u>	<u>—</u>	<u>—</u>	<u>21,090,684</u>
Increase in net assets	4,539,058	1,609,541	21,637,368	27,785,967
Net assets at beginning of year	<u>12,914,774</u>	<u>49,764,271</u>	<u>140,972,704</u>	<u>203,651,749</u>
Net assets at end of year	<u>\$ 17,453,832</u>	<u>51,373,812</u>	<u>162,610,072</u>	<u>231,437,716</u>

See accompanying notes to financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Statement of Activities  
Year ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contributions	\$ 5,065,498	9,238,611	6,816,642	21,120,751
Net investment income (note 2)	10,661,772	5,111,711	330,310	16,103,793
Change in value of split interest agreements	—	3,001,162	1,952,145	4,953,307
Other	1,545,188	189,233	—	1,734,421
Net assets released from restrictions	<u>22,046,554</u>	<u>(21,373,888)</u>	<u>(672,666)</u>	<u>—</u>
Total revenues and support	<u>39,319,012</u>	<u>(3,833,171)</u>	<u>8,426,431</u>	<u>43,912,272</u>
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	25,030,402	—	—	25,030,402
Contributions and support for Mississippi State University Alumni Association	<u>500,000</u>	<u>—</u>	<u>—</u>	<u>500,000</u>
Total program services	<u>25,530,402</u>	<u>—</u>	<u>—</u>	<u>25,530,402</u>
Supporting services:				
General and administrative	2,352,971	—	—	2,352,971
Fund raising	<u>2,323,239</u>	<u>—</u>	<u>—</u>	<u>2,323,239</u>
Total supporting services	<u>4,676,210</u>	<u>—</u>	<u>—</u>	<u>4,676,210</u>
Total expenditures	<u>30,206,612</u>	<u>—</u>	<u>—</u>	<u>30,206,612</u>
Increase (decrease) in net assets	9,112,400	(3,833,171)	8,426,431	13,705,660
Net assets at beginning of year	<u>3,802,374</u>	<u>53,597,442</u>	<u>132,546,273</u>	<u>189,946,089</u>
Net assets at end of year	<u>\$ 12,914,774</u>	<u>49,764,271</u>	<u>140,972,704</u>	<u>203,651,749</u>

See accompanying notes to financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Increase in net assets	\$ 27,785,967	13,705,660
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation and amortization	939,256	955,356
Realized and unrealized gains on investments, net	(8,791,529)	(12,466,400)
Gain on sale of building	(294,560)	—
Present value adjustments to annuities	311,599	(39,934)
Fair value of donated assets	(1,172,500)	(2,253,906)
Change in accrued interest, other receivables and prepaid assets	100,768	(9,154)
Change in pledges receivable, net	14,912,646	7,451,430
Change in externally managed trusts	(6,839,214)	1,009,620
Change in accounts payable and accrued liabilities	277,299	(700,601)
Change in liability for amounts held for others	(5,328,507)	621,568
Change in receivable from Alumni Foundation	(13,271)	(4,383)
Change in receivable from/payable to Mississippi State University	(176,128)	(10,743)
Change in payable to Alumni Association	129,459	—
Permanently restricted investment gain	(1,919)	(260)
Permanently restricted contributions	(17,077,049)	(6,816,642)
Net cash provided by operating activities	<u>4,762,317</u>	<u>1,441,611</u>
Cash flows from investing activities:		
Purchases of land, buildings, and equipment	(154,761)	(539,133)
Purchases of investments	(30,871,276)	(14,100,000)
Proceeds from sales and maturities of investments	10,419,341	5,618,521
Payments on notes receivable	36,356	516,094
Net cash used by investing activities	<u>(20,570,340)</u>	<u>(8,504,518)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(677,293)	(600,000)
Permanently restricted investment gain	1,919	260
Permanently restricted contributions	17,077,049	6,816,642
Investments subject to annuity agreements	391,090	861,057
Annuity payments	(461,932)	(474,479)
Net cash provided by financing activities	<u>16,330,833</u>	<u>6,603,480</u>
Net increase (decrease) in cash	522,810	(459,427)
Cash at beginning of year	<u>505,264</u>	<u>964,691</u>
Cash at end of year	\$ <u>1,028,074</u>	\$ <u>505,264</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ <u>94,932</u>	\$ <u>59,347</u>
Transfer of building to receivable from Mississippi State University	\$ <u>1,000,000</u>	\$ <u>—</u>

See accompanying notes to financial statements.

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2005 and 2004

### (1) Significant Accounting Policies

#### (a) Organization

Mississippi State University Foundation, Inc. (the Foundation) is a not-for-profit entity established to solicit and manage funds for the benefit of Mississippi State University (the University).

#### (b) Basis of Accounting

These financial statements, which are presented on the accrual basis of accounting, have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes – permanently restricted, temporarily restricted or unrestricted as follows:

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donor of these assets permits the Foundation to use all or part of the income earned on related investments for general or specific purposes in support of the University.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

Unrestricted net assets – net assets which represent resources generated from operations or that are not subject to donor-imposed stipulations. Unrestricted net assets include contributions designated to a particular college or unit for which the use or purpose is unrestricted.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenditures are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Income and realized and unrealized gains on investments of permanently restricted net assets are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift or the Foundation's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;

## MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

### Notes to Financial Statements

June 30, 2005 and 2004

- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on their use;
- as increases in unrestricted net assets in all other cases.

#### (c) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

An estimate that is particularly susceptible to significant change in the near term relates to the allowance for uncollectible pledges.

The Foundation's investments are invested in various types of investment securities and in various companies within various markets. Investment securities are exposed to several risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's financial statements.

#### (d) *Land, Buildings and Equipment*

Land, buildings and equipment are stated at cost, if purchased, or at fair value on the date of gift, if donated. Depreciation of buildings and equipment is provided on the straight-line method over the estimated useful life of the assets. The estimated useful lives for buildings is 30-40 years and furniture, fixtures, and equipment is 5 years.

#### (e) *Investments*

The Foundation's investments primarily consist of publicly traded fixed income and equity securities, other investments, and cash held for reinvestment. Other investments include partnership interests and real estate investments. The fair value of publicly traded fixed income and equity securities investments are based on quoted market prices. Since partnership interests do not have readily ascertainable market values and may be subject to withdrawal restrictions, the Foundation values these investments in accordance with valuations provided by the general partners of the underlying partnerships. The Foundation's management may, in addition, consider other factors in assessing the fair value of these investments. Real estate is valued at estimated fair value. Cash held for reinvestment consists primarily of liquid short-term instruments held by the investment pool.

The Foundation believes that the carrying amount of its other investments is a reasonable estimate of fair value as of June 30, 2005 and 2004. Because other investments are not marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed.

## MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

### Notes to Financial Statements

June 30, 2005 and 2004

**(f) Pledges**

All unconditional pledges to give are recorded at their estimated realizable value on a discounted basis.

**(g) Split Interest Agreements**

The Foundation accepts gifts subject to split interest agreements. These gifts may be in the form of annuities, charitable lead trusts, charitable remainder trusts or perpetual trusts. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuity or trust beneficiary and are determined using appropriate discount rates (at June 30, 2005 rates ranged from approximately 3% to 8%). For certain split interest agreements where the measurement objective is fair value, the discount rate is adjusted to a current market rate at each reporting date. Funds subject to split interest agreements are classified as temporarily restricted or permanently restricted based upon donor designations.

Contribution revenue attributable to split interest agreements for the fiscal years ended June 30, 2005 and 2004 was \$866,027 and \$318,495, respectively.

**(h) Bond Issuance Costs and Bond Discounts**

Bond issuance costs and bond discounts are being amortized over the term of the related bond issue using the straight-line method, which does not significantly differ from the interest method.

**(i) Income Taxes**

The Foundation is exempt from Federal and state income taxes.

**(j) Liquidity**

Assets are presented according to their nearness to cash and liabilities are presented according to their nearness of payment or use of cash.

**(k) Reclassifications**

Certain reclassifications have been made to the 2004 financial statements to conform with the 2005 presentation.

**(2) Investments**

The Foundation, the University, the Alumni Foundation and the Bulldog Club, Inc. are participants in a joint venture whereby certain assets are pooled for investment purposes. The Foundation manages the assets of the pool and maintains separate accounts for each participant. Investment income, gains and losses and expenses of the pool are allocated to each participant based on their share of ownership of the pool. At June 30, 2005 and 2004, approximately 79% and 71%, respectively, of the Foundation's investments are included in the pool.

Endowment earnings are primarily allocated to temporarily restricted net assets based on specified annual rates as determined by the Foundation's board of directors. At June 30, 2005 and 2004, the fair value of

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2005 and 2004

certain permanently restricted investments have gone below their historical cost and the deficiency of \$1,080,592 and \$2,169,554, respectively, has been recorded in unrestricted net assets.

Investments are summarized as follows at June 30, 2005 and 2004:

	<b>2005</b>		<b>2004</b>	
	<b>Cost</b>	<b>Estimated fair value</b>	<b>Cost</b>	<b>Estimated fair value</b>
U. S. Government securities	\$ 5,394,311	5,387,456	11,096,832	11,109,410
Corporate bonds	18,823,727	18,817,759	24,524,946	24,355,923
Corporate stocks	105,856,030	113,702,425	74,051,398	81,052,295
Partnership interests	24,665,621	28,005,432	17,484,145	18,804,132
Short-term investments	2,594,229	2,594,229	3,481,296	3,481,296
Real estate	1,898,659	1,898,659	1,332,295	1,332,295
Other	1,368,423	1,368,423	1,223,068	1,223,068
	<u>\$ 160,601,000</u>	<u>171,774,383</u>	<u>133,193,980</u>	<u>141,358,419</u>

The Foundation has entered into various split interest agreements, including charitable lead annuity trusts, charitable remainder unitrusts, and charitable gift annuities, whereby the Foundation serves as trustee. The assets held under these split interest agreements are included in investments at June 30, 2005 and 2004 with an approximate fair value of \$6,352,563 and \$12,384,887, respectively.

The following schedule summarizes net investment income and its classification in the statements of activities:

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
<b>June 30, 2005:</b>				
Dividends and interest (net of expenses of \$288,093)	\$ 3,280,944	1,161,443	1,919	4,444,306
Realized gains, net	2,520,132	244,399	277,975	3,042,506
Unrealized gains, net	5,643,220	4,599	101,204	5,749,023
Allocation of earnings	(3,948,776)	3,948,501	275	—
	<u>\$ 7,495,520</u>	<u>5,358,942</u>	<u>381,373</u>	<u>13,235,835</u>
<b>June 30, 2004:</b>				
Dividends and interest (net of expenses of \$344,373)	\$ 2,030,869	1,606,264	260	3,637,393
Realized gains (losses), net	5,306,737	301,452	(32,138)	5,576,051
Unrealized gains, net	6,438,510	89,651	362,188	6,890,349
Allocation of earnings	(3,114,344)	3,114,344	—	—
	<u>\$ 10,661,772</u>	<u>5,111,711</u>	<u>330,310</u>	<u>16,103,793</u>

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2005 and 2004

**(3) Pledges Receivable**

Pledges receivable, net, are summarized as follows at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 7,281,593	23,629,457
One year to five years	9,720,625	8,334,531
Over five years	2,150,096	2,798,804
	<u>19,152,314</u>	<u>34,762,792</u>
Less unamortized discount (rate approximated 4% in 2005 and 2004)	<u>(1,729,983)</u>	<u>(2,285,470)</u>
	17,422,331	32,477,322
Less allowance for uncollectible pledges	<u>(453,839)</u>	<u>(596,184)</u>
	<u>\$ 16,968,492</u>	<u>31,881,138</u>

**(4) Note Receivable**

At June 30, 2005 and 2004, the Foundation had a note receivable of \$476,591 and \$512,947, respectively, all of which was with a related party. The note receivable has an interest rate of 6% and a maturity date of August 2014.

**(5) Land, Buildings and Equipment**

Land, buildings and equipment are summarized as follows at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Land and buildings	\$ 11,987,491	12,736,163
Furniture, fixtures, and equipment	2,772,406	2,741,443
	<u>14,759,897</u>	<u>15,477,606</u>
Less accumulated depreciation	<u>(2,376,730)</u>	<u>(1,620,886)</u>
	<u>\$ 12,383,167</u>	<u>13,856,720</u>



**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2005 and 2004

**(6) Long-Term Debt**

Long-term debt is summarized as follows at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Mississippi Business Finance Corporation, Variable Rate Revenue Bonds, Series 2002.	\$ 4,200,000	4,800,000
Unsecured note payable to private foundation, unpaid principal due January 2007. Interest is payable annually at a variable amount not to exceed 4%.	1,000,000	1,000,000
Non-interest bearing unsecured note payable to a private foundation, due November 2005.	472,707	550,000
Non-interest bearing unsecured note payable to private foundation, due March 2008.	<u>1,500,000</u>	<u>1,500,000</u>
	7,172,707	7,850,000
Less unamortized bond discount	<u>(33,600)</u>	<u>(38,400)</u>
	<u>\$ 7,139,107</u>	<u>7,811,600</u>

In April 2002, the Foundation obtained \$6,000,000 in Series 2002 Variable Rate Revenue Bonds from the Mississippi Business Finance Corporation. Principal installments are due in fixed amounts through 2012. Interest is payable at a variable rate (2.4% at June 30, 2005). The bonds are secured by a letter of credit. The bonds have an early redemption feature; however, a premium is due if the Foundation retires the bonds early.

Interest expense incurred during the years ended June 30, 2005 and 2004 was \$94,932 and \$64,092, respectively.

The aggregate future maturities of long-term debt at June 30, 2005 are summarized as follows:

Fiscal year:	
2006	\$ 1,072,707
2007	1,600,000
2008	2,100,000
2009	600,000
2010	600,000
Thereafter	<u>1,200,000</u>
	<u>\$ 7,172,707</u>

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2005 and 2004

The Foundation is subject to various restrictive and financial maintenance covenants related to certain long-term debt. At June 30, 2005, the Foundation was not in compliance with one of the debt covenants but obtained a waiver, dated October 18, 2005, curing this violation.

**(7) Net Assets**

Temporarily restricted and permanently restricted net assets at June 30, 2005 and 2004 were available for the following purposes:

		<u>Net assets</u>	
		<u>Temporarily restricted</u>	<u>Permanently restricted</u>
June 30, 2005:			
General college support	\$	12,772,935	50,470,528
Student financial aid		12,014,048	65,365,189
Research		2,361,422	10,569,226
Faculty and staff support		2,550,243	28,415,754
Facilities		20,730,061	6,089,598
Other		945,103	1,699,777
Total	\$	<u>51,373,812</u>	<u>162,610,072</u>

		<u>Net assets</u>	
		<u>Temporarily restricted</u>	<u>Permanently restricted</u>
June 30, 2004:			
General college support	\$	14,286,736	40,582,890
Student financial aid		11,521,363	55,308,721
Research		2,150,634	8,622,744
Faculty and staff support		2,634,987	28,466,304
Facilities		18,289,106	6,426,578
Other		881,445	1,565,467
Total	\$	<u>49,764,271</u>	<u>140,972,704</u>

**(8) Financial Instruments**

The carrying amount reported in the statements of financial position for cash, other receivables, and accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The carrying amount of pledges receivable and amounts due from externally managed trusts approximate fair value as they are presented on a discounted basis. The fair value of the various notes receivable has been estimated using current interest rates and approximate the carrying amounts at June 30, 2005 and 2004. The fair value of the various debt instruments has been estimated using interest rates currently offered to the Foundation for borrowings having similar character, collateral and duration. The fair value of such debt instruments approximates the carrying amounts at June 30, 2005 and 2004.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2005 and 2004

**(9) Lease Commitment**

The Foundation had entered into a previous lease agreement for the use of an airplane under a noncancelable operating lease. In August 2004, the Foundation entered into a new aircraft operating lease agreement under substantially the same terms of the previous lease with a new expiration date of August 2014. Rent expense related to these leases was \$432,600 in 2005 and 2004. Future minimum lease payments are as follows:

Fiscal year:		
2006	\$	432,600
2007		432,600
2008		432,600
2009		432,600
2010		432,600
Thereafter		<u>1,802,500</u>
Total future minimum lease payments	\$	<u><u>3,965,500</u></u>