



MISSISSIPPI STATE  
UNIVERSITY™

# CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012







MISSISSIPPI STATE  
UNIVERSITY™

MANAGEMENT'S  
DISCUSSION & ANALYSIS

<b>Statement of Net Assets</b>	<b>4</b>
<b>Statement of Revenues, Expenses and Change in Net Assets</b>	<b>4</b>
<b>Statement of Cash Flows</b>	<b>5</b>
<b>Capital Assets and Debt Administration</b>	<b>6</b>
<b>Enrollment</b>	<b>6</b>
<b>Degrees Awarded</b>	<b>6</b>
<b>Financial Summary and Outlook</b>	<b>6</b>

The following Management's Discussion and Analysis (MD&A) is provided to allow an overview of Mississippi State University's financial position and performance. The discussion focuses on the reasons for material change as they relate to specific categories in the statements and is intended to be read in conjunction with the financial statements and accompanying note disclosures. These statements present financial information for the fiscal year ended June 30, 2012, and comparative data for the fiscal year ended June 30, 2011. The accompanying financial statements, footnotes and this discussion are the responsibility of management.

### STATEMENT OF NET ASSETS

The statement of net assets presents the financial position of the University at the end of the fiscal year. This statement reflects the assets, liabilities and net assets of the University as of the fiscal years ended June 30, 2012 and 2011 and is prepared under the accrual basis of accounting. Revenues and assets are recognized when the services are provided and expenses and liabilities are recognized when services are received, regardless of when cash is exchanged. It is also important to note both assets and liabilities are presented as current and non-current. This distinction allows readers to determine the availability of assets to continue current operations and also provides a long-term perspective. Likewise the reader is also able to determine from the presentation of liabilities the current obligations due within one year, as well as, future obligations due more than one year from the date of the statement. Net assets are further broken down into three categories: (1) invested in capital assets, net of related debt, which represents the historical cost of property and equipment reduced by the balance of related debt outstanding and depreciation expense charged over the years; (2) restricted net assets which have constraints imposed by third parties; (3) and unrestricted assets that can be used at the discretion of University administration within the bounds of state law. Additionally, restricted net assets are either nonexpendable, as in the case of endowment gifts to be held in perpetuity, or expendable, as in the case of funds for scholarships, research, or other reasons.

### CONDENSED STATEMENT OF NET ASSETS

	FY 2012	FY 2011
<b>ASSETS:</b>		
Current assets	\$114,745,264	\$138,431,658
Capital Assets, Net	694,538,251	652,251,119
Other Noncurrent Assets	149,278,871	118,739,151
<b>Total Assets</b>	<b>\$958,562,386</b>	<b>\$909,421,928</b>
<b>LIABILITIES:</b>		
Current liabilities	\$51,559,586	\$50,898,600
Non-Current liabilities	222,063,313	183,830,823
<b>Total Liabilities</b>	<b>\$273,622,899</b>	<b>\$234,729,423</b>
<b>NET ASSETS:</b>		
Invested in Capital Assets, Net of Related Debt	\$510,723,283	\$499,096,655
Restricted for:		
Nonexpendable -		
Scholarships and Fellowships	2,284,822	2,498,286
Research	4,339,871	4,715,840
Other Purposes	7,609,294	8,367,158
Expendable -		
Scholarships and Fellowships	2,605,008	2,622,093
Research	16,666,012	11,157,440
Capital Projects	35,509	(177,633)
Debt Service	570,248	563,418
Loans	3,414,880	3,845,072
Other Purposes	1,270,529	1,248,053
Unrestricted	135,420,031	140,756,123
<b>Total Net Assets</b>	<b>\$684,939,487</b>	<b>\$674,692,505</b>

The financial position of the University improved marginally for fiscal year 2012 over the prior fiscal year. Net assets for 2012 increased approximately \$10.2 million with total assets increasing \$49.2 million and total liabilities increasing \$38.9 million.

A material decrease in current assets occurred due largely to a change in investment strategy that reduced cash by \$20 million. Short-term investments increased by \$4 million as a result of this decision for a net decrease in current assets of \$16 million. Accounts receivable from federal agencies decreased in FY12, as did interest owed to the University, accounting for a decrease in accounts receivable of \$2.7 million. All other components of current assets stayed materially the same.

Non-current assets show a material positive change of \$42.2 in capital assets net of related debt due primarily to the completion of one student residence hall, South Hall, and the start of construction on two more, Oak and Magnolia. The increase in restricted cash is also related to residence hall construction, as it reflects the unspent bond proceeds associated with the projects. Long-term

investments increased \$22.4 million due mainly to the change in investment strategy referenced earlier in this discussion. The change resulted in \$16 million in current assets being reclassified to long-term. Government securities and certificates of deposit that had maturity dates greater than one year in the future also increased \$5 million.

Current liabilities increased slightly because of an increase in the amount owed in the short-term for long-term debt. New debt in the form of Educational Building Corporation bonds was issued in the amount of \$54.4 million. \$10 million of the proceeds was utilized to defease the 2001 issue, with the balance going toward the construction of new residence halls. This accounts for most of the \$38.7 million increase in long term debt. A complete summary of the long-term indebtedness can be seen in Note 9 of the Notes to the Financial Statements.

### STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the

## CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	FY 2012	FY 2011
Total Operating Revenues	\$384,692,124	\$368,841,928
Total Operating Expenses	592,878,298	565,042,292
<b>Operating Loss</b>	<b>(\$208,186,174)</b>	<b>(\$196,200,364)</b>
Total Net Nonoperating Revenues (Expenses)	207,161,080	209,849,103
<b>Income (Loss) Before Other Revenues, Expenses, Gains and Losses</b>	<b>(1,025,094)</b>	<b>13,648,739</b>
Other revenues, expenses, gains or losses	11,272,076	25,676,637
<b>Net Increase in Net Assets</b>	<b>\$10,246,982</b>	<b>\$39,325,376</b>
Net Assets - Beginning of Year	674,692,505	635,367,129
<b>Net Assets - End of Year</b>	<b>\$684,939,487</b>	<b>\$674,692,505</b>

year, regardless of when cash is received or disbursed. Activities in this statement are presented as either operating or non-operating. Operating revenues are recorded in exchange for providing goods and services. Operating expenses are incurred as a result of normal operations of the University but also include depreciation on capital assets. State appropriations, gifts and investment income the University relies on to support day to day operations are required by the Government Accounting Standards Board to be classified as non-operating revenues. Non-operating expenses include capital financing costs and loan cancellation expenses.

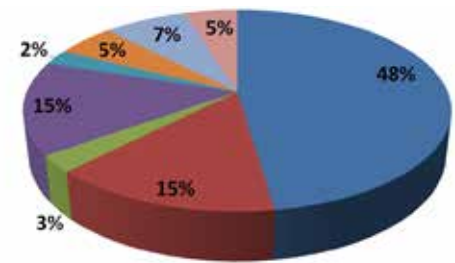
Total operating revenues for fiscal year 2012 were \$384.7 million, which is an increase of \$15.9 million over fiscal year 2011. Tuition and fees realized the largest dollar increase over the prior fiscal year. Net tuition increased over the prior fiscal year due to increased enrollment of approximately 4% and an increase in tuition of 6.3%. Revenue from the Departments of Commerce, Defense and Health and Human Services all increased. Those increases were offset by a decrease in Department of Agriculture revenue to result in a \$4 million increase to

Federal Grants and Contracts revenue. Student Housing revenue decreased due to the closure of married student housing facility Aiken Village. Athletics revenue increased \$1.8 million as a result of higher football gate receipts, television revenue and conference bowl shares.

Operating expenditures for fiscal year 2012 totaled \$592 million. Of this total, 62% are used for salaries and fringes as displayed in the pie chart to the right. Salaries increased \$18.1, reflecting an average 4.3% raise and spending from discretionary funds such as designated funds. The increase in fringe expense correlated to the salaries increase and also reflects an increase of the University's matching of retirement savings from 12.00% to 12.93% in January 2012.

The pie chart below reveals 59% of operating expenditures support the core mission of instruction, research and public service. More detail about total expenditures by functional classification is provided in Note 11 of the Notes to the Financial Statements.

## OPERATING EXPENSES BY OBJECT, FY 2012



48% Salaries and Wages	282,571,239
15% Fringe Benefits	87,383,818
3% Travel	15,839,678
15% Contractual Services	88,459,908
5% Utilities	14,222,559
5% Scholarships and Fellowships	31,545,953
7% Commodities	44,242,920
5% Depreciation	28,612,223
<b>Total Operating Expenses</b>	<b>592,878,298</b>

## STATEMENT OF CASH FLOWS

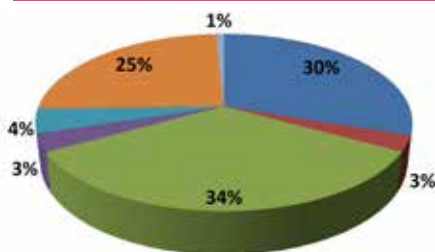
The Statement of Cash Flows must also be evaluated when considering the financial condition of the University's ability to meet financial obligations over time. This statement presents information related to cash inflows and outflows summarized in the categories of operating activities, non-capital financing activities, capital and related financing activities and investing activities. Its purpose is to assist in the evaluation of the institution's ability to meet its obligations as they come due and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities display the uses of cash and cash equivalents to purchase investments. Cash flows from non-capital financing activities are those not covered in other sections.

Net cash for fiscal year 2012 decreased compared to fiscal year 2011. The condensed Statement of Cash Flows is provided to illustrate the change in cash sources and uses between the two fiscal years.

Cash used for operations remained materially the same. Increases for tuition and fees of \$11.9 million, grants and contracts of \$15.6 million and other receipts \$3.2 million were offset by increases in payments to suppliers of \$13.4 million and payments for salaries and fringes of \$34.5 million.

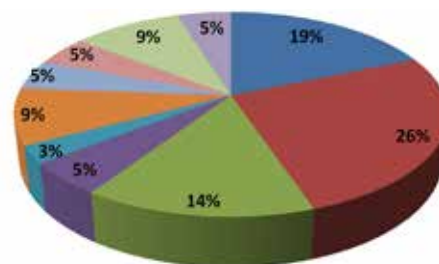
Net cash provided by non capital financing activities shows an overall increase of \$5.8 million that can be explained by changes in several

## OPERATING REVENUES, FY 2012



30% Net tuition and fees	116,087,364
3% Federal appropriations	11,023,528
34% Federal grants and contracts	130,223,826
3% State grants and contracts	12,526,357
4% Nongovernmental grants and contracts	17,169,122
25% Sales and services	94,493,945
1% Other	3,167,982
<b>Total Operating Revenues</b>	<b>384,692,124</b>

## OPERATING EXPENSES BY FUNCTION, FY 2012



19% Instruction	110,755,596
26% Research	154,863,423
14% Public service	86,083,358
5% Academic support	30,951,647
3% Student services	16,182,289
9% Institutional support	52,583,824
5% Operation of plant	27,685,462
5% Student aid	28,247,544
9% Auxiliary enterprises	56,912,932
5% Depreciation	28,612,223
<b>Total Operating Expenses</b>	<b>592,878,298</b>



**CONDENSED STATEMENT OF CASH FLOW**

	FY 2012	FY 2011
<b>Cash Provided (Used) by:</b>		
Operating Activities	(\$179,691,665)	(\$178,820,443)
Noncapital Financing Activities	213,735,467	207,852,972
Capital and Related Financing Activities	(28,920,581)	(30,813,832)
Investing Activities	(20,085,916)	598,586
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(\$14,962,695)</b>	<b>(\$1,182,717)</b>
Cash and Cash Equivalents - Beginning of the Year	76,103,131	77,285,848
<b>Cash and Cash Equivalents - End of the Year</b>	<b>\$61,140,436</b>	<b>\$76,103,131</b>

elements. State appropriations increased by \$11.6 million, but still did not completely offset the \$13.1 million loss of State Fiscal Stabilization Funds which ended in fiscal year 2011. Cash provided by Gifts and Grants increased by \$5 million aided by a significant increase in gifts from Foundations.

Cash used by Capital Financing Activities decreased slightly. However, significant transactions involving capital debt and capital assets did occur. Those events are discussed in the section titled Capital Assets and Debt Administration.

Cash used by Investing Activities reflect a material change of \$19.5 as a result of a change in investment strategy, whereby surplus cash was invested in order to maximize investment opportunities.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

As of June 30, 2012 the University had \$694.5 million invested in capital assets, net of accumulated depreciation of \$386.3 million. Depreciation expense totaled \$28.6 million for fiscal year 2012. Major capital improvements for the year are summarized below:

**New Construction**

- Oak Hall
- Magnolia Hall

**Completed Construction**

- South Hall

The University issued \$54.4 million in new debt through Educational Building Corporation bonds. These funds were applied to the defeasance of the 2001 issue and to the construction of two new dormitories, Oak Hall and Magnolia Hall.

**ENROLLMENT**

Enrollment continued to reflect an upward trend through FY 2012. Total enrollment for the fall 2011 semester was 20,424 students. In the fall of 2010 semester 19,644 students were enrolled. Mississippi residents accounted for 72% of the total enrollment in fall 2011 and for 73% of total enroll-

ment for fall 2010. Enrollment totals are unduplicated and include all campuses of the University.

**DEGREES AWARDED**

A total of 4,042 degrees were awarded in 2011-2012: 2,922 undergraduate and 1,120 graduate. A breakdown by college is shown in the accompanying table. Information from 2010-2011 is included for comparison.

**FINANCIAL SUMMARY AND OUTLOOK**

Mississippi State University experienced substantial growth and a strong financial position in FY 2012. Enrollment increased by almost 800 students resulting in a record 20,424 students during fall 2011; and, for the first time ever, MSU awarded more than 4,000 degrees during the academic year. The construction of the 764-bed Oak and Magnolia Halls, planning

for a multi-million-dollar state-of-the-art classroom building with parking, and the initiation of a multi-million-dollar renovation of historic Lee Hall are indications of the continued growth and improvements at MSU.

As anticipated, FY 2012 also presented numerous challenges and opportunities. MSU experienced appropriation cuts as economic uncertainty and weakness continued. Mississippi State's leadership continued its proactive approach to address funding reductions. The successful efficiency efforts, a tuition increase, and enrollment growth helped offset the appropriation shortfall and provided funding for the hiring of new faculty and merit pay raises for a second year in a row.

MSU will continue to face funding obstacles in the future due to the continued uncertainty surrounding the timing and speed of the economic recovery. However, the leadership's focus and flexibility combined with the dedication of the university's employees have positioned the university to weather the storm. These efforts continue to be supported by rising enrollment and the commitment of faculty and staff to the university's core competencies of teaching, service and research for the state of Mississippi and beyond.

**Don A. Zant**

*Vice President for Budget and Planning*

**DEGREES AWARDED, 2011-2012**

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	259	104	363
Architecture, Art and Design	138	2	140
Arts and Sciences	939	287	1226
Business (Includes Accountancy)	546	219	765
Education	595	230	825
Engineering	398	146	544
Forest Resources	36	36	72
Veterinary Medicine	11	96	107
<b>TOTAL</b>	<b>2922</b>	<b>1120</b>	<b>4042</b>

**DEGREES AWARDED, 2010-2011**

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	249	91	340
Architecture, Art and Design	114	4	118
Arts and Sciences	850	252	1102
Business (Includes Accountancy)	622	223	845
Education	541	250	791
Engineering	334	138	472
Forest Resources	49	50	99
Veterinary Medicine	0	87	87
<b>TOTAL</b>	<b>2759</b>	<b>1095</b>	<b>3854</b>





**MISSISSIPPI STATE**  
**UNIVERSITY**™

**ANNUAL FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**FOR THE YEAR ENDED JUNE 30, 2012**

<b>Statement of Net Assets</b>	<b>9</b>
<b>Statement of Revenues, Expenses and Changes in Net Assets</b>	<b>10</b>
<b>Statement of Cash Flows</b>	<b>11</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities</b>	<b>12</b>



## STATEMENT OF NET ASSETS

<b>ASSETS</b>			<b>June 30</b>	
	<b>2012</b>	<b>2011</b>		
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents	\$45,121,912	\$69,213,549		
Short Term Investments	9,123,422	5,775,301		
Accounts Receivables, Net	52,895,245	55,723,760		
Student Notes Receivables, Net	2,312,363	2,792,154		
Inventories	2,371,861	2,425,613		
Prepaid Expenses	2,920,461	2,501,281		
Other Current Assets				
<b>Total Current assets</b>	<b>\$114,745,264</b>	<b>\$138,431,658</b>		
<b>NON-CURRENT ASSETS:</b>				
Restricted Cash and Cash Equivalents	\$16,018,524	\$6,889,582		
Endowment Investments	25,800,950	26,481,462		
Other Long Term Investments	93,407,945	70,979,567		
Student Notes Receivable, Net	14,051,452	14,388,540		
Capital Assets, Net	694,538,251	652,251,119		
<b>Total Non-Current assets</b>	<b>\$843,817,122</b>	<b>\$770,990,270</b>		
<b>Total Assets</b>	<b>\$958,562,386</b>	<b>\$909,421,928</b>		

<b>LIABILITIES AND NET ASSETS</b>			<b>June 30</b>	
	<b>2012</b>	<b>2011</b>		
<b>CURRENT LIABILITIES:</b>				
Accounts Payable and Accrued Liabilities	\$25,671,069	\$25,357,217		
Deferred Revenues	15,323,459	16,361,837		
Accrued Leave Liabilities - Current Portion	2,513,541	2,245,298		
Long Term Liabilities - Current Portion	7,860,000	6,799,131		
Other Current Liabilities	191,517	135,117		
<b>Total Current liabilities</b>	<b>\$51,559,586</b>	<b>\$50,898,600</b>		
<b>NON-CURRENT LIABILITIES:</b>				
Deposits Refundable	\$40,260	\$67,125		
Accrued Leave Liabilities	20,192,145	19,015,085		
Long Term Liabilities	187,560,000	149,990,000		
Other Non-Current Liabilities	14,270,908	14,758,613		
<b>Total Non-Current liabilities</b>	<b>\$222,063,313</b>	<b>\$183,830,823</b>		
<b>Total Liabilities</b>	<b>\$273,622,899</b>	<b>\$234,729,423</b>		

<b>NET ASSETS:</b>				
	<b>2012</b>	<b>2011</b>		
<b>Invested in Capital Assets, Net of Related Debt</b>	<b>\$510,723,283</b>	<b>\$499,096,655</b>		
<b>Restricted for:</b>				
<b>Nonexpendable -</b>				
Scholarships and Fellowships	2,284,822	2,498,286		
Research	4,339,871	4,715,840		
Other Purposes	7,609,294	8,367,158		
<b>Expendable -</b>				
Scholarships and Fellowships	2,605,008	2,622,093		
Research	16,666,012	11,157,440		
Capital Projects	35,509	(177,633)		
Debt Service	570,248	563,418		
Loans	3,414,880	3,845,072		
Other Purposes	1,270,529	1,248,053		
<b>Unrestricted</b>	<b>135,420,031</b>	<b>140,756,123</b>		
<b>Total Net Assets</b>	<b>\$684,939,487</b>	<b>\$674,692,505</b>		
<b>Total Liabilities and Net Assets</b>	<b>\$958,562,386</b>	<b>\$909,421,928</b>		

Accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

<b>OPERATING REVENUES:</b>		<b>June 30</b>	
	<b>2012</b>	<b>2011</b>	
Tuition and Fees	\$159,934,654	\$145,476,453	
Less: Scholarship Allowances	(43,037,781)	(39,606,339)	
Less: Bad Debt Expenses	(809,509)	(874,970)	
Net Tuition and Fees	\$116,087,364	\$104,995,144	
Federal Appropriations	11,023,528	12,737,243	
Federal Grants and Contracts	130,223,826	126,237,708	
State Grants and Contracts	12,526,357	14,651,337	
Nongovernmental Grants and Contracts	17,169,122	16,473,395	
Sales and Services of Educational Departments	33,795,675	31,632,764	
Auxiliary Enterprises:			
Student Housing	19,033,646	19,756,731	
Food Services	1,959,814	1,606,682	
Bookstore	701,935	677,943	
Athletics	36,530,930	34,679,353	
Other Auxiliary revenues	11,919,263	11,110,001	
Less: Auxiliary Enterprise Scholarship Allowances	(9,447,318)	(8,694,075)	
Interest Earned on Loans to Students	224,566	255,229	
Other Operating Revenues	2,943,416	2,722,473	
<b>Total Operating Revenues</b>	<b>\$384,692,124</b>	<b>\$368,841,928</b>	
<b>OPERATING EXPENSES:</b>		<b>June 30</b>	
	<b>2012</b>	<b>2011</b>	
Salaries and Wages	\$282,571,239	\$264,173,617	
Fringe Benefits	87,383,818	81,417,646	
Travel	15,839,678	14,097,582	
Contractual Services	88,459,908	78,955,132	
Utilities	14,222,559	14,430,990	
Scholarships and Fellowships	31,545,953	32,580,425	
Commodities	44,242,920	48,339,980	
Depreciation/Amortization Expense	28,612,223	31,046,920	
Other Operating Expense			
<b>Total Operating Expenses</b>	<b>\$592,878,298</b>	<b>\$565,042,292</b>	
<b>Operating Income (Loss)</b>	<b>(\$208,186,174)</b>	<b>(\$196,200,364)</b>	
<b>NONOPERATING REVENUES (EXPENSES):</b>		<b>June 30</b>	
	<b>2012</b>	<b>2011</b>	
State Appropriations	\$163,687,667	\$151,649,034	
Federal ARRA (SFSF) Revenues		13,122,669	
Gifts and Grants	50,006,351	44,941,008	
Investment Income, Net of Investment Expense	1,193,662	6,091,339	
Interest Expense on Capital Asset-Related Debt	(7,322,870)	(5,811,677)	
Other Nonoperating Revenues	184	343,877	
Other Nonoperating Expenses	(403,914)	(487,147)	
<b>Total Net Nonoperating Revenues (Expenses)</b>	<b>\$207,161,080</b>	<b>\$209,849,103</b>	
<b>Income (Loss) Before Other Revenues, Expenses, Gains and Losses</b>	<b>(\$1,025,094)</b>	<b>\$13,648,739</b>	
Capital Grants and Gifts	3,699,226	12,479,949	
State Appropriations Restricted for Capital Purposes	9,477,665	13,917,041	
Other Deletions	(1,904,815)	(720,353)	
<b>Net Increase in Net Assets</b>	<b>10,246,982</b>	<b>39,325,376</b>	
<b>Net Assets - Beginning of Year</b>	<b>\$674,692,505</b>	<b>\$635,367,129</b>	
<b>Net Assets - End of Year</b>	<b>\$684,939,487</b>	<b>\$674,692,505</b>	

## STATEMENT OF CASH FLOWS

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		<b>June 30</b>
	<b>2012</b>	<b>2011</b>
Tuition and Fees	\$120,990,162	\$109,076,844
Grants and Contracts	158,497,121	142,900,160
Sales and Services of Educational Departments	34,183,199	33,274,352
Payments to Suppliers	(155,093,595)	(141,730,432)
Payments to Employees for Salaries and Benefits	(372,641,407)	(351,500,066)
Payments for Utilities	(14,222,559)	(14,430,990)
Payments for Scholarships and Fellowships	(31,548,202)	(32,580,494)
Loans Issued to Students and Employees	(2,700,289)	(2,799,006)
Collection of Loans to Students and Employees	3,526,465	3,789,680
Auxiliary Enterprise Charges:		
Student Housing	19,067,869	19,513,342
Food Services	1,914,113	1,598,106
Bookstore	701,935	677,942
Athletics	32,044,575	31,259,972
Other Auxiliary Enterprises	7,438,362	7,195,503
Interest Earned on Loans to Students	224,566	255,229
Other Receipts	17,926,020	14,679,415
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(\$179,691,665)</b>	<b>(\$178,820,443)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		<b>June 30</b>
	<b>2012</b>	<b>2011</b>
State Appropriations	\$163,135,048	\$151,540,733
Gifts and Grants for Other Than Capital Purposes;	50,002,772	44,973,873
Federal Loan Program Receipts	110,317,754	96,680,009
Federal Loan Program Disbursements	(109,270,222)	(98,016,289)
Other Sources	56,401	13,122,669
Other Uses	(506,286)	(448,023)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>\$213,735,467</b>	<b>\$207,852,972</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		<b>June 30</b>
	<b>2012</b>	<b>2011</b>
Proceeds from Capital Debt	\$54,370,000	
Cash Paid for Capital Assets	(60,553,539)	(20,080,434)
Capital Grants and Contracts Received	412,027	1,151,192
Proceeds from Sales of Capital Assets	514,417	106,408
Principal Paid on Capital Debt and Leases	(15,739,131)	(5,883,892)
Interest Paid on Capital Debt and Leases	(6,588,810)	(5,661,794)
Other Source	1,550,702	513,825
Other Uses	(2,886,247)	(959,137)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(\$28,920,581)</b>	<b>(\$30,813,832)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		<b>June 30</b>
	<b>2012</b>	<b>2011</b>
Proceeds from Sales and Maturities of Investments	\$123,394,063	\$109,337,672
Interest Received on Investments	4,034,962	738,092
Purchases of Investments	(147,514,941)	(109,477,178)
<b>Net Cash Provided by Investing Activities</b>	<b>(\$20,085,916)</b>	<b>\$598,586</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(\$14,962,695)</b>	<b>(\$1,182,717)</b>
<b>Cash and Cash Equivalents - Beginning of the Year</b>	<b>76,103,131</b>	<b>77,285,848</b>
<b>Cash and Cash Equivalents - End of the Year</b>	<b>\$61,140,436</b>	<b>\$76,103,131</b>

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

	2012	June 30	2011
<b>Operating Income (Loss)</b>	<b>(\$208,186,174)</b>		<b>(\$196,200,364)</b>

**ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

	2012	June 30	2011
Depreciation/Amortization Expense	28,612,223		31,046,920
Other			
Changes in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Receivables, Net	1,264,910		(9,105,983)
Inventories	53,753		254,774
Prepaid Expenses	62,493		2,398,661
Other Assets	809,509		914,633
Increase (Decrease) in Liabilities:			
Accounts Payables and Accrued Liabilities	2,130,060		(2,744,823)
Deferred Revenues	(2,993,136)		(4,403,072)
Deposits Refundable			
Accrued Leave Liability	(1,445,303)		(981,189)
Loans to Students and Employees			
Other Liabilities			
<b>Total Adjustments:</b>	<b>28,494,509</b>		<b>17,379,921</b>
<b>Net Cash Provided (Used) by Operating Activities:</b>	<b>(\$179,691,665)</b>		<b>(\$178,820,443)</b>

**ENTER NON-CASH TRANSACTIONS BELOW:**

	2012	June 30	2011
1.) Construction in Progress	\$9,477,665		\$13,917,041
Bureau of Buildings Appropriations	(9,477,665)		(13,917,041)
2.) Buildings	1,400,000		11,328,757
Gifts	(1,400,000)		(11,328,757)
3.) Unrealized Loss on Investments	3,797,737		135,253
Investments	(3,797,737)		(135,253)
4.) Investments	3,312,297		4,014,695
Unrealized Gain on Investments	(3,312,297)		(4,014,695)
5.) Land	408,333		
Buildings	81,667		
Land	(485)		
Legal Fees	(2,316)		
Proceeds from Asset Exchange	(184)		
Gain on Asset Exchange	(487,015)		





# MISSISSIPPI STATE

## UNIVERSITY™

### NOTES TO FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED JUNE 30, 2012

<b>Note 1: Summary of Significant Accounting Policies</b>	<b>14</b>
<b>Note 2: Prior Period Adjustments and Change in Accounting Classifications</b>	<b>16</b>
<b>Note 3: Cash and Investments</b>	<b>17</b>
<b>Note 4: Accounts Receivable</b>	<b>18</b>
<b>Note 5: Notes Receivable From Students</b>	<b>19</b>
<b>Note 6: Capital Assets</b>	<b>19</b>
<b>Note 7: Accounts Payable and Accrued Liabilities</b>	<b>21</b>
<b>Note 8: Deferred Revenues</b>	<b>21</b>
<b>Note 9: Long-Term Liabilities</b>	<b>21</b>
<b>Note 10: Operating Leases</b>	<b>22</b>
<b>Note 11: Natural Classifications with Functional Classifications</b>	<b>23</b>
<b>Note 12: Construction Commitments and Financing</b>	<b>24</b>
<b>Note 13: Pension Plans</b>	<b>25</b>
<b>Note 14: Donor Restricted Endowments</b>	<b>25</b>
<b>Note 15: Federal Direct Lending and FFEL Programs</b>	<b>25</b>
<b>Note 16: Foundations and Affiliated Parties</b>	<b>25</b>

**NOTE 1**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**NATURE OF OPERATIONS**

Mississippi State University is a comprehensive, doctoral-degree-granting university offering to a diverse and capable student body a wide range of opportunities and challenges for learning and growth; to the world of knowledge, vigorous and expanding contributions in research, discovery, and application; and to the State and its people in every region, a variety of expert services. Mississippi State University is designated as a Doctoral/Extensive institution by the Carnegie Foundation for the Advancement of Teaching. It is representative of the American Land-Grant tradition and distinctive in its own character and spirit, born of its Mississippi heritage and the vision and loyal perseverance of those who have labored in its development. Mississippi State University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools (1866 Southern Lane, Decatur, Ga. 30033-4097; telephone (404) 679-4501) to award baccalaureate, master's, specialist, and doctoral degrees.

**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.

**ACCOUNTS RECEIVABLE, NET**

Accounts receivable consist of tuition and fee charges to students. Accounts receivable 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 receivable are recorded net of an allowance for doubtful accounts.

**PREPAID EXPENSES**

Consist of expenditures that are related to projects, programs, activities or revenues of future fiscal periods.

**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 No. 6 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Certain maintenance and replacement reserves have been established to fund costs relating to residence halls and other auxiliary activity facilities.

In fiscal year 2010, the University adopted Governmental Accounting Standards Board pronouncement 51, which mandated the recording of intangible assets as capital assets. The University conducted an analysis of potential intangible assets and concluded that none met the criteria for capitalization at this time.

### **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Consist of amounts owed to vendors, contractors, or accrued items such as interest, wages, and salaries.

### **DEPOSITS REFUNDABLE**

Deposits Refundable represent good faith deposits from students to reserve housing assignments, key deposits and post breakage

deposits in a University System residence hall.

### **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.

### **NONCURRENT LIABILITIES**

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable and capital lease obligations; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

### **INCOME TAXES**

Mississippi State University is considered an agency of the State and is treated as a governmental entity for tax purposes. As such, the University generally is not subject to federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the University does remain subject to income taxes on any income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded because, in the opinion of management, there is no significant amount of taxes on such unrelated business income.

### **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 fifteen years of service; and from fifteen 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. There is no limit on the accumulation of sick leave. At retirement, these employees are paid for up to 240 hours of accumulated major medical leave.

### **REVENUES AND EXPENDITURES**

The University has classified its revenues and expenses as either operating or non-operating according to the following criteria:

Operating revenues and expenses have the characteristics of exchange transactions. These transactions can be defined as an exchange in which two or more entities both receive and sacrifice value, such as purchases and sales of goods or services. Examples of operating revenues include (1) student tuition and fees; (2) sales and services of auxiliary enterprises; (3) most federal, state and local grants and contracts; and (4) other operating revenues. Examples of operating expenses include (1) employee compensation, benefits, and related expense; (2) scholarships and fellowships, net of scholarship discounts and allowances; (3) utilities, supplies and other services; (4) professional fees; and (5) depreciation expenses related to certain capital assets.

Non-operating revenues have the characteristics of non-exchange transactions. Examples of non-operating revenues include state appropriations, gifts, and contributions.

Non-operating expenses are defined in GASB No. 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 34. Examples of non-operating expenses include interest on capital asset related debt and bond expenses.

### **AUXILIARY ENTERPRISE ACTIVITIES**

Auxiliary enterprises typically exist to furnish goods or services to students, faculty, or staff, and that charge a fee directly related to, although not necessarily equal to, the cost of the goods or services. One distinguishing characteristic of auxiliary enterprises is that



they are managed as essentially self-supporting activities. Examples are residence halls, food services, and intercollegiate athletic programs (only if they are essentially self-supporting). The general public may be served incidentally by auxiliary enterprises.

**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 \$135,420,031 at June 30, 2012 includes \$121,629,700 reserved for academic programs and research, \$-1,329,382 reserved for capital projects, \$6,497,928 reserved for repairs and maintenance, with \$8,621,785 remaining for other purposes.

University Foundation — Although the University is the exclusive beneficiary of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary of the University and is not directly or indirectly controlled by the University. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge or encumber the assets of the Foundation. The trustees of the Foundation are entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Under

state law, neither the principal nor income generated by the assets of the Foundation can be taken into consideration in determining the amount of State-appropriated funds allocated to the University. Third parties dealing with the University, the Mississippi State Board of Trustees and the State of Mississippi (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

**NOTE 2  
PRIOR PERIOD ADJUSTMENTS AND CHANGES IN ACCOUNTING CLASSIFICATIONS**

For the year ended June 30, 2012, the University recorded prior period adjustments that consisted of the following additions and deletions to net asset balances:

**NOTE 2: PRIOR PERIOD ADJUSTMENTS AND CHANGES IN ACCOUNTING CLASSIFICATIONS**

<b>Explanation(s)</b>	<b>Additions (Deductions) at 6-30-2012</b>	<b>Additions (Deductions) at 6-30-2011</b>
Change in Reserve for Outstanding Checks	\$28,170	\$76,168
Correction on capitalization of chilled water loop		2,225,603
Correction to steam plant		(124,970)
Correction to capitalize substation and power lines		(856,278)
Other prior period adjustments		(548,806)
<b>Total Adjustments</b>	<b>\$28,170</b>	<b>\$771,717</b>



**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 endowment assets are included in non-current investments.

The collateral for public 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 University's 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.

**NOTE 3: FAIR VALUE OF INVESTMENT TYPE**

Investment Type	FY 2012	FY 2011
U.S. Government Agency Obligations	\$65,581,582	\$56,261,808
U.S. Treasury Obligations	12,051,150	0
Certificates of Deposit	8,370,345	8,970,116
Corporate Bonds	1,170,167	1,165,571
Collateralized Mortgage Obligations	8,942,261	6,192,017
Municipal Bonds	10,498,765	8,195,015
Asset Backed Securities	2,336,144	1,960,822
Equity Securities	19,142,114	20,251,192
Landgrant	239,789	239,789
<b>Total</b>	<b>\$128,332,317</b>	<b>\$103,236,330</b>

**NOTE 3: FY 2012 INTEREST RATE RISK**

Investment Type	Value	Fair Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Agency Obligations	\$65,581,583		\$35,492,540	\$2,383,008	\$27,706,035
U.S. Treasury Obligations	12,051,150	4,009,350	8,041,800		
Corporate Bonds	1,170,167			1,170,167	
Collateralized Mortgage Obligations	8,942,261			891,638	8,050,623
Municipal Bonds	10,498,765	1,503,145	1,583,115	6,338,145	1,074,360
Asset Backed Securities	2,336,145			2,336,145	
<b>Total</b>	<b>\$100,580,071</b>	<b>\$5,512,495</b>	<b>\$45,117,455</b>	<b>\$13,119,103</b>	<b>\$36,831,018</b>

**NOTE 3: FY 2011 INTEREST RATE RISK**

Investment Type	Value	Fair Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Agency Obligations	\$56,261,809	\$1,009,210	\$22,982,195	\$7,342,034	\$24,928,370
Corporate Bonds	1,165,571			1,165,571	
Collateralized Mortgage Obligations	6,192,017			888,137	5,303,880
Municipal Bonds	8,195,015	1,510,680	2,637,738	4,046,597	
Asset Backed Securities	1,960,821			1,960,822	
<b>Total</b>	<b>\$73,775,233</b>	<b>\$2,519,890</b>	<b>\$25,619,933</b>	<b>\$15,403,161</b>	<b>\$30,232,250</b>

**B. INVESTMENTS**

Investment policy at the University is governed by state statute (Section 27-105-33, MS Code Ann. 1972) and the Uniform Management of Institutional Funds Act of 1998.

The table below presents the fair value of investments by type at June 30, 2012 compared to June 30, 2011.

**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. As of June 30, 2012, the institution had the following investments subject to Interest Rate Risk. Amounts for June 30, 2011 are presented for comparison in the table on page 17.

**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, 2012 the institution had the investment credit profile shown in the table above. Amounts for June 30, 2011 are presented for comparison.

**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.

**NOTE 4  
ACCOUNTS RECEIVABLE**

Accounts Receivable consisted of the following at June 30, 2012. Amounts for June 30, 2011 are presented for comparison.

**NOTE 3: CREDIT RISK**

Fair Value	FY2012	FY 2011
A		\$500,000
A-		
A+		
A-1		
A-1+		
AA	\$8,379,765	6,076,320
AA-		
AA+	50,020,824	
AAA	13,507,162	38,946,517
AAAe	1,271,188	13,489,628
B		
BBB		
BBB-		
BBB+		
CC		
CCC-		
CCC+		
Rating		
Not Available	27,401,132	14,762,768
<b>Total</b>	<b>\$100,580,071</b>	<b>\$73,775,233</b>

Index: SGP

**NOTE 3: FY 2012  
CONCENTRATION  
OF CREDIT RISK**

Issuer	Fair Value	% of Total Investments
FNDB	\$24,452,824	25.66%
FHLB	14,298,373	15.00%
FFCB	12,942,577	13.58%
U.S. Treasury Oblig.	12,051,150	12.65%
Municipal Bond	10,498,765	11.02%
GNMA	8,942,261	9.38%
Freddie Mac	7,023,170	7.37%
FHLMC	5,082,230	5.33%
<b>Total</b>	<b>\$95,291,350</b>	

FY 2011: Issuer	Fair Value	% of Total Investments
FNDB	\$24,486,695	36.56%
FHLB	17,479,182	26.09%
Municipal Bond	8,195,015	12.23%
FFCB	7,020,075	10.48%
GNMA	5,303,880	7.92%
FHLMC	4,500,588	6.72%
<b>Total</b>	<b>\$66,985,435</b>	

**NOTE 4: ACCOUNTS RECEIVABLE**

Fiscal Year 2012: (examples)	June 30, 2012	Purging Memo Reclassification	Adjusted Disclosure
Student tuition	\$17,869,665	(\$5,964,621)	\$11,905,044
Auxiliary enterprises and other operating activities	3,643,247	(230,998)	3,412,249
Contributions and gifts	122,089		122,089
Federal, state, and private grants and contracts	35,295,313		35,295,313
State Appropriations	1,939,084		1,939,084
Accrued Interest	1,025,358		1,025,358
Total Accounts receivable	\$59,894,756	(\$6,195,619)	\$53,699,137
Less allowance for doubtful accounts	6,999,511	(6,195,619)	803,892
<b>Net Accounts receivable</b>	<b>\$52,895,245</b>	<b>0.00</b>	<b>\$52,895,245</b>

Fiscal Year 2011: (examples)	June 30, 2011	Purging Memo Reclassification	Adjusted Disclosure
Student tuition	\$16,159,189	(\$5,238,212)	\$10,920,977
Auxiliary enterprises and other operating activities	3,197,936	(225,649)	2,972,287
Contributions and gifts	135,804		135,804
Federal, state, and private grants and contracts	37,996,992		37,996,992
State Appropriations	1,361,583		1,361,583
Accrued Interest	3,095,021		3,095,021
Total Accounts receivable	\$61,946,525	(\$5,463,861)	\$56,482,664
Less allowance for doubtful accounts	6,222,765	(5,463,861)	758,904
<b>Net Accounts receivable</b>	<b>\$55,723,760</b>	<b>0.00</b>	<b>\$55,723,760</b>



**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. Below is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the institution at June 30, 2012. Amounts for June 30, 2011 presented for comparison.

**NOTE 6**  
**CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2012 is presented in the table on page 20. Amounts for June 30, 2011 presented for comparison.

**NOTE 5: NOTES RECEIVABLE FROM STUDENTS**

<b>Fiscal Year 2012:</b> (examples)	<b>Interest Rates</b>	<b>June 30, 2011</b>	<b>Current Portion</b>	<b>Non-Current Portion</b>
Perkins student loans	3% to 9%	\$17,760,220	\$2,000,000	\$15,760,220
Institutional loans	0% to 9%	367,192	312,363	54,829
<b>Total Notes receivable</b>		<b>\$18,127,412</b>	<b>\$2,312,363</b>	<b>\$15,815,049</b>
Less allowance for doubtful accounts		1,763,597		1,763,597
<b>Net Notes receivable</b>		<b>\$16,363,815</b>	<b>\$2,312,363</b>	<b>\$14,051,452</b>

<b>Fiscal Year 2011:</b> (examples)	<b>Interest Rates</b>	<b>June 30, 2011</b>	<b>Current Portion</b>	<b>Non-Current Portion</b>
Perkins student loans	3% to 9%	\$18,049,490	\$2,500,000	\$15,549,490
Institutional loans	0% to 9%	756,668	292,154	\$64,514
<b>Total Notes receivable</b>		<b>\$18,806,158</b>	<b>\$2,792,154</b>	<b>\$16,014,004</b>
Less allowance for doubtful accounts		1,625,464		1,625,464
<b>Net Notes receivable</b>		<b>\$17,180,693</b>	<b>\$2,792,154</b>	<b>\$14,388,540</b>



**NOTE 6: CAPITAL ASSETS**

Fiscal Year 2012:	July 1, 2011	Additions	Deletions	June 30, 2012
<b>Nondepreciable Capital Assets:</b>				
Land	\$13,399,340	\$3,918,333	\$485	\$17,317,188
Construction in Progress	70,332,154	48,265,463	27,650,630	90,946,987
Livestock	1,526,329	225,732	27,034	1,725,028
<b>Total Nondepreciable Capital Assets</b>	<b>\$85,257,824</b>	<b>\$52,409,528</b>	<b>\$27,678,149</b>	<b>\$109,989,203</b>
<b>Depreciable Capital Assets:</b>				
Improvements other than Buildings	\$67,453,578	\$3,897,736		\$71,351,314
Buildings	636,041,935	29,532,549	3,139,709	662,434,775
Equipment	138,467,393	10,379,838	4,401,062	144,446,169
Library Books	88,260,243	4,667,695	305,709	92,622,229
<b>Total Depreciable Capital Assets</b>	<b>\$930,223,150</b>	<b>\$48,477,817</b>	<b>\$7,846,480</b>	<b>\$970,854,487</b>
<b>Less Accumulated Depreciation for:</b>				
Improvements other than Buildings	\$21,150,288	\$2,711,136		\$23,861,424
Buildings	160,589,596	12,324,187	1,527,159	171,386,624
Equipment	112,107,362	9,348,060	3,703,771	117,751,652
Library Books	69,382,608	4,228,840	305,709	73,305,739
<b>Total Accumulated Depreciation</b>	<b>\$363,229,854</b>	<b>\$28,612,223</b>	<b>\$5,536,639</b>	<b>\$386,305,438</b>
<b>Capital Assets, Net</b>	<b>\$652,251,119</b>	<b>\$72,275,122</b>	<b>\$29,987,989</b>	<b>\$694,538,251</b>

\*\* As of June 30, 2012, capital assets did not include any assets under capital lease.

Fiscal Year 2011:	July 1, 2010	Additions	Deletions	June 30, 2011
<b>Nondepreciable Capital Assets:</b>				
Land	\$13,080,935	\$320,067	\$1,662	\$13,399,340
Construction in Progress	63,080,978	19,739,061	12,487,885	70,332,154
Livestock	1,530,033	97,705	101,408	1,526,329
<b>Total Nondepreciable Capital Assets</b>	<b>\$77,691,946</b>	<b>\$20,156,833</b>	<b>\$12,590,955</b>	<b>\$85,257,824</b>
<b>Depreciable Capital Assets:</b>				
Improvements other than Buildings	\$65,276,461	\$2,177,117		\$67,453,578
Buildings	616,580,755	21,413,067	\$1,951,887	636,041,935
Equipment	131,022,384	11,042,608	3,597,598	138,467,393
Library Books	85,553,728	3,025,742	319,226	88,260,243
<b>Total Depreciable Capital Assets</b>	<b>\$898,433,328</b>	<b>\$37,658,534</b>	<b>\$5,868,712</b>	<b>\$930,223,150</b>
<b>Less Accumulated Depreciation for:</b>				
Improvements other than Buildings	\$18,531,973	\$2,618,315		\$21,150,288
Buildings	150,576,898	11,574,207	\$1,561,510	160,589,596
Equipment	102,748,844	12,626,554	3,268,036	112,107,362
Library Books	65,473,991	4,227,844	319,226	69,382,608
<b>Total Accumulated Depreciation</b>	<b>\$337,331,706</b>	<b>\$31,046,920</b>	<b>\$5,148,772</b>	<b>\$363,229,854</b>
<b>Capital Assets, Net</b>	<b>\$638,793,568</b>	<b>\$26,768,446</b>	<b>\$13,310,895</b>	<b>\$652,251,119</b>

\*\* As of June 30, 2011, capital assets included assets under capital leases with an original cost of \$787,547 (\$522,995 financed) and accumulated depreciation of \$388,300.

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

**NOTE 6: DEPRECIATION**

	Estimated Useful Lives	Salvage Value	Capitalization Threshold
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: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2012	2011
Payable to vendors and contractors	\$15,407,108	\$16,808,531
Accrued salaries, wages and employee withholdings	10,723,915	10,148,626
Other	(459,954)	(1,599,940)
<b>Total</b>	<b>\$25,671,069</b>	<b>\$25,357,217</b>

**NOTE 8: DEFERRED REVENUE**

	2012	2011
Unearned summer school revenue	\$2,729,060	\$2,104,260
Unearned grants and contract revenue	790,603	4,904,197
Other	11,803,797	9,353,380
<b>Total</b>	<b>\$15,323,459</b>	<b>\$16,361,837</b>

**NOTE 7****ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable consisted of the following at June 30, 2012. Amounts for June 30, 2011 are presented for comparison.

**NOTE 8****DEFERRED REVENUES**

Deferred revenues consisted of the following at June 30, 2012. Amounts for June 30, 2011 are presented for comparison.

**NOTE 9****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, 2012. 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, 2012, is listed below. Amounts for June 30, 2011 provided for comparison on page 22.

**NOTE 9: LONG-TERM LIABILITIES, FY 2012**

Fiscal Year 2012: Description and Purpose	Original Issue	Annual Interest Rate	Maturity	June 30, 2011	Additions	Deletions	June 30, 2012	Due Within One Year
<b>Bonded Debt</b>								
Dormitory Revenue System	\$2,250,000	3.00%	2020	\$830,000		\$70,000	\$760,000	\$70,000
Student Apartments	2,038,000	3.00%	2021	845,000		65,000	780,000	70,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2017	6,025,000			6,025,000	0
EBC01 - Revenue Bonds	16,920,000	4.00%-5.50%	2026	9,905,000		9,905,000	0	0
EBC04 - Revenue Bonds	17,000,000	2.00%-5.00%	2028	13,770,000		540,000	13,230,000	555,000
EBC04A - Revenue Bonds	28,790,000	2.00%-5.00%	2029	21,750,000		1,410,000	20,340,000	1,465,000
EBC05 - Revenue Bonds	58,965,000	4.00%-5.00%	2035	52,430,000		1,540,000	50,890,000	1,600,000
EBC07A - Revenue Bonds	6,110,000	4.125%-5.00%	2027	5,515,000		220,000	5,295,000	230,000
EBC09A-1 Revenue Bonds	29,615,000	2.50%-5.25%	2038	29,615,000		580,000	29,035,000	600,000
EBC09A-2 Refunding Bonds	17,105,000	2.75%-5.00%	2023	16,025,000		1,330,000	14,695,000	1,380,000
EBC11 - Refunding Bonds	54,370,000	2.00%-5.00%	2041		\$54,370,000		54,370,000	1,890,000
<b>Total Bonded Debt</b>				<b>\$156,710,000</b>	<b>\$54,370,000</b>	<b>\$15,660,000</b>	<b>\$195,420,000</b>	<b>\$7,860,000</b>
<b>Capital Leases</b>								
Farm Equipment				0		0	0	0
Computer Equipment				785		785	0	0
Vehicles				68,400		68,400	0	0
Other				9,946		9,946	0	0
<b>Total Capital Leases</b>				<b>\$79,131</b>	<b>0</b>	<b>\$79,131</b>	<b>0</b>	<b>0</b>
<b>Other Long-term Liabilities</b>								
Accrued Leave Liabilities				\$21,260,383	\$1,445,303		\$22,705,686	\$2,513,541
Deposits Refundable				67,125		26,865	40,260	
<b>Total Other Liabilities</b>				<b>\$21,327,508</b>	<b>\$1,445,303</b>	<b>\$26,865</b>	<b>\$22,745,946</b>	<b>\$2,513,541</b>
Federal Portion of NDSL				14,758,613		487,705	14,270,908	
<b>Total</b>				<b>\$192,875,252</b>	<b>\$55,815,303</b>	<b>\$16,253,701</b>	<b>\$232,436,854</b>	<b>\$10,373,541</b>
<b>Due Within One Year</b>							<b>10,373,541</b>	
<b>Total Long-term Liabilities</b>							<b>\$222,063,313</b>	

**NOTE 9: LONG-TERM LIABILITIES, FY 2011**

Fiscal Year 2011: Description and Purpose	Original Issue	Annual Interest Rate	Maturity	July 1, 2010	Additions	Deletions	June 30, 2011	Due Within One Year
<b>Bonded Debt</b>								
Dormitory Revenue System	\$2,250,000	3.00%	2020	\$900,000		\$70,000	\$830,000	\$70,000
Student Apartments	2,038,000	3.00%	2021	910,000		65,000	845,000	65,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2017	6,025,000			6,025,000	
EBC01 - Revenue Bonds	16,920,000	4.00%-5.50%	2026	10,825,000		920,000	9,905,000	965,000
EBC04 - Revenue Bonds	17,000,000	2.00%-5.00%	2028	14,295,000		525,000	13,770,000	540,000
EBC04A - Revenue Bonds	28,790,000	2.00%-5.00%	2029	23,120,000		1,370,000	21,750,000	1,410,000
EBC05 - Revenue Bonds	58,965,000	4.00%-5.00%	2035	53,915,000		1,485,000	52,430,000	1,540,000
EBC07A - Revenue Bonds	6,110,000	4.125%-5.00%	2027	5,725,000		210,000	5,515,000	220,000
EBC09A-1 Revenue Bonds	29,615,000	2.50%-5.25%	2038	29,615,000			29,615,000	580,000
EBC09A-2 Refunding Bonds	17,105,000	2.75%-5.00%	2023	17,105,000		1,080,000	16,025,000	1,330,000
<b>Total Bonded Debt</b>				<b>\$162,435,000</b>	<b>0</b>	<b>\$5,725,000</b>	<b>\$156,710,000</b>	<b>\$6,720,000</b>
<b>Capital Leases</b>								
Farm Equipment				\$3,103		\$3,103	0	0
Computer Equipment				3,085		2,300	785	785
Vehicles				147,372		78,972	68,400	68,400
Other				84,463		74,517	9,946	9,946
<b>Total Capital Leases</b>				<b>238,023</b>	<b>0</b>	<b>158,892</b>	<b>79,131</b>	<b>79,131</b>
<b>Other Long-term Liabilities</b>								
- Accrued Leave Liabilities				\$20,279,195	\$981,188		\$21,260,383	\$2,245,298
- Deposits Refundable				82,000		14,875	67,125	
<b>Total Other Liabilities</b>				<b>\$20,361,195</b>	<b>\$981,188</b>	<b>\$14,875</b>	<b>\$21,327,508</b>	<b>\$2,245,298</b>
Federal Portion of NDSL				15,097,490		338,877	14,758,613	
<b>Total</b>				<b>\$198,131,708</b>	<b>\$981,188</b>	<b>\$6,237,644</b>	<b>\$192,875,252</b>	<b>\$9,044,429</b>
<b>Due Within One Year</b>							<b>9,044,429</b>	
<b>Total Long-term Liabilities</b>							<b>\$183,830,823</b>	

**NOTE 9: OUTSTANDING DEBT AMORTIZATION SCHEDULE**

FISCAL YEAR 2012: Fiscal Year	Bonded Debt	Capital Leases	Notes Payable	Interest	Total
2013	\$7,860,000			\$8,832,696	\$16,692,696
2014	8,125,000			8,546,359	16,671,359
2015	8,360,000			8,218,669	16,578,669
2016	8,560,000			7,843,084	16,403,084
2017	8,955,000			7,443,696	16,398,696
2018-2022	40,485,000			31,992,705	72,477,705
2023-2027	40,925,000			22,417,679	63,342,679
2028-2032	28,955,000			14,148,896	43,103,896
2033-2037	26,730,000			7,403,525	34,133,525
2038-2042	16,465,000			1,850,703	18,315,703
<b>Totals</b>	<b>\$195,420,000</b>	<b>\$0</b>	<b>0</b>	<b>\$118,698,012</b>	<b>\$314,118,013</b>

FISCAL YEAR 2011: Fiscal Year	Bonded Debt	Capital Leases	Notes Payable	Interest	Total
2012	\$6,720,000	\$79,131		\$7,196,779	\$13,995,910
2013	6,985,000			6,914,978	\$13,899,978
2014	7,270,000			6,609,453	\$13,879,453
2015	7,520,000			6,270,063	\$13,790,063
2016	7,710,000			5,901,028	\$13,611,028
2017-2021	36,120,000			24,369,141	\$60,489,141
2022-2026	37,325,000			16,008,035	\$53,333,035
2027-2031	23,275,000			8,678,419	\$31,953,419
2032-2036	18,360,000			3,859,831	\$22,219,831
2037-2041	5,425,000			437,194	\$5,862,194
<b>Totals</b>	<b>\$156,710,000</b>	<b>\$79,131</b>	<b>0</b>	<b>\$86,244,919</b>	<b>\$243,034,050</b>

On July 28, 2011, the University issued \$54,370,000 in Educational Building Corporation (EBC) revenue and refunding bonds, Series 2011 with interest rates ranging from 2.00% to 5.00%. The University utilized a portion of these proceeds to defease \$8,940,000 of the outstanding EBC-Revenue Bonds, Series 2001. The balance of the proceeds (\$45,990,000) funded the construction of two new student housing facilities. As a result of the refunding, the University reduced its debt service requirement by \$1,352,050 over the next 15 years and obtained an economic gain of \$954,015.

**NOTE 10: OPERATING LEASES**

	2012	2011
2012		\$3,106,811
2013	\$2,596,232	3,106,811
2014	2,596,232	3,106,811
2015	2,596,232	3,106,811
2016	2,596,232	3,106,811
2017	2,596,232	
2018		
<b>Total Minimum Payments Required</b>	<b>\$12,981,158</b>	<b>\$15,534,055</b>



## NOTE 10 OPERATING LEASES

Leased property under operating leases is composed of office rent, land, computer software and equipment. A schedule by years of the future minimum rental payments required under those operating leases is provided in the chart to the left.

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, 2012 was \$2,596,232.

## NOTE 11 NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional classification were as follows for the year ended June 30, 2012. Amounts for June 30, 2011 presented for comparison.



## NOTE 11: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

### Fiscal Year 2012:

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$78,339,941	\$24,325,736	\$1,506,535	\$4,564,198	\$49,748		\$1,969,439		\$110,755,596
Research	76,290,277	25,031,051	4,567,267	34,179,227	2,447,755		12,347,847		154,863,423
Public Service	47,370,237	14,985,298	4,323,944	15,075,266	730,162		3,598,451		86,083,358
Academic Support	18,234,636	4,982,783	542,797	3,816,482	144,156		3,230,792		30,951,647
Student Services	9,603,334	2,861,789	472,726	2,361,950	117,660		764,830		16,182,289
Institutional Support	18,872,928	3,072,137	313,366	14,262,480	9,900		16,053,013		52,583,824
Operation of Plant	12,777,816	4,022,542	56,398	0	8,186,470		2,642,236		27,685,462
Student Aid	942,667	3,159,491	7,387	217,174	0	\$23,825,410	95,414		28,247,544
Auxiliary Enterprises	20,139,403	4,942,991	4,049,258	13,983,131	2,536,707	7,720,542	3,540,899		56,912,932
Depreciation								\$28,612,223	28,612,223
<b>Total Operating Expenses</b>	<b>\$282,571,239</b>	<b>\$87,383,818</b>	<b>\$15,839,678</b>	<b>\$88,459,908</b>	<b>\$14,222,559</b>	<b>\$31,545,953</b>	<b>\$44,242,920</b>	<b>\$28,612,223</b>	<b>\$592,878,298</b>

### Fiscal Year 2011:

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$72,041,122	\$22,190,059	\$1,194,236	\$3,882,700	(\$19,258)		\$2,015,173		\$101,304,032
Research	75,376,615	24,516,373	4,346,551	31,272,983	2,641,320		19,597,817		157,751,657
Public Service	43,586,914	13,735,695	3,919,797	14,480,541	836,065		5,600,666		82,159,678
Academic Support	16,328,954	4,424,336	528,990	4,294,343	163,715		4,397,408		30,137,745
Student Services	8,693,237	2,573,372	493,835	2,001,740	109,295		925,633		14,797,111
Institutional Support	16,661,334	2,663,741	213,559	12,620,194	389,307		8,567,220		41,115,355
Operation of Plant	12,490,925	3,908,746	61,590	0	7,720,027		2,836,948		27,018,237
Student Aid	1,103,238	3,065,630	12,438	189,979	0	\$24,829,309	131,794		29,332,388
Auxiliary Enterprises	17,891,279	4,339,693	3,326,586	10,212,653	2,590,520	7,751,116	4,267,321		50,379,169
Depreciation								\$31,046,920	31,046,920
<b>Total Operating Expenses</b>	<b>\$264,173,617</b>	<b>\$81,417,646</b>	<b>\$14,097,582</b>	<b>\$78,955,132</b>	<b>\$14,430,990</b>	<b>\$32,580,425</b>	<b>\$48,339,980</b>	<b>\$31,046,920</b>	<b>\$565,042,292</b>

**NOTE 12: CONSTRUCTION COMMITMENTS AND FINANCING**

**Fiscal Year 2012:**

	<b>Total Costs to Complete</b>	<b>Funded by Federal Sources</b>	<b>State Sources</b>	<b>Institutional Funds</b>	<b>Other</b>
105-310 Harned Hall Renovation - Phase I	\$16,812,422		16,812,422		
105-330 IT - Harned Hall Renovation	231,187		231,187		
105-329 Pre-Plan Lee Hall Renovation	206,377		206,377		
105-332 IT Pre-Plan Lee Hall Renovation	479		479		
105-343 Lee Hall Renovations	20,700,000		20,700,000		
105-345 Classroom Bldg with Parking	37,509,471		\$12,012,400	25,497,071	
105-346 Energy Opt. - Phase I	204,711		204,711		
South Campus Entrance (MDOT)	5,000,000	5,000,000			
North Campus Entrance - Research Park	2,500,000	2,500,000			
Fence Project (MDOT)	500,000	400,000		100,000	
Spencer Track Resurfacing	3,200,000			3,200,000	
SERC Pilot Skill Facility	1,000,000	1,000,000			
Fraternity Parking Lot	291,000			291,000	
The Station Building Renovation	950,000			950,000	
Golf Course Practice Facility	650,000				650,000
EBC 2011 Residential Housing	45,800,128			45,800,128	
Renovate Building for Art Department	256,289			256,289	
Gast Building Renovation	225,000			225,000	
113-099 MS Veterinary Diagnostic Lab (Phase I)	12,619,528		12,619,528		
113-110 Pre-plan Wise Center Renovation	338,678		338,678		
113-111 Communications MS Vet Lab	1,548,844		1,548,844		
113-115 Lloyd-Ricks Renovation	14,489,342	2,942,035	11,547,306		
113-122 IT Lloyd-Ricks Renovation	765,621	302,928	462,694		
113-130 Wise Center Necropsy Renovation	12,618,489		12,618,489		
113-134 Wise Center Classroom Addition	1,700,000		1,700,000		
Wetlands Project	810,000			150,000	660,000
<b>Total</b>	<b>\$180,927,566</b>	<b>\$12,144,963</b>	<b>\$91,003,115</b>	<b>\$76,469,488</b>	<b>\$1,310,000</b>

**Fiscal Year 2011:**

	<b>Total Costs to Complete</b>	<b>Funded by Federal Sources</b>	<b>State Sources</b>	<b>Institutional Funds</b>	<b>Other</b>
105-310 Harned Hall Renovation - Phase I	\$16,812,422		\$16,812,422		
105-330 IT - Harned Hall Renovation	260,000		260,000		
105-329 Pre-Plan Lee Hall Renovation	299,383		299,383		
105-332 IT Pre-Plan Lee Hall Renovation	479		479		
South Campus Entrance (MDOT)	5,000,000	\$5,000,000			
North Campus Entrance - Research Park	2,500,000	2,500,000			
Fence Project (MDOT)	500,000	400,000		\$100,000	
Spencer Track Resurfacing	3,200,000			3,200,000	
EBC 2009 Phase III Residence Hall	29,615,000			29,615,000	
Fraternity Parking Lot	315,000			315,000	
Dynamometer Building Expansion	435,000			435,000	
Golf Course Practice Facility	650,000				\$650,000
EBC 2011 Parking Garage/Classroom	25,000,000		12,500,000	12,500,000	
EBC 2011 Residential Housing	45,990,000			45,990,000	
Renovate Building for Art Department	256,289			256,289	
113-099 MS Veterinary Diagnostic Lab (Phase I)	12,516,951		12,516,951		
113-110 Pre-plan Wise Center Renovation	338,678		338,678		
113-111 Communications MS Vet Lab	1,574,944		1,574,944		
113-115 Lloyd-Ricks Renovation	11,254,145	2,942,035	8,312,109		
113-122 IT Lloyd-Ricks Renovation	462,928	302,928	160,000		
113-130 Wise Center Necropsy Renovation	8,111,156		8,111,156		
White Sands Ship (FEMA)	300,000	300,000			
Wetlands Project	810,000			150,000	660,000
<b>Total</b>	<b>\$166,202,373</b>	<b>\$11,444,963</b>	<b>\$60,886,121</b>	<b>\$92,561,289</b>	<b>\$1,310,000</b>

## **NOTE 12** **CONSTRUCTION COMMITMENTS AND FINANCING**

The University has contracted for various construction projects as of June 30, 2012. Estimated costs to complete the various projects and the sources of anticipated funding are presented on the previous page. Amounts for June 30, 2011 presented for comparison.

## **NOTE 13** **PENSION PLANS**

**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 which 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.

## **FUNDING POLICY**

PERS members are required to contribute 9.00% of their annual salary and the institution is required to contribute at an actuarially determined rate. The employer rate is 12.93%. The rate for employers is set to increase to 14.26% on July 1, 2012. The contribution requirement of PERS members are established and may be amended only by the State of Mississippi Legislature. The institutional contributions to PERS for the years ending June 30, 2012, 2011, and 2010 were \$22,772,258, \$20,042,732, and \$21,630,361 respectively, and equal to the required contributions for each year.

## **VESTING PERIOD**

In 2007, the Mississippi Legislature amended the PERS plan to change the vesting period from four to eight years for members who entered the system after July 1, 2007. A member who entered the system prior to July 1, 2007 is

still subject to the four-year vesting period provided that the member does not subsequently refund their account balance.

PERS also administers an Optional Retirement Plan (ORP) whereby new faculty members may select from three investment companies. ORP contribution rates are identical to the PERS rates. University contributions for the years ending June 30, 2012, 2011, and 2010 were \$8,403,486, \$7,425,266, and \$7,381,516 respectively.

## **NOTE 14** **DONOR RESTRICTED ENDOWMENTS**

The net depreciation on investments of donor restricted endowments that is available for authorization for expenditure increased \$13,975 to \$12,456,998. 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 15** **FEDERAL DIRECT LENDING AND FFEL PROGRAMS**

The University distributed \$109,270,222 for the year ended June 30, 2012, 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 16** **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, 2012, the Foundation made distributions of \$27,461,690 to or on behalf of the University for both restricted and unrestricted purposes. Immediately following Note 16 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 17** **SUBSEQUENT EVENTS**

In February 2012, the Board of Trustees of State Institutions of Higher Learning authorized the MSU Educational Building Corporation to establish an extendible commercial paper program that allows the institution to issue up to a maximum aggregate principal amount of \$50 million in the form of commercial paper. The commercial paper program will be utilized for Board-approved educational building program projects. The University anticipates implementing the program during the expansion of Davis Wade Stadium at Scott Field in fiscal year 2013.

In August 2012, the University entered into an agreement with Aramark to issue bonds for the construction of a Fresh Food Company Facility. Aramark will provide funding for the debt service over the next ten years. The project budget is an estimated \$10 million.



**MISSISSIPPI STATE**  
**UNIVERSITY** <sup>TM</sup>

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**  
**JUNE 30, 2012 AND 2011**  
**(WITH INDEPENDENT AUDITORS' REPORT THERON)**

**THE MSU FOUNDATION**  
**P.O. BOX 6149, MISSISSIPPI STATE, MS 39762**  
**[WWW.MSUFOUNDATION.COM](http://WWW.MSUFOUNDATION.COM)**



**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
Suite 1100  
One Jackson Place  
188 East Capitol Street  
Jackson, MS 39201-2127

## **Independent Auditors' Report**

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

We have audited the accompanying consolidated statements of financial position of Mississippi State University Foundation, Inc. (the Foundation) as of June 30, 2012 and 2011, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

October 15, 2012

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Statements of Financial Position

June 30, 2012 and 2011

Assets	2012	2011
Cash	\$ 3,426,574	2,068,473
Restricted cash	4,456,975	3,536,619
Accrued interest, other receivables and prepaid assets	1,286,994	813,513
Receivable from Mississippi State University	—	3,998
Receivable from MSU Alumni Foundation	5,117	87,652
Receivable from MSU Alumni Association	77,822	137,918
Note receivable (note 4)	152,268	207,171
Pledges receivable, net (note 3)	18,533,904	18,468,672
Investments (note 2)	318,283,438	324,088,172
Present value of amounts due from externally managed trusts	34,354,678	34,343,134
Land, buildings, and equipment (note 5)	10,370,414	11,138,241
Total assets	\$ 390,948,184	394,893,563
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,629,719	1,869,692
Agency payable	4,456,975	3,536,619
Obligation under capital leases (note 9)	2,071,535	2,454,242
Liabilities under split interest agreements	4,065,007	3,768,700
Payable to Mississippi State University	86,050	—
Note payable (note 6)	188,478	202,235
Total liabilities	12,497,764	11,831,488
Net assets:		
Unrestricted:		
Net assets controlled by Foundation	23,269,373	24,827,789
Net assets related to noncontrolling interests	42,749,038	45,200,866
Total unrestricted net assets	66,018,411	70,028,655
Temporarily restricted (note 7)	45,941,266	57,647,303
Permanently restricted (note 7)	266,490,743	255,386,117
Total net assets	378,450,420	383,062,075
Commitments (notes 8 and 9)		
Total liabilities and net assets	\$ 390,948,184	394,893,563

See accompanying notes to consolidated financial statements.



**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Statement of Activities

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contributions	\$ 8,240,931	10,777,254	10,696,945	29,715,130
Net investment income (loss) (note 2)	(373,136)	(2,270,199)	790,874	(1,852,461)
Change in value of split interest agreements	—	73,334	(580,753)	(507,419)
Other	3,884,805	108,404	—	3,993,209
Change in restrictions by donor	—	(197,560)	197,560	—
Net assets released from restrictions	20,197,270	(20,197,270)	—	—
<b>Total revenues and support</b>	<u>31,949,870</u>	<u>(11,706,037)</u>	<u>11,104,626</u>	<u>31,348,459</u>
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	27,461,690	—	—	27,461,690
Contributions and support for Bulldog Club	144,190	—	—	144,190
Contributions and support for Bulldog Foundation	21,375	—	—	21,375
Contributions and support for MSU Alumni Association	560,691	—	—	560,691
<b>Total program services</b>	<u>28,187,946</u>	<u>—</u>	<u>—</u>	<u>28,187,946</u>
Supporting services:				
General and administrative	3,091,078	—	—	3,091,078
Fund raising	3,261,567	—	—	3,261,567
<b>Total supporting services</b>	<u>6,352,645</u>	<u>—</u>	<u>—</u>	<u>6,352,645</u>
<b>Total expenditures</b>	<u>34,540,591</u>	<u>—</u>	<u>—</u>	<u>34,540,591</u>
Change in net assets	(2,590,721)	(11,706,037)	11,104,626	(3,192,132)
Change in net assets related to noncontrolling interests	1,032,305	—	—	1,032,305
Change in net assets controlled by Foundation	\$ <u>(1,558,416)</u>	<u>(11,706,037)</u>	<u>11,104,626</u>	<u>(2,159,827)</u>

See accompanying notes to consolidated financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Statement of Activities

Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contributions	\$ 5,100,382	11,320,438	10,826,704	27,247,524
Net investment income (note 2)	22,200,476	29,354,481	519,038	52,073,995
Change in value of split interest agreements	—	97,710	5,290,557	5,388,267
Other	3,629,432	123,514	—	3,752,946
Change in restrictions by donor	—	1,690,000	(1,690,000)	—
Net assets released from restrictions	18,508,414	(18,508,414)	—	—
Total revenues and support	<u>49,438,704</u>	<u>24,077,729</u>	<u>14,946,299</u>	<u>88,462,732</u>
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	21,621,502	—	—	21,621,502
Contributions and support for Bulldog Club	87,625	—	—	87,625
Contributions and support for Bulldog Foundation	31,845	—	—	31,845
Contributions and support for MSU Alumni Association	550,573	—	—	550,573
Total program services	<u>22,291,545</u>	<u>—</u>	<u>—</u>	<u>22,291,545</u>
Supporting services:				
General and administrative	2,725,692	—	—	2,725,692
Fund raising	3,030,248	—	—	3,030,248
Total supporting services	<u>5,755,940</u>	<u>—</u>	<u>—</u>	<u>5,755,940</u>
Total expenditures	<u>28,047,485</u>	<u>—</u>	<u>—</u>	<u>28,047,485</u>
Change in net assets	21,391,219	24,077,729	14,946,299	60,415,247
Change in net assets related to noncontrolling interests	<u>(7,703,119)</u>	<u>—</u>	<u>—</u>	<u>(7,703,119)</u>
Change in net assets controlled by Foundation	\$ <u>13,688,100</u>	<u>24,077,729</u>	<u>14,946,299</u>	<u>52,712,128</u>

See accompanying notes to consolidated financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2012 and 2011

	<b>Unrestricted net assets controlled by Foundation</b>	<b>Unrestricted net assets related to noncontrolling interests</b>	<b>Total unrestricted net assets</b>	<b>Temporarily restricted net assets</b>	<b>Permanently restricted net assets</b>	<b>Total net assets</b>
Net assets as of June 30, 2010	\$ 11,139,689	36,944,852	48,084,541	33,569,574	240,439,818	322,093,933
Change in net assets from statement of activities	13,688,100	7,703,119	21,391,219	24,077,729	14,946,299	60,415,247
Payments to noncontrolling interests	—	(1,403,705)	(1,403,705)	—	—	(1,403,705)
Proceeds from noncontrolling interests	—	1,956,600	1,956,600	—	—	1,956,600
Change in total net assets	<u>13,688,100</u>	<u>8,256,014</u>	<u>21,944,114</u>	<u>24,077,729</u>	<u>14,946,299</u>	<u>60,968,142</u>
Net assets as of June 30, 2011	24,827,789	45,200,866	70,028,655	57,647,303	255,386,117	383,062,075
Change in net assets from statement of activities	(1,558,416)	(1,032,305)	(2,590,721)	(11,706,037)	11,104,626	(3,192,132)
Payments to noncontrolling interests	—	(1,419,523)	(1,419,523)	—	—	(1,419,523)
Change in total net assets	<u>(1,558,416)</u>	<u>(2,451,828)</u>	<u>(4,010,244)</u>	<u>(11,706,037)</u>	<u>11,104,626</u>	<u>(4,611,655)</u>
Net assets as of June 30, 2012	\$ <u>23,269,373</u>	<u>42,749,038</u>	<u>66,018,411</u>	<u>45,941,266</u>	<u>266,490,743</u>	<u>378,450,420</u>

See accompanying notes to consolidated financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,192,132)	60,415,247
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	830,651	792,457
Realized and unrealized (gains) losses on investments, net	8,850,405	(44,858,253)
Change in value of internally managed split interest agreements	105,912	253,720
Fair value of donated assets	—	(1,409,800)
Change in accrued interest, other receivables and prepaid assets	(473,481)	(384,298)
Change in pledges receivable, net	(65,232)	(1,115,454)
Change in externally managed trusts	(11,544)	(5,543,202)
Change in accounts payable and accrued liabilities	(239,973)	131,367
Change in receivable from/payable to Mississippi State University	90,048	3,385
Change in receivable from MSU Alumni Foundation	82,535	(76,599)
Change in receivable from MSU Alumni Association	60,096	(26,257)
Permanently restricted contributions	(8,721,754)	(11,684,459)
Net cash used in operating activities	<u>(2,684,469)</u>	<u>(3,502,146)</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(62,824)	(128,476)
Purchases of investments	(158,584,531)	(126,988,418)
Proceeds from sales and maturities of investments	155,538,860	116,691,935
Payments on note receivable	54,903	70,800
Net cash used in investing activities	<u>(3,053,592)</u>	<u>(10,354,159)</u>
Cash flows from financing activities:		
Principal payments on note payable	(13,757)	(26,578)
Permanently restricted contributions	8,721,754	11,684,459
New liabilities under split interest agreements	614,164	140,004
Payments to split interest agreement beneficiaries	(423,769)	(567,348)
Principal payments on capital lease obligation	(382,707)	(367,728)
Payments to noncontrolling interests	(1,419,523)	(1,403,705)
Proceeds from noncontrolling interests	—	1,956,600
Net cash provided by financing activities	<u>7,096,162</u>	<u>11,415,704</u>
Net increase (decrease) in cash	1,358,101	(2,440,601)
Cash at beginning of year	<u>2,068,473</u>	<u>4,509,074</u>
Cash at end of year	\$ <u><u>3,426,574</u></u>	<u><u>2,068,473</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 74,403	87,146

See accompanying notes to consolidated financial statements.

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

### (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). The Foundation also manages funds for affiliates of the University, including MSU Alumni Association, MSU Alumni Foundation, MSU Bulldog Club, Inc. and MSU Bulldog Foundation.

#### (b) Basis of Accounting

The consolidated financial statements include the Foundation and the Mississippi State Investment Pool in which the Foundation has a significant financial interest and control. These consolidated 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 that 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. Contributed goods and services are recorded as revenues and expenses in the consolidated statements of activities at estimated fair value.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Income and realized and unrealized gains and losses 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 gains be added to the principal of a permanent endowment fund;
- as increases or decreases in temporarily restricted net assets if the terms of the gift impose restrictions on their use; and
- as increases or decreases in unrestricted net assets in all other cases.

**(c) Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated 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 consolidated financial statements.

**(d) Restricted Cash**

Funds held for an unaffiliated organization that retains control over the expenditures of such funds are classified as restricted cash in the consolidated statements of financial position with a corresponding amount in agency payable.

**(e) 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, including assets acquired under capital leases, is provided on the straight-line method over the shorter of the estimated useful life of the assets or the term of the lease. The estimated useful lives for buildings are 30-40 years and furniture, fixtures, and equipment are 5-10 years.

The Foundation assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the carrying value of the assets unlikely. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset.

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

### **(f) Fair Value Measurements**

The carrying amounts reported in the consolidated 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 approximates fair value as they are presented on a discounted basis. The fair value of the note receivable and note payable has been estimated using current interest rates and approximate the carrying amounts at June 30, 2012 and 2011. Investments and amounts due from externally managed trusts are reflected in the accompanying consolidated financial statements at fair value. The fair value of annuity obligations approximates carrying value at June 30, 2012 and 2011 due to discount rates and actuarial assumptions used in the calculation of the Foundation's liability.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable, are classified as Level 2 or Level 3. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein, its classification in Level 2 is based on the Foundation's ability to redeem its interest at or near the date of the consolidated statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2, otherwise the investment is classified in Level 3. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

### **(g) Investments**

#### **Overall Investment Objective**

The overall investment objective of the Foundation is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund donor-designated directives and maintain each fund's inflation-adjusted impact. The Foundation diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are



# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

authorized by the Foundation's Investment Committee, which oversees its investment program in accordance with an established investment policy.

### **Mississippi State Investment Pool**

The Foundation, the University, the MSU Alumni Foundation, and the MSU Bulldog Club, Inc. are participants in a joint venture, the Mississippi State Investment Pool (MSIP), whereby certain assets are pooled for investment purposes. The Foundation is the investment pool's managing member, manages the assets of the pool, and maintains separate accounts for each participant. Investment income, gains and losses, and expenses of the MSIP are allocated to each participant based on their share of ownership of the MSIP. Due to the Foundation's significant financial interest in and control of the MSIP, the Foundation has consolidated the MSIP reflecting the noncontrolling interests of the other three participants in the consolidated financial statements. As of June 30, 2012 and 2011, the Foundation's consolidated financial statements include \$42,749,038 and \$45,200,866, respectively, for their noncontrolling share within investments and unrestricted net assets related to noncontrolling interests. The Foundation recorded \$1,032,305 of losses and \$7,703,119 of gains associated with these investments for fiscal 2012 and 2011, respectively, which is reported in net investment income (loss).

### **Allocation of Investment Strategies**

In addition to traditional stocks and fixed income securities, the Foundation may also hold shares or units in alternative investment vehicles involving hedged, private equity, and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private equity funds employ buyout and venture capital strategies and focus on investments in turn-around situations. Real asset strategies include natural resources and properties held for investment. Natural resources funds generally hold interests in timber management organizations and master limited partnerships. Private equity and real asset strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the Foundation's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets. Cash held for reinvestment consists of liquid short-term investments held by the investment pool.

### **Basis of Reporting**

Investments are reported at estimated fair value. If an investment is held directly by the Foundation and an active market with quoted prices exists, the market price of an identical security is used as

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

reported fair value. Reported fair values for shares in mutual funds registered with the SEC are based on share prices reported by the funds as of the last business day of the fiscal year. Fixed income securities are based on quoted market prices or other observable inputs such as quoted prices for similar assets or inputs corroborated by observable market data. The Foundation's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Foundation's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2012 and 2011, the Foundation had no plans or intentions to sell investments at amounts different from NAV. Properties held for investment are reported at estimated fair value based on periodic appraisals conducted by third-party appraisers.

**(h) Pledges**

All unconditional promises to give are recorded at their estimated realizable value on a discounted basis. Allowance is made for uncollectible pledges based upon management's judgment and analysis of specific accounts, past collection experience and other relevant factors.

**(i) Split Interest Agreements**

The Foundation accepts gifts subject to split interest agreements. These gifts may be in the form of gift 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, 2012 and 2011 rates ranged from approximately 1% 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.

Externally managed trusts consist of irrevocable charitable remainder trusts and perpetual trusts whereby the Foundation is the beneficiary, not the trustee. The Foundation records these trusts, after discovery of their existence, at the present value of the estimated future cash receipts from the assets of the trust.

Contribution revenue attributable to split interest agreements for the fiscal years ended June 30, 2012 and 2011 was \$255,955 and \$132,724, respectively.

**(j) Income Taxes**

The Foundation is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes has been made. As of June 30, 2012 and 2011, there were no material uncertain tax positions.

**(k) Liquidity**

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

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

**(l) Subsequent Events**

The Foundation evaluated all events or transactions that occurred after June 30, 2012, through October 15, 2012, the date the consolidated financial statements were available to be issued. During this period, there were no material subsequent events that required accounting or disclosure recognition in the Foundation's June 30, 2012 consolidated financial statements.

**(m) Recent Accounting Pronouncements**

The Foundation follows the provisions of FASB ASC Subtopic 958-205 for Classification of Donor-Restricted Endowment Funds Subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) ("Subtopic 958-205"). Subtopic 958-205 provides guidance about the net asset classification of donor-restricted endowment funds for a not-for-profit organization and expands disclosures about endowment funds (both donor-restricted and board-designated endowment funds), regardless of whether an organization is subject to UPMIFA. The State of Mississippi has enacted UPMIFA effective July 1, 2012. The Foundation expects to implement the guidance during fiscal 2013. The Foundation does not anticipate a material impact to the consolidated financial statements as a result of the enactment. The Foundation does apply the disclosure provision of FASB ASC 958.

**(2) Investments**

Investments are summarized as follows as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Fixed income securities	\$ 70,457,688	67,112,840
Equity securities	142,202,640	147,675,903
Hedged funds	66,049,643	64,247,790
Private equity and venture capital funds	5,082,762	4,309,013
Natural resources	18,537,182	16,521,777
Short-term investments	2,492,845	7,838,602
Properties held for investment	11,726,801	14,723,873
Cash surrender value of life insurance	<u>1,733,877</u>	<u>1,658,374</u>
	<u>\$ 318,283,438</u>	<u>324,088,172</u>

Total investments include a portion of an investment vehicle controlled by the Foundation (see note 1(g)) that totaled \$42,749,038 and \$45,200,866 as of June 30, 2012 and 2011, respectively.

The Foundation has entered into various split interest agreements, including 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, 2012 and 2011 with an approximate fair value of \$6,490,000 and \$6,040,000, respectively.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The following schedule summarizes net investment income (loss) in the consolidated statements of activities for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Dividends and interest (net of expenses of \$697,465 and \$819,488, respectively)	\$ 6,997,944	7,215,742
Net realized and unrealized gains (losses)	<u>(8,850,405)</u>	<u>44,858,253</u>
	<u>\$ (1,852,461)</u>	<u>52,073,995</u>

**(3) Pledges Receivable**

Pledges receivable, net, are summarized as follows at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 8,723,075	8,087,092
One year to five years	11,048,818	10,736,142
Over five years	<u>543,647</u>	<u>2,074,617</u>
	20,315,540	20,897,851
Less unamortized discount (rates ranging from 1% to 5%)	<u>(990,190)</u>	<u>(1,457,066)</u>
	19,325,350	19,440,785
Less allowance for uncollectible pledges	<u>(791,446)</u>	<u>(972,113)</u>
	<u>\$ 18,533,904</u>	<u>18,468,672</u>

**(4) Note Receivable**

At June 30, 2012 and 2011, the Foundation had a note receivable from a related party totaling \$152,268 and \$207,171, respectively. The note receivable requires semi-annual payments of \$33,238 and 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land and buildings	\$ 11,987,491	11,987,491
Furniture, fixtures, and equipment	<u>7,618,257</u>	<u>7,563,920</u>
	19,605,748	19,551,411
Less accumulated depreciation	<u>(9,235,334)</u>	<u>(8,413,170)</u>
	<u>\$ 10,370,414</u>	<u>11,138,241</u>

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

**(6) Note Payable**

At June 30, 2012 and 2011, the Foundation had a non-interest bearing unsecured note payable to a private foundation in the amount of \$188,478 and \$202,235, respectively. Principal is payable as repayments are received from students.

**(7) Net Assets**

Temporarily restricted and permanently restricted net assets at June 30, 2012 and 2011 were available for the following purposes:

	2012		2011	
	Net assets		Net assets	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Specified college programs	\$ 18,405,927	88,283,111	21,040,153	84,528,129
Student financial aid	15,958,459	107,605,266	22,006,189	102,304,733
Research	1,291,175	16,506,068	1,793,854	16,506,068
Faculty and staff support	3,660,535	44,637,780	5,793,346	42,752,094
Facilities	3,104,078	6,955,463	3,402,278	6,955,463
Other	3,521,092	2,503,055	3,611,483	2,339,630
Total	\$ 45,941,266	266,490,743	57,647,303	255,386,117

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

**(8) Fair Value Measurements**

The following tables summarize the Foundation's assets by major category in the fair value hierarchy as of June 30, 2012 and 2011:

	<b>2012</b>				<b>Redemption or Liquidation</b>	<b>Days' Notice</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>		
<b>Fixed income:</b>						
Fixed income securities	\$ 212,916	8,089,142	—	8,302,058	Daily	1
Fixed income - mutual funds	62,155,630	—	—	62,155,630	Daily	1
<b>Total fixed income</b>	<b>62,368,546</b>	<b>8,089,142</b>	<b>—</b>	<b>70,457,688</b>		
<b>Equities:</b>						
Domestic large cap/mid cap	422,075	54,654,428	—	55,076,503	Daily	1 – 3
Domestic small cap	33,379,308	—	—	33,379,308	Daily	1
Non-U.S. equity	35,180,842	12,642,226	—	47,823,068	Daily/monthly	1 – 15
Real estate investment trusts	5,923,761	—	—	5,923,761	Daily	1
<b>Total equities</b>	<b>74,905,986</b>	<b>67,296,654</b>	<b>—</b>	<b>142,202,640</b>		
Hedged funds	—	—	66,049,643	66,049,643	(1)	(1)
Private equity and venture capital funds	—	—	5,082,762	5,082,762	Illiquid (2)	—
Natural resources	—	—	18,537,182	18,537,182	(3)	(3)
Short-term investments	2,492,845	—	—	2,492,845	Daily	1
Properties held for investment	—	—	11,726,801	11,726,801	Illiquid (4)	—
Cash surrender value of life insurance	—	1,733,877	—	1,733,877	(5)	(5)
<b>Total investments</b>	<b>\$ 139,767,377</b>	<b>77,119,673</b>	<b>101,396,388</b>	<b>318,283,438</b>		
Present value of amounts due from externally managed trusts	\$ —	34,354,678	—	34,354,678		



**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

	2011					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Redemption or Liquidation</u>	<u>Days' Notice</u>
Fixed income:						
Fixed income securities	\$ 269,892	10,859,387	—	11,129,279	Daily	1
Fixed income - mutual funds	<u>55,983,561</u>	<u>—</u>	<u>—</u>	<u>55,983,561</u>	Daily	1
Total fixed income	<u>56,253,453</u>	<u>10,859,387</u>	<u>—</u>	<u>67,112,840</u>		
Equities:						
Domestic large cap/mid cap	556,374	50,470,385	—	51,026,759	Daily	1 – 3
Domestic small cap	25,728,266	—	—	25,728,266	Daily	1
Non-U.S. equity	49,489,027	15,413,619	—	64,902,646	Daily/monthly	1 – 15
Real estate investment trusts	<u>6,018,232</u>	<u>—</u>	<u>—</u>	<u>6,018,232</u>	Daily	1
Total equities	<u>81,791,899</u>	<u>65,884,004</u>	<u>—</u>	<u>147,675,903</u>		
Hedged funds	—	—	64,247,790	64,247,790	(1)	(1)
Private equity and venture capital funds	—	—	4,309,013	4,309,013	Illiquid (2)	—
Natural resources	—	—	16,521,777	16,521,777	(3)	(3)
Short-term investments	7,838,602	—	—	7,838,602	Daily	1
Properties held for investment	—	—	14,723,873	14,723,873	Illiquid (4)	—
Cash surrender value of life insurance	<u>—</u>	<u>1,658,374</u>	<u>—</u>	<u>1,658,374</u>	(5)	(5)
Total investments	<u>\$ 145,883,954</u>	<u>78,401,765</u>	<u>99,802,453</u>	<u>324,088,172</u>		
Present value of amounts due from externally managed trusts	\$ —	34,343,134	—	34,343,134		

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

- (1) Some of the hedge fund investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually with the majority requiring 15 to 180 days notice after the initial lock up period, which may be monthly, quarterly, or annually. At June 30, 2012 and 2011, the Foundation had no alternative investment funds for which an otherwise redeemable investment was not redeemable.
- (2) These funds have ten-year terms or twelve-year terms, with extensions of one to four years, and are expected to liquidate prior to fund closing; future commitments to these funds approximate \$10,600,000 and \$12,000,000 at June 30, 2012 and 2011, respectively. Private equity and venture capital investments are generally made through limited partnerships. Under the terms of such agreements, the MSIP may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Foundation cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain.
- (3) One partnership is expected to terminate in May 2019, but is subject to two 2-year extensions. The master limited partnership allows for monthly redemptions with 30 days notice.
- (4) Bulldog Forest properties may be held in perpetuity or liquidated at the Foundation's discretion. Other properties are for immediate sale.
- (5) The Foundation currently has no plans to surrender these policies prior to maturity, but cash would be realized in a minimal amount of time if the insurance policy is cancelled.

The following table presents the Foundation's activities for the years ended June 30, 2012 and 2011 for investments classified in Level 3:

	<u>Hedged funds</u>	<u>Private equity and venture capital funds</u>	<u>Natural resources</u>	<u>Properties held for investment</u>	<u>Total</u>
Beginning value as of July 1, 2010	\$ 57,964,685	3,653,771	14,582,843	10,287,397	86,488,696
Acquisitions	-	401,955	-	4,979,481	5,381,436
Dispositions	(310,682)	(712,200)	(143,733)	(470,190)	(1,636,805)
Net realized and unrealized gains (losses)	<u>6,593,787</u>	<u>965,487</u>	<u>2,082,667</u>	<u>(72,815)</u>	<u>9,569,126</u>
Fair value at June 30, 2011	\$ 64,247,790	4,309,013	16,521,777	14,723,873	99,802,453
Acquisitions	2,000,000	1,633,187	11,600,256	185,604	15,419,047
Dispositions	(132,315)	(1,431,903)	(9,814,729)	(3,899,680)	(15,278,627)
Net realized and unrealized gains (losses)	<u>(65,832)</u>	<u>572,465</u>	<u>229,878</u>	<u>717,004</u>	<u>1,453,515</u>
Fair value at June 30, 2012	\$ <u>66,049,643</u>	<u>5,082,762</u>	<u>18,537,182</u>	<u>11,726,801</u>	<u>101,396,388</u>

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

**(9) Leases**

The Foundation has entered into a lease agreement that expires August 2014 for the use of an airplane, with a guaranteed residual of \$1,912,550, and other equipment under a capital lease agreement that expires in October 2013. Future minimum lease payments under the capital lease obligations are as follows:

Fiscal year:		
2013	\$	458,938
2014		458,938
2015		<u>1,268,667</u>
Total future minimum lease payments		2,186,543
Amount representing interest		<u>(115,008)</u>
Present value of net minimum lease payments	\$	<u><u>2,071,535</u></u>

The equipment recorded under the capital lease agreement is included in property and equipment at an original cost of \$4,538,794 with accumulated depreciation of \$2,441,072 and \$2,129,444 as of June 30, 2012 and 2011, respectively.

**(10) Endowment**

The Foundation's endowment consists of more than 1,000 individual donor-restricted endowment funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors of the Foundation (the Board) to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**(a) Interpretations of Relevant Law**

The Board has interpreted the State of Mississippi Code of 1972 §79-11-601 through §79-11-617 cited as the "Uniform Management of Institutional Funds Act" (UMIFA) as requiring the Board to use reasonable care, skill, and caution as exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with UMIFA, the Board may expend so much of an endowment fund's net appreciation as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long-term purchasing power of the endowment fund. The Board considered the following factors in making its determination:

- 1) The purpose of the Foundation
- 2) The intent of the donor of the endowment fund
- 3) The terms of the applicable instrument

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

- 4) The long-term and short-term needs of the Foundation and the University in carrying out their purposes
- 5) General economic conditions
- 6) The possible effect of inflation or deflation
- 7) The other resources of the Foundation and the University
- 8) Perpetuation of the endowment

As a result of this interpretation, the Board classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UMIFA. However, by Board policy, any appreciation is considered an asset of each individual endowment fund and is not appropriated for general Foundation or University use.

**(b) *Spending Policy***

The Foundation's spending policy is designed to provide for positive growth in the market value of its endowment, net of distributions, over an extended period of time. In establishing this policy, the Board considered the long-term expected return of the endowment investment pool and the goal of maintaining the purchasing power of the endowment asset. Over the long-term, the current spending policy is designed to return a net positive gain in market value (growth) after spendable transfers.

The annual rate for spendable transfers, distributed semi-annually, is 4% of the investment pool's average unit value over the most recent 36-month period. In addition, each endowed fund is assessed an annual 1.25% administrative fee. This fee is a portion of the funding mechanism for the development and alumni programs of the University.

**(c) *Investment Policy***

The Foundation's investment objectives are to provide an annualized real (adjusted for inflation) rate of return of 5% or more in order to preserve, or increase, the purchasing power of endowment capital, while generating an income stream to support activities of the funds held for the colleges and units of the University. This policy is designed to tolerate volatility in short and intermediate-term performance. The endowment assets are invested as a part of the investment pool, as discussed in note 1(g).

To satisfy its long-term rate of return objectives, the pool embraces a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation, through the MSIP, targets a diversified asset allocation that includes global equities, fixed income, natural resources, and hedge strategies to achieve long-term objectives within prudent risk constraints.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Endowment net asset composition by type of fund as of June 30, 2012 and 2011:

		<b>2012</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$	(2,520,229)	16,352,458	254,450,384	268,282,613
Board-designated endowment funds		12,111,819	—	—	12,111,819
Total funds	\$	<u>9,591,590</u>	<u>16,352,458</u>	<u>254,450,384</u>	<u>280,394,432</u>

		<b>2011</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$	(1,244,912)	27,700,700	245,320,242	271,776,030
Board-designated endowment funds		12,922,751	—	—	12,922,751
Total funds	\$	<u>11,677,839</u>	<u>27,700,700</u>	<u>245,320,242</u>	<u>284,698,781</u>

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Changes in endowment net assets for the fiscal years ended June 30, 2012 and 2011:

	<b>2012</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	
Endowment net assets, beginning of year	\$ 11,677,839	27,700,700	245,320,242	284,698,781
Investment return:				
Investment income	525,810	2,318,687	—	2,844,497
Net appreciation (depreciation) (realized and unrealized)	<u>(1,971,384)</u>	<u>(4,588,885)</u>	<u>790,874</u>	<u>(5,769,395)</u>
Total investment return	(1,445,574)	(2,270,198)	790,874	(2,924,898)
Contributions	—	—	8,722,461	8,722,461
Appropriation of endowment assets for expenditure	(766,484)	(9,078,044)	—	(9,844,528)
Other changes:				
Other transfers	125,809	—	—	125,809
Change in restrictions by donor	—	—	197,560	197,560
Change in value of split interest agreements	<u>—</u>	<u>—</u>	<u>(580,753)</u>	<u>(580,753)</u>
Endowment net assets, end of year	\$ <u><u>9,591,590</u></u>	<u><u>16,352,458</u></u>	<u><u>254,450,384</u></u>	<u><u>280,394,432</u></u>



**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

	<b>2011</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	
Endowment net assets, beginning of year	\$ 147,681	6,057,746	229,516,188	235,721,615
Investment return:				
Investment income	411,886	3,522,438	—	3,934,324
Net appreciation (realized and unrealized)	11,109,309	24,888,378	519,038	36,516,725
Total investment return	11,521,195	28,410,816	519,038	40,451,049
Contributions	—	—	11,684,459	11,684,459
Appropriation of endowment assets for expenditure	(679,183)	(6,767,862)	—	(7,447,045)
Other changes:				
Other transfers	688,146	—	—	688,146
Change in restrictions by donor	—	—	(1,690,000)	(1,690,000)
Change in value of split interest agreements	—	—	5,290,557	5,290,557
Endowment net assets, end of year	\$ <u>11,677,839</u>	<u>27,700,700</u>	<u>245,320,242</u>	<u>284,698,781</u>

**(d) Funds with deficiencies**

As a result of market declines for certain recently established endowments, the fair value of certain donor-restricted endowments was less than the historical cost value (original gift/book value) of such funds (“underwater”) by \$2,520,229 and \$1,244,912 as of June 30, 2012 and 2011, respectively.

These losses have been recorded as reductions in unrestricted net assets in accordance with accounting principles generally accepted in the United States of America. Future gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.



**MISSISSIPPI STATE**  
**UNIVERSITY**™

OFFICE OF CONTROLLER AND TREASURER | RECORDS AND REPORTING  
DIVISION OF FINANCE AND ADMINISTRATION  
MISSISSIPPI STATE UNIVERSITY

[WWW.MSSTATE.EDU](http://WWW.MSSTATE.EDU)

*Mississippi State University is an equal opportunity institution.*