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**MISSISSIPPI STATE UNIVERSITY
YEAR ENDED JUNE 30, 2003**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Mississippi State University (referred to as the University) presents its financial statements for June 30, 2003 (end of the fiscal year) in accordance with Governmental Accounting Standards Board (GASB) Statement 34 as a special purpose government engaged solely in business type activities (BTA). According to paragraphs 44 through 47 of GASB Statement 35 and related paragraph 67 of GASB Statement 34, the University is a public institution that regularly receives state appropriations and covers a major portion of its costs through external user charges for its services and is therefore allowed to report as a BTA. The University is one of eight universities under the direction of the Board of Trustees of Institutions of Higher Learning. The student population is 16,610 with the main campus in Starkville, Mississippi, and off-campus locations at Meridian and Vicksburg. Mississippi State University is a land-grant institution with strong ties to the U.S. Department of Agriculture and has County Extension Offices in eighty-two counties and eight Branch Experiment Stations.

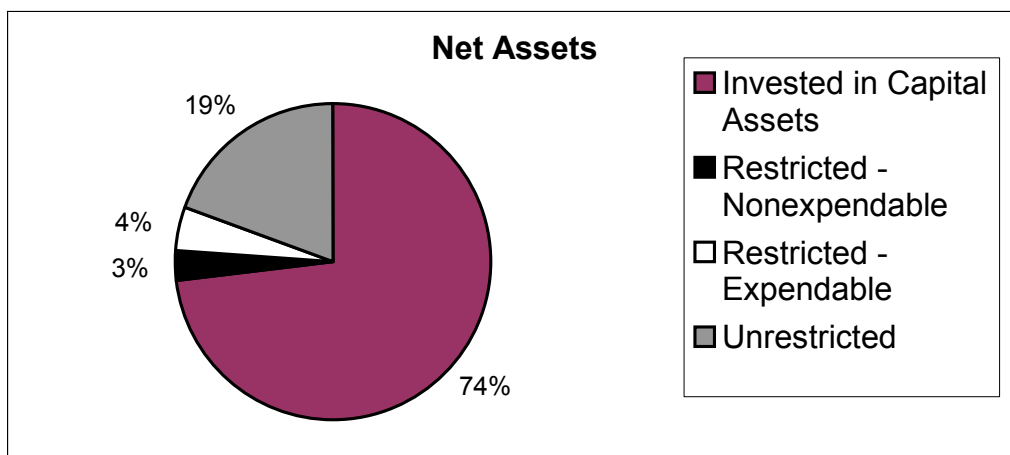
The following discussion and analysis of the University's financial statements provide an overview of its financial activities for the year. Fiscal year 2002 data is presented for comparative purposes. The statements are composed of the statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows (direct method), and notes to the financial statements.

Statement of Net Assets

The purpose of the Statement of Net Assets is to present at a point in time (end of the fiscal year) assets, liabilities and net assets of Mississippi State University. The University has chosen a net asset presentation. The concept of fund balance is no longer appropriate for financial statement presentation and the term net assets replaces fund balances. The statement uses a classified format presenting current and non-current assets and liabilities, as well as, three net asset categories (unrestricted, restricted and invested in capital assets).

Statement of Net Assets

	<u>FY 2003</u>	<u>FY 2002</u>
Assets:		
Current Assets	95,166,978	97,109,977
Capital Assets Net	394,558,223	377,950,860
Other Noncurrent Assets	82,889,464	75,661,755
Total Assets	<u>572,614,665</u>	<u>550,722,592</u>
Liabilities:		
Current Liabilities	30,714,373	33,963,786
Noncurrent Liabilities	92,075,271	78,843,022
Total Liabilities	<u>122,789,644</u>	<u>112,806,808</u>
Net Assets:		
Invested in Capital Assets (net of related debt)	328,288,019	309,802,752
Restricted-Nonexpendable Scholarships	9,865,306	10,608,168
Restricted-Nonexpendable Research	4,558,233	4,500,000
Restricted-Nonexpendable Other Purposes	239,789	
Restricted-Expendable Scholarships	1,923,928	2,162,773
Restricted-Expendable Research	10,749,467	9,383,841
Restricted-Expendable Loans	3,702,768	17,687,683
Restricted-Expendable Capital Projects	2,767,046	8,548,256
Restricted-Expendable Debt Service	754,975	744,925
Unrestricted	86,975,490	74,477,387
Total Net Assets	<u>449,825,021</u>	<u>437,915,784</u>



The total assets of the institution increased by \$21,892,073. This was due primarily to an increase in capital assets net of accumulated depreciation in the amount of \$16,607,363. Current assets of the university decreased by \$1,942,999 even though cash and cash equivalents show an increase of \$10,234,924. This decrease is due to reductions in short-term investments of \$4,598,050, accounts receivables net of allowance of \$5,886,007, inventories of \$455,660 and prepaid expenses of \$1,743,351. Student notes receivables increased by \$505,145 for the year. Non-current assets other than capital assets net of accumulated depreciation increased by \$7,227,709 mainly due to securities in FY 2003 that were held by Trinity Capital in the amount of \$11,505,289 with a maturity date greater than one year from fiscal year end.

Total liabilities of the institution increased by \$9,982,836. This was due primarily to the reclassification to other non-current liabilities of \$14,627,723 which represents 85% of the federal Perkins Loan Program net asset balance. Current liabilities decreased by \$3,249,413 mainly due to a reduction in accounts payable and accrued liabilities.

Total net assets of the institution increased by \$11,909,237. Invested in capital assets net of related debt increased by \$18,485,267. Unrestricted net assets increased by \$12,498,103. However, expendable loans decreased by \$13,984,915 mainly due to the reclassification of 85% of the federal Perkins Loan Program to other non-current liabilities.

Statement of Revenues, Expenses and Changes in Net Assets

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

Statement of Revenues, Expenses and Changes in Net Assets

	<u>FY 2003</u>	<u>FY 2002</u>
Operating Revenues	283,086,217	271,221,379
Operating Expenses	420,445,809	417,034,419
Operating Loss	<u>(137,359,592)</u>	<u>(145,813,040)</u>
Nonoperating Revenues and Expenses	<u>150,798,519</u>	<u>151,577,126</u>
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	13,438,927	5,764,086

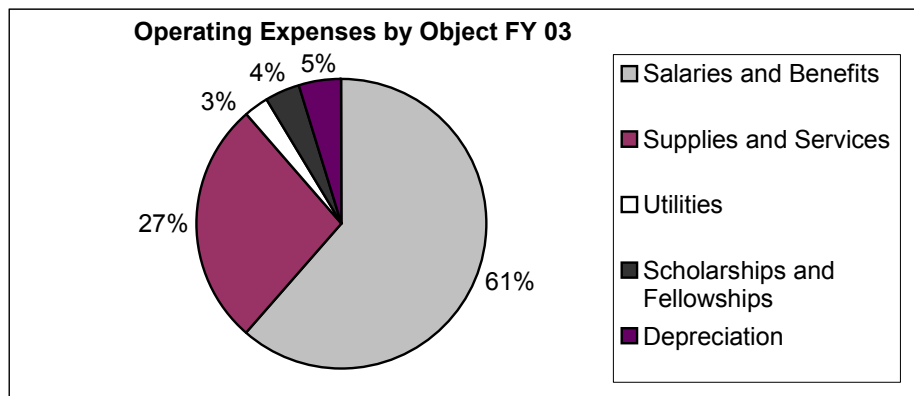
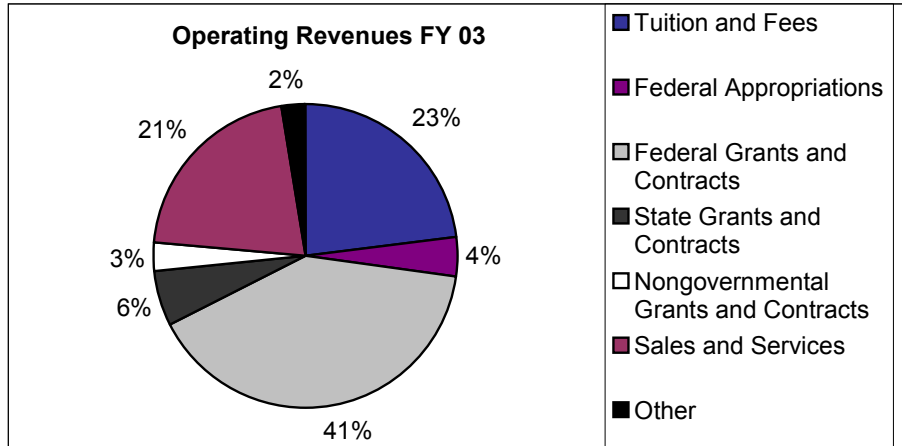
Statement of Revenues, Expenses and Changes in Net Assets (Continued)

Other Revenues, Expenses, Gains or Losses	<u>12,574,110</u>	<u>27,964,244</u>
Increase in Net Assets	26,013,037	33,728,330
Net Assets at Beginning of Year, as Originally Reported	437,915,784	595,166,049
Cumulative Effect of Changes in Accounting Principle	(14,103,800)	(196,519,828)
Other	<u>5,541,233</u>	<u>5,541,233</u>
Net Assets at Beginning of Year-Restated	<u>423,811,984</u>	<u>404,187,454</u>
Net Assets at End of Year	<u><u>449,825,021</u></u>	<u><u>437,915,784</u></u>

The statement of revenues, expenses and changes in net assets reflects a positive year with an increase in net assets at the end of the year in the amount of \$11,909,237. The following overview discusses variances that exceed 5% from FY 2002 totals:

- **Federal Appropriations (11.8%) decrease**– Federal Smith-Lever Regular, Smith-Lever 3(b) & (c), and Smith-Lever 3(d) show a decrease of \$1,121,063.
- **Nongovernmental Grants and Contracts 11.8% increase** – Foundation grants increased by \$1,077,674.
- **Sales and Services of Educational Departments 7.9% increase** – increase in sales of timber by the Forestry and Wildlife Research Center and laboratory and testing fees collected by the College of Veterinary Medicine account for a majority of the increase.
- **Athletics Sales 5.5% increase** – game guarantees and conference surplus revenues exceed FY 2002 by \$488,616.
- **Other Auxiliary (6.1%) decrease** – Laundry, Telecommunications, Lakeside Golf Course, and the Student Health Center service revenues decreased by \$608,644. It should also be noted that Laundry Services ceased operations as an auxiliary unit as of June 30, 2003.
- **Interest Earned on Loans to Students 7.8% increase** – interest income on National Direct Student Loans increased by \$23,892 over FY 2002.

- **Other Operating Revenues 48.5% increase** – storm damage funding from the Federal Emergency Management Agency (FEMA) and the state of Mississippi in the amount of \$1,893,825, laboratory test fees from the College of Veterinary Medicine of \$402,550 and \$287,448 in prior period adjustments make up a majority of the increase over FY 2002. The prior period adjustments consist of a reclassification of a FEMA receipt from deferred revenue and credit card deposits that had not been recorded in prior years by the university for the police department and conference housing.
- **Travel 8.6 % increase** – expenditures for out-of-state travel and international travel increased over FY 2002.
- **Utilities 18.1% increase** – increase of \$1,704,151 due to the national trend of rising utility rates and additions of new buildings on campus.
- **Commodities 11.0% increase** - increase of \$3,871,630 due to fewer items capitalized in FY 2003 resulting in more items being expensed for the year.
- **Depreciation (18.1 %) decrease** – expense decreased for FY 2003 due to the overstatement of depreciation expense for FY 2002 of \$6,304,653 as a result of a programming error in the depreciation calculation.
- **Investment Income, Net of Investment Expense 55.4% increase** – unrealized gain on investments exceeded unrealized loss for FY 2003 by \$541,452 while unrealized loss exceeded unrealized gain in FY 2002 by \$1,370,808.
- **Capital Grants and Gifts (94.5%) decrease** - difference due to donated land and equipment recognized in FY 2002.
- **State Appropriations Restricted for Capital Purposes (12.0%) decrease** – Bureau of Buildings appropriations for FY 2003 decreased by \$1,965,949 as compared to FY 2002.
- **Additions to Permanent Endowment (100 %) decrease** – the Nissan endowment was recognized in FY 2002 in the amount of \$4,500,000. No endowments were received in FY 2003.
- **Other Non-operating Revenues and Non-operating Expenses were presented as a net result in FY 2002.**
- **Other Additions and Other Deletions were presented as a net result in FY 2002.**



Statement of Cash Flows

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

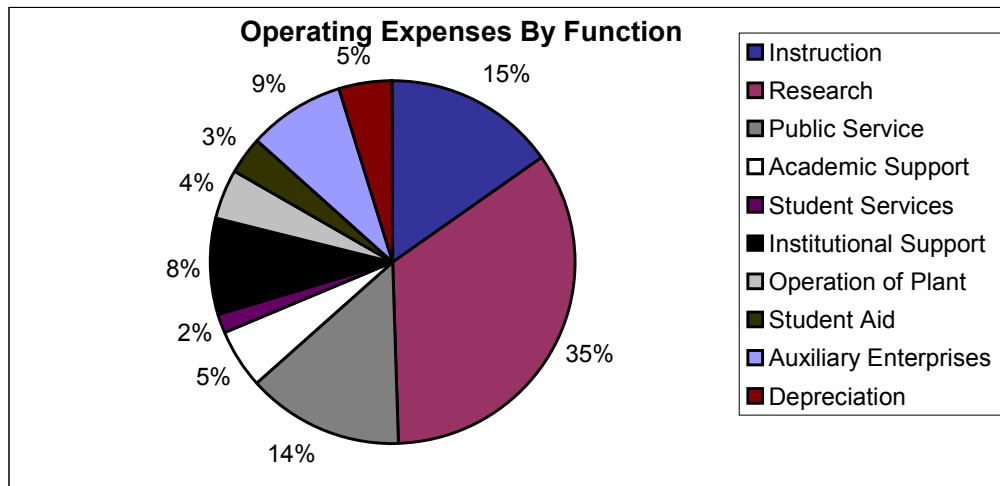
	<u>FY 2003</u>	<u>FY 2002</u>
Cash provided (used) by:		
Operating activities	(\$115,034,480)	(\$128,442,360)
Noncapital financing activities	152,620,887	157,658,174
Capital financing activities	(34,091,592)	(18,112,287)
Investing activities	2,240,109	(1,294,758)
Net Change in Cash	<u>5,734,924</u>	<u>9,808,770</u>
Cash, beginning of year	<u>40,655,328</u>	<u>30,846,558</u>
Cash, end of year	<u><u>46,390,252</u></u>	<u><u>40,655,328</u></u>

The primary cash receipts from operating activities for fiscal year 2003 consist of tuition and fees in the amount of \$65,100,152 and grants and contracts in the amount of \$141,263,676. Cash outlays include payments to employees in the amount of \$258,600,301 and payments to suppliers in the amount of \$115,043,668. State appropriations are the primary source of non-capital financing in the amount of \$139,378,818. The new accounting standards require that we present this source of revenue as non-operating.

Functional Classification of Operating Expenses

Year Ended June 30, 2003
Natural Classification

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	43,756,273	11,861,269	1,337,897	4,206,353	104,762	859,139	1,761,704		\$63,887,397
Research	67,103,895	17,099,655	3,295,857	39,469,071	2,079,521	279,996	14,192,865		143,520,861
Public Service	35,987,240	9,281,372	2,628,590	7,654,914	424,885	64,943	2,945,631		58,987,575
Academic Support	13,103,298	2,968,791	238,359	2,514,034	5,656	3,923	2,771,100		21,605,162
Student Services	5,092,783	1,281,499	149,337	903,868	10,077	15,671	592,720		8,045,956
Institutional Support	17,385,928	4,197,449	218,709	3,100,352	77,615	167,660	10,223,981		35,371,693
Operation of Plant	8,347,954	2,211,278	28,070	0	6,737,625	0	1,516,987		18,841,914
Student Aid	1,083,651	1,415,109	8,218	145,560	0	11,772,657	46,282		14,471,478
Auxiliary Enterprises	12,838,926	2,915,779	1,808,214	8,072,477	1,688,250	3,918,517	4,989,642		36,231,804
Depreciation								19,481,970	19,481,970
Total Operating Expenses	\$204,699,949	\$53,232,202	\$9,713,251	\$66,066,628	\$11,128,392	\$17,082,505	\$39,040,912	19,481,970	\$420,445,809



Capital Asset and Debt Administration

The University’s most significant capital asset addition in fiscal year 2003 was the Longest Student Health Center expansion. This project was funded by the 2001 MSU Educational Building Corporation revenue bond.

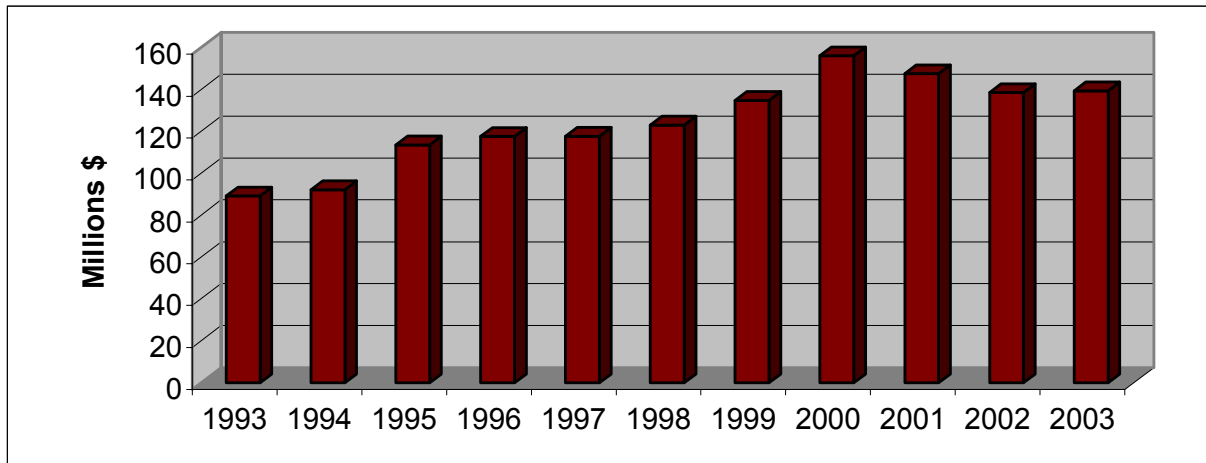
Also completed:

- ISTEA Bicycle Path
- Central Mississippi Research and Extension Building

There were no new bond issues in fiscal year 2003.

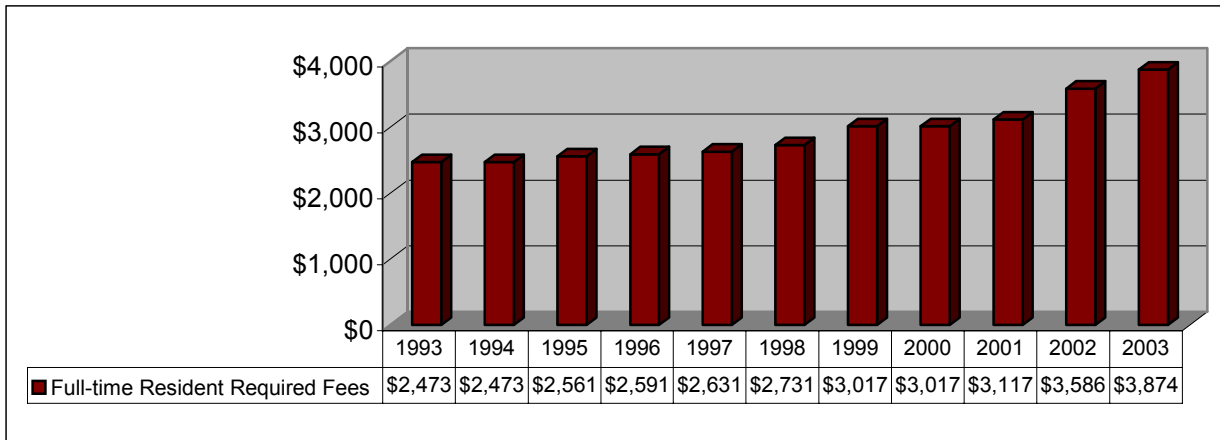
Trends

Total State Appropriations:

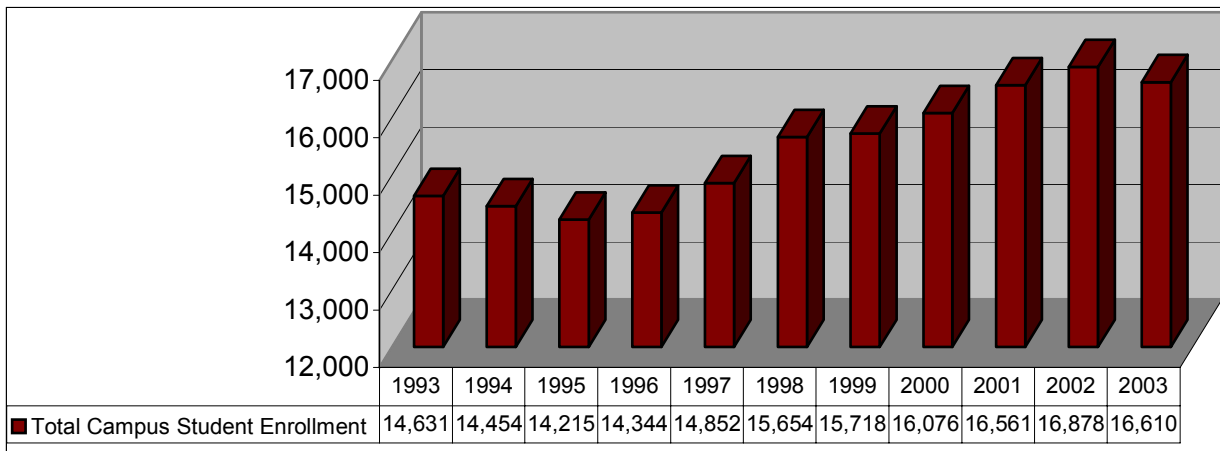


Trends (continued)

Full-time Resident Tuition and Required Fees:



Total Campus Student Enrollment:



Economic Outlook

The national economic view at this time is for slow growth in the 1 to 2 percent range. The indicators show that the national recession ended in the last fiscal year and we are and have been in a slow recovery. The current economic forecast for our state indicates a slightly slower recovery than the national economy. Mississippi sales tax and income tax collections early in FY 2004, show some growth (less than 1%) but not at the anticipated rate of growth. This leaves the state revenue projections overstated in the first quarter of FY 2004. The hope for a more robust recovery is in the second and third quarter when the impact of better than average state agricultural productions and prices work their way into the mix along with improving manufacturing production.

The population demographics for 18-year-olds eligible as new students indicate that over the next 3 to 5 years there will be no growth or a slight decline for the State of Mississippi. Therefore, it is reasonable to project that enrollment may increase slightly due to better student retention and transfers but for 2004 a slight decline in enrollment is projected.

Tuition rates were not increased for the FY 2004 year. In FY 2002 tuition rates were increased by 15 percent and by 8 percent for FY 2003. These increases have partially offset the reduction in state appropriations during those years. The University, through conservative management, was able to conclude FY 2003 with a small increase in net assets.

Approximately \$19.3 million in one-time funds (Budget Contingency Funds) are a part of the FY 2004 state appropriations. These funds are not expected to be available in FY 2005. With over 13% of the state funds resulting from Budget Contingency Funds it is imperative that resources and uses be monitored in the coming year. The economic challenge faced by the public universities in this state is to adjust not only to economic and demographic trends but also to the loss of these one-time funds if they cannot be sustained.

W. Daniel Bryant
Chief Budget and Financial Officer

**MISSISSIPPI STATE UNIVERISTY
STATEMENT OF NET ASSETS**

Assets	June 30	
	2003	2002
Current Assets:		
Cash and Cash Equivalents (note #3)	\$46,390,252	\$36,155,328
Short Term Investments (note #3)	8,142,707	12,740,757
Accounts Receivables, Net (note #4)	32,697,490	38,583,497
Student Notes Receivables (note #5)	3,301,929	2,796,784
Inventories	2,751,570	3,207,230
Prepaid Expenses	1,883,030	3,626,381
Other Current Assets		
Total Current assets	\$95,166,978	\$97,109,977
Non-Current Assets:		
Restricted Cash and Cash Equivalents		4,500,000
Endowment Investments (note #3)	16,679,765	12,577,430
Other Long Term Investments (note #3)	48,365,049	40,129,415
Student Notes Receivable, net (note #5)	13,006,390	12,950,910
Capital Assets, Net of Accumulated Depreciation (note #6)	394,558,223	377,950,860
Other Noncurrent Assets	4,838,260	5,504,000
Total Non-Current assets	\$477,447,687	\$453,612,615
Total Assets	\$572,614,665	\$550,722,592
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	20,514,443	24,886,011
Deferred Revenues	4,395,826	3,616,073
Accrued Leave Liabilities - Current Portion (note #7)	1,851,751	1,696,810
Long Term Liabilities - Current Portion (note #7)	3,784,930	3,585,885
Other Current Liabilities	167,423	179,006
Total Current liabilities	\$30,714,373	\$33,963,786

**MISSISSIPPI STATE UNIVERISTY
STATEMENT OF NET ASSETS**

(Continued)

	June 30	
	<u>2003</u>	<u>2002</u>
Non-Current Liabilities:		
Deposits Refundable (note #7)	87,150	87,817
Accrued Leave Liabilities (note #7)	14,875,123	14,192,983
Long Term Liabilities (note #7)	62,485,275	64,562,222
Other Non-Current Liabilities (note #7)	14,627,723	
Total Non-Current liabilities	<u>\$92,075,271</u>	<u>\$78,843,022</u>
Total Liabilities	<u>\$122,789,644</u>	<u>\$112,806,808</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	328,288,019	309,802,752
Restricted for:		
Nonexpendable -		
Scholarships and Fellowships	9,865,306	10,608,168
Research	4,558,233	4,500,000
Other Purposes	239,789	
Expendable -		
Scholarships and Fellowships	1,923,928	2,162,773
Research	10,749,467	9,383,841
Capital Projects	2,767,046	8,548,256
Debt Service	754,975	744,925
Loans	3,702,768	17,687,683
Other Purposes		
Unrestricted	86,975,490	74,477,387
Total Net Assets	<u>\$449,825,021</u>	<u>\$437,915,784</u>

Supplemental Information

-- Academic Programs & Research	17,100,206	16,202,776
-- Capital projects	14,863,080	14,909,897
-- Repairs and maintenance	3,080,836	2,009,243
-- Remaining purposes	51,931,368	41,355,471
	<u>86,975,490</u>	<u>74,477,387</u>

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

	June 30	
	2003	2002
Operating Revenues:		
Tuition and Fees	\$85,718,792	\$81,013,924
Less: Scholarship Allowances	(20,762,168)	(18,797,055)
Net Tuition and Fees	64,956,624	62,216,869
Federal Appropriations	12,339,489	13,375,614
Federal Grants and Contracts	113,913,977	109,744,730
State Grants and Contracts	16,668,855	15,970,982
Nongovernmental Grants and Contracts	8,380,194	7,496,267
Sales and Services of Educational Departments	21,194,392	19,642,833
Auxiliary Enterprises:		
Student Housing	9,363,335	9,145,463
Food Services	5,260,278	5,121,202
Athletics	16,282,121	15,431,071
Other Auxiliary revenues	7,839,029	8,347,387
Interest Earned on Loans to Students	355,404	329,667
Other Operating Revenues	6,532,519	4,399,295
Total Operating Revenues	\$283,086,217	\$271,221,379
Operating Expenses:		
Salaries and Wages	204,699,949	206,508,570
Fringe Benefits	53,232,202	52,781,712
Travel	9,713,251	8,943,892
Contractual Services	66,066,628	63,236,485
Utilities	11,128,392	9,424,241
Scholarships and Fellowships	17,082,505	17,172,479
Commodities	39,040,912	35,169,275
Depreciation Expense	19,481,970	23,797,765
Other Operating Expense		
Total Operating Expenses	\$420,445,809	\$417,034,419
Operating Income (Loss)	(\$137,359,592)	(\$145,813,040)

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

	June 30	
	2003	2002
<u>(continued)</u>		
Nonoperating Revenues (Expenses):		
State Appropriations	139,378,818	138,652,513
Gifts and Grants	13,835,773	14,261,463
Investment Income, Net of Investment Expense	2,305,767	1,483,808
Interest Expense on Capital Asset---Related Debt	(3,247,113)	(3,352,561)
Other Nonoperating Revenues	41,332	531,903
Other Nonoperating Expenses	(1,516,058)	
Total Net Nonoperating Revenues (Expenses)	\$150,798,519	\$151,577,126
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	13,438,927	5,764,086
Capital Grants and Gifts	355,448	6,566,393
State Appropriations Restricted for Capital Purposes	14,385,901	16,351,850
Additions to Permanent Endowments		4,500,000
Other Additions		546,001
Other Deletions	(2,167,239)	
Net Increase in Net Assets	\$26,013,037	\$33,728,330
Net Assets		
Net Assets - Beginning of Year, as Originally Reported	437,915,784	595,166,049
Cumulative Effects of Change in Accounting Principle (note # 2)	(14,103,800)	(196,519,828)
Prior Period Adjustments		5,541,233
Net Assets - Beginning of Year, as Restated	423,811,984	404,187,455
Net Assets - End of Year	\$449,825,021	\$437,915,784

**MISSISSIPPI STATE UNIVERSITY
STATEMENT OF CASH FLOWS**

	June 30	
	2003	2002
Cash Flows from Operating Activities:		
Tuition and Fees	\$65,100,152	\$55,758,310
Grants and Contracts	141,263,676	133,568,336
Sales and Services of Educational Departments	17,482,482	11,270,185
Payments to Suppliers	(115,043,668)	(102,207,023)
Payments to Employees for Salaries and Benefits	(258,600,301)	(253,683,114)
Payments for Utilities	(11,128,392)	(9,424,241)
Payments for Scholarships and Fellowships	(17,073,101)	(17,172,479)
Loans Issued to Students and Employees	(7,434,924)	(3,262,821)
Collection of Loans to Students and Employees	6,883,698	3,794,595
Auxiliary Enterprise Charges:		
Student Housing	9,363,335	9,145,463
Food Services	5,249,257	5,121,202
Athletics	24,206,724	15,431,071
Other Auxiliary Enterprises	7,838,836	7,956,663
Interest Earned on Loans to Students		
Other Receipts	16,857,746	15,261,494
Other Payments		
Net Cash Provided (Used) by Operating Activities	(\$115,034,480)	(\$128,442,360)
Cash Flows from NonCapital Financing Activities:		
State Appropriations	139,378,818	137,210,484
Gifts and Grants for Other Than Capital Purposes;	13,452,313	15,488,758
Private Gifts for Endowment Purposes		4,500,000
Federal Loan Program Receipts	47,835,530	48,911,650
Federal Loan Program Disbursements	(47,895,261)	(48,834,385)
Other Sources		
Other Uses	(150,513)	381,668
Net Cash Provided by Noncapital Financing Activities	\$152,620,887	\$157,658,174

**MISSISSIPPI STATE UNIVERSITY
STATEMENT OF CASH FLOWS**

(Continued)

	June 30	
	2003	2002
Cash Flows from Capital Financing Activities:		
Proceeds from Capital Debt	\$71,243	\$0
Cash Paid for Capital Assets	(22,386,429)	(27,025,397)
Capital Appropriations Received	0	0
Capital Grants and Contracts Received	355,448	1,480,828
Proceeds from Sales of Capital Assets	284,711	271,629
Principal Paid on Capital Debt and Leases	(3,811,973)	(3,131,745)
Interest Paid on Capital Debt and Leases	(3,247,113)	(3,352,561)
Other Sources		14,915,184
Other Uses	(5,357,479)	(1,270,225)
Net Cash Used by Capital and Related Financing Activities	(\$34,091,592)	(\$18,112,287)
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investments	32,536,453	29,745,244
Interest Received on Investments	2,550,099	2,947,724
Purchases of Investments	(32,846,443)	(33,987,726)
Net Cash Provided by Investing Activities	\$2,240,109	(\$1,294,758)
Net Increase (Decrease) in Cash and Cash Equivalents	5,734,924	9,808,770
Cash and Cash Equivalents - Beginning of the Year	40,655,328	30,846,558
Cash and Cash Equivalents - End of the Year	\$46,390,252	\$40,655,328

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

	June 30	
	2003	2002
Operating Income (Loss)	(\$137,359,592)	(\$145,813,040)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Depreciation Expense	19,481,970	23,797,765
Other		1,773,780
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables, Net	6,926,569	(8,993,858)
Inventories	455,660	(152,968)
Prepaid Expenses	(708,227)	1,672,701
Other Assets	(293,546)	567,101
Increase (Decrease) in Liabilities:		
Accounts Payables and Accrued Liabilities	(2,638,343)	5,235,458
Deferred Revenues	(103,223)	(7,048,763)
Deposits Refundable		0
Accrued Leave Liability	(837,080)	519,465
Loans to Students and Employees		0
Other Liabilities	41,332	0
Total Adjustments:	22,325,112	17,370,680
Net Cash Provided (Used) by Operating Activities	(\$115,034,480)	(\$128,442,360)

NON-CASH TRANSACTIONS

1.) Equipment	1,934,070
Capital Lease	(1,934,070)
2.) Construction in Progress	14,385,901
Bureau of Buildings Appropriations	(14,385,901)

Note 1 - Summary of Significant Accounting Policies

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

The constitution provides that the Board members be appointed by the Governor with the approval of the Senate. The governing Board consists of 12 members: one from each of the seven congressional districts, one from each of the three Supreme Court Districts and two appointed from the state-at-large. Every four years the Governor appoints four members to the Board to serve 12-year terms.

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

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

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Classification of Revenues – The university has classified its revenues as either operating or non-operating revenues according to the following criteria:

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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 \$86,975,490 at June 30, 2003 includes \$17,100,206 reserved for academic programs and research, \$14,863,080 reserved for capital projects, \$3,080,836 reserved for repairs and maintenance, with \$51,931,368 remaining for other purposes.

Note 2 – Change in Accounting Principle

For the year ended June 30, 2003, the institution began recognizing the federal portion of the Perkins Loan Program as a long-term liability instead of restricted net assets. The institution made adjustments due to this change in accounting principle which consisted of additions and deductions to the following balances:

Explanation(s)	Additions (Deductions) at July 1, 2002
Other Non-Current Liabilities	\$14,103,800
Restricted Net Assets Expendable - Loans	(14,103,800)
Total Adjustments	<u><u>\$0</u></u>

Note 3 - Cash and Investments

Policies:

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

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

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

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

The following table presents the fair value of investments by type at June 30, 2003:

Investment Type	<u>Value</u>
U.S. Government Agency Obligations	\$59,467,347
Repurchase Agreements	
U.S. Treasury Obligations	\$80,833
Certificates of Deposit	\$1,653,179
Corporate Bonds	\$556,958
Commercial Mortgage Backed Securities	\$323,867
Collateralized Mortgage Obligations	\$549,837
Municipal Bonds	\$171,628
Mutual Funds	\$5,712,775
Asset Backed Securities	
Equity Securities	\$4,375,116
International Obligations	\$56,192
Landgrant	\$239,789
Total	<u><u>\$73,187,521</u></u>

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

Per GASB Statement No. 40, Interest Rate Risk is defined as the risk a government may face should interest rate variances affect the fair value of investments. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses Interest Rate Risk. As of June 30, 2003, the institution had the following investments subject to Interest Rate Risk:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Agency Obligations	\$58,796,033	\$3,527,815	\$25,095,292	\$25,327,206	\$4,845,720
Repurchase Agreements					
U.S. Treasury Obligations					
Corporate Bonds					
Commercial Mortgage Backed Securities					
Collateralized Mortgage Obligations	\$518,953				\$518,953
Municipal Bonds	\$171,628			\$171,628	
Asset Backed Securities					
International Obligations					
Certificates of Deposit	\$1,596,352	\$20,352	\$1,576,000		
Total	<u>\$61,082,966</u>	<u>\$3,548,167</u>	<u>\$26,671,292</u>	<u>\$25,498,834</u>	<u>\$5,364,673</u>

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, 2003, the institution had the following investment Credit Risk:

	Fair Value
A+	\$171,628
AA-	\$2,195,620
AAA	\$55,599,333
Not Rated	\$15,220,940
Total	<u>\$73,187,521</u>

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

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

Issuer	Fair Value	% of Total Investments
FHLB	\$15,123,141	20.03%
FHLMC	\$26,250,709	34.77%
FNMA	\$15,919,091	21.09%
Total	<u>\$57,292,941</u>	

Note 4 - Accounts Receivable

Accounts receivable consisted of the following at June 30, 2003:

	<u>June 30, 2003</u>
Student tuition	\$9,854,771
Auxiliary enterprises and other operating activities	1,076,262
Contributions and gifts	1,912,924
Federal, state, and private grants and contracts	21,599,348
State Appropriations	1,370,786
Total Accounts receivable	<u>35,814,091</u>
Less allowance for doubtful accounts	3,116,601
Net Accounts receivable	<u>\$32,697,490</u>

Note 5 - Notes Receivable from Students

Notes receivable from students are payable in installments over a period of up to ten years, commencing three to twelve months from the date of separation from the institution. The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the institution at June 30, 2003:

	Interest Rates	June 30, 2003	Current Portion	Non-Current Portion
Perkins student loans	3% to 9%	17,215,036	3,000,000	14,215,036
Other Federal loans	3% to 9%			
Institutional loans	0% to 9%	627,101	301,929	325,172
Total Notes receivable		<u>17,842,138</u>	<u>3,301,929</u>	<u>14,540,208</u>
Less allowance for doubtful accounts		1,533,818		1,533,818
Net Notes receivable		<u><u>\$16,308,319</u></u>	<u><u>\$3,301,929</u></u>	<u><u>\$13,006,390</u></u>

Note 6 - Capital Assets

A summary of changes in capital assets for the year ended June 30, 2003 is presented as follows:

	<u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2003</u>
Nondepreciable Capital Assets:				
Land	\$10,683,097	\$13,124	\$624	\$10,695,597
Construction in Progress	24,835,616	22,805,880	6,584,459	41,057,037
Livestock	1,894,942	72,193	284,711	1,682,424
 Total Nondepreciable Capital Assets	 <u>37,413,655</u>	 <u>22,891,197</u>	 <u>6,869,794</u>	 <u>53,435,058</u>
Depreciable Capital Assets:				
Improvements other than Buildings	41,140,403	1,660,239		42,800,642
Buildings	344,067,920	5,007,833	127,622	348,948,130
Equipment	94,792,112	13,535,580	9,663,922	98,663,770
Library Books	52,012,478	3,847,488	73,528	55,786,438
 Total Depreciable Capital Assets	 <u>\$532,012,913</u>	 <u>\$24,051,139</u>	 <u>\$9,865,072</u>	 <u>\$546,198,980</u>
Less Accumulated Depreciation for:				
Improvements other than Buildings	3,581,105	1,651,151		5,232,256
Buildings	89,665,443	6,719,670		96,385,113
Equipment	62,546,599	7,868,556	5,808,336	64,606,819
Library Books	35,682,561	3,242,593	73,528	38,851,626
 Total Accumulated Depreciation	 <u>\$191,475,708</u>	 <u>\$19,481,970</u>	 <u>\$5,881,864</u>	 <u>\$205,075,814</u>
 Capital Assets, Net	 <u><u>\$377,950,860</u></u>	 <u><u>\$27,460,366</u></u>	 <u><u>\$10,853,002</u></u>	 <u><u>\$394,558,223</u></u>

Note 6 – Capital Assets (continued)

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

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

Note 7 - Long-term Liabilities

Long-term liabilities of the university consist of notes and bonds payable, capital lease obligations and certain other liabilities that are expected to be liquidated at least one year from June 30, 2003. 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, 2003, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Description and Purpose	Original Issue	Annual Interest Rate	Maturity	July 1, 2002	Additions	Deletions	June 30, 2003	Due Within One Year
Bonded Debt								
HUD 81C - Dorm. Rev. Sys.	2,250,000	3.00%	2020	1,410,000		60,000	1,350,000	60,000
HUD 81D - Student Apts.	2,038,000	3.00%	2021	1,355,000		50,000	1,305,000	50,000
EBC93 - Revenue Bonds	5,460,000	2.75%-5.00%	2008	2,515,000		435,000	2,080,000	305,000
EBC95 - Revenue Bonds	3,000,000	4.50%-6.15%	2015	2,230,000		125,000	2,105,000	130,000
EBC96 - Revenue Bonds	11,920,000	3.70%-5.00%	2016	9,920,000		450,000	9,470,000	470,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2024	29,925,000		790,000	29,135,000	815,000
EBC01 - Revenue Bonds	16,920,000	4.00%-5.50%	2026	16,920,000		660,000	16,260,000	685,000
Total Bonded Debt				\$64,275,000	\$0	\$2,570,000	\$61,705,000	\$2,515,000
Capital Leases								
Farm Equipment				\$1,383,684	\$141,587	\$450,516	\$1,074,754	\$449,050
Computer Equipment				667,336	999,827	428,815	1,238,348	410,470
Vehicles				269,129	170,612	127,007	312,734	104,629
Other				1,552,959	622,045	235,635	1,939,368	305,781
Total Capital Leases				\$3,873,108	\$1,934,071	\$1,241,974	\$4,565,205	\$1,269,930
Other Long-term Liabilities								
- Accrued leave liabilities				15,889,793	837,080		16,726,873	1,851,751
- Deposits refundable				87,817		\$667	87,150	
Total Other liabilities				\$15,977,610	\$837,080	\$667	\$16,814,023	\$1,851,751
Federal portion of NDSL				0	14,627,723		14,627,723	
Total				\$84,125,718	\$17,398,874	\$3,812,641	\$97,711,951	\$5,636,681
Due within one year							\$5,636,681	
Total long-term liabilities							\$92,075,270	

Note 7 – Long term Liabilities (Continued)

<u>Fiscal Year</u>	<u>Bonded Debt</u>	<u>Capital Leases</u>	<u>Interest</u>	<u>Total</u>
2004	2,515,000	1,269,930	3,115,081	6,900,010
2005	2,640,000	1,127,212	2,950,826	6,718,038
2006	2,765,000	688,591	2,789,005	6,242,596
2007	2,900,000	1,386,183	2,640,761	6,926,944
2008	3,035,000	93,290	2,493,476	5,621,766
2009 - 2013	15,670,000		10,199,013	25,869,013
2014 - 2018	16,875,000		5,807,416	22,682,416
2019 - 2023	11,605,000		2,386,025	13,991,025
2024-2027	3,700,000		210,000	3,910,000
Totals	<u>\$61,705,000</u>	<u>\$4,565,205</u>	<u>\$32,591,602</u>	<u>\$98,861,807</u>

Note 8 - Operating Leases

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

<u>Year Ending June 30, 2003</u>	<u>Amount</u>
2004	\$2,345,598
2005	2,345,598
2006	2,345,598
2007	2,345,598
2008	2,345,598
Total Minimum Payments Required	<u><u>\$11,727,988</u></u>

The total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the fiscal year ending June 30, 2003, was \$2,345,598.

Note 9 - Natural Classifications with Functional Classifications

The universities operating expenses by functional classification were as follows for the year ended June 30, 2003:

Year Ended June 30, 2003									
Natural Classification									
Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	43,756,273	11,861,269	1,337,897	4,206,353	104,762	859,139	1,761,704		\$63,887,397
Research	67,103,895	17,099,655	3,295,857	39,469,071	2,079,521	279,996	14,192,865		143,520,861
Public Service	35,987,240	9,281,372	2,628,590	7,654,914	424,885	64,943	2,945,631		58,987,575
Academic Support	13,103,298	2,968,791	238,359	2,514,034	5,656	3,923	2,771,100		21,605,162
Student Services	5,092,783	1,281,499	149,337	903,868	10,077	15,671	592,720		8,045,956
Institutional Support	17,385,928	4,197,449	218,709	3,100,352	77,615	167,660	10,223,981		35,371,693
Operation of Plant	8,347,954	2,211,278	28,070	0	6,737,625	0	1,516,987		18,841,914
Student Aid	1,083,651	1,415,109	8,218	145,560	0	11,772,657	46,282		14,471,478
Auxiliary Enterprises	12,838,926	2,915,779	1,808,214	8,072,477	1,688,250	3,918,517	4,989,642		36,231,804
Depreciation								19,481,970	19,481,970
Total Operating Expenses	\$204,699,949	\$53,232,202	\$9,713,251	\$66,066,628	\$11,128,392	\$17,082,505	\$39,040,912	19,481,970	\$420,445,809

Note 10 - Construction Commitments and Financing

The university has contracted for various construction projects as of June 30, 2003. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

	Total Costs to Complete	Funded by Federal Sources	State Sources	Institutional Funds	Other
105-261 McCain Hall Renovation	\$6,346,513	\$925,000	\$4,286,409	\$1,135,104	
105-267 Montgomery Hall Renovation	5,190,000		5,190,000		
105-271 Landscape Architecture Building	3,657,924		3,657,924		
105-272 Blackjack Road Improvements	1,883,659		1,883,659		
105-276 Bowen Hall Renovations	3,565,216		3,565,216		
105-277 YMCA Building Renovation	2,000,000		2,000,000		
105-278 Lee Hall Renovation - Phase II	750,000		750,000		
105-279 Communications/Hilbun	49,687				49,687
105-282 Communications/Landscape Architecture Bldg	75,000		75,000		
105-284 Capital Street Building Renovation	2,645,540		1,706,000	939,540	
105-285 Colvard Student Union Preplanning	15,000,000		15,000,000		
105-290 F&E Hilbun Hall Reno/Data Network	179,845		179,845		
105-291 Montgomery Hall Communications	80,000		80,000		
105-286 Hand Chemical Lab - Phase II	3,500,000		3,500,000		
105-293 Hand Chem Lab - Phase III	6,000,000		6,000,000		
105-294 Simulation Design Center	12,000,000		12,000,000		
North Entrance Landscape Improvements	450,000		450,000		
EBC2001 - Cresswell & Hathorn Renovation	7,648,731			7,648,731	
Marks Rothenburg Blding & Opera House - Meridian	19,000,000	3,000,000			16,000,000
Backflow Preventors	213,094			213,094	
Roads and Parking Lots	203,840			203,840	
113-079 Gulf Coast Research & Extension Building	3,747,653		3,747,653		
113-089 South Farm Water System Renovation	271,000		271,000		
113-085 Scales Equine Facility Renovation	130,996		130,996		
113-086 Biomedical Research Facility Renovation	429,237		429,237		
113-087 Veterinary Diagnostic Lab (Poultry)	500,000		500,000		
113-088 Open Air Arena-Equine/Animal	260,000		210,000	50,000	
113-094 Stoneville Multi-Purpose Building	3,000,000	800,000	1,200,000	1,000,000	
113-096 Bio-Tech Life Sciences Lab Reno(Dorman)	950,000		950,000		
113-097 Pace Seed Technology Building Reno	3,000,000		3,000,000		
113-099 MS Veterinary Diagnostic Lab (Phase I)	12,195,319		12,195,319		
113-082 Furniture Research Building	4,724,422		3,000,000	628,526	1,095,896
213-131 Delta Research and Extension Center Reno	590,693		590,693		
Sensory Evaluation Laboratory	675,394			569,029	106,365
TIMTEK	450,000				450,000
Total	\$121,363,763	\$4,725,000	\$86,548,951	\$12,387,864	\$17,701,948

Note 11 - Pension Plan

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

Funding Policy – PERS members are required to contribute 7.25% of their annual salary and the institution is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the State of Mississippi Legislature. The institutions contributions to PERS for the years ending June 30, 2003, 2002 and 2001 were \$17,446,455, \$17,190,974, and \$16,752,179, respectively, equal to the required contributions for each year.

Note 12 - Donor Restricted Endowments

The net appreciation on investments of donor restricted endowments that is available for authorization for expenditure is \$2,268,902. This amount is included on the Statement of Net Assets as Restricted Expendable.

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

Note 13 – Federal Direct Lending and FFEL Programs

The University distributed \$47,895,261 for the year ended June 30, 2003, for student loans through the U. S. Department of Education lending programs. These distributions and their related funding sources are included as "Non-Capital Financing: distributions in the Cash Flows Statement.

Note 14 - Foundations and Affiliated Parties.

The various institutions comprising the State of Mississippi Institutions of Higher Learning are each affiliated with one or more foundations, which are independent corporations formed for the purpose of receiving funds for the sole benefit of the respective institutions. These foundation and affiliated parties are separately audited and have not been included in these financial statements.