

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS.....	2
ANNUAL FINANCIAL STATEMENTS (UNAUDITED)	
Statement of Net Assets.....	13
Statement of Revenues, Expenses and Changes in Net Assets.....	15
Statement of Cash Flows	17
Notes to Financial Statements.....	20

**MISSISSIPPI STATE UNIVERSITY
YEAR ENDED JUNE 30, 2004**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Mississippi State University (referred to as the University) presents its financial statements for June 30, 2004 (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 16,226 with the main campus in Starkville, Mississippi, and off-campus locations at Meridian and Vicksburg. Mississippi State University is a land-grant institution with strong ties to the U.S. Department of Agriculture and has County Extension Offices in eighty-two counties and eight Branch Experiment Stations.

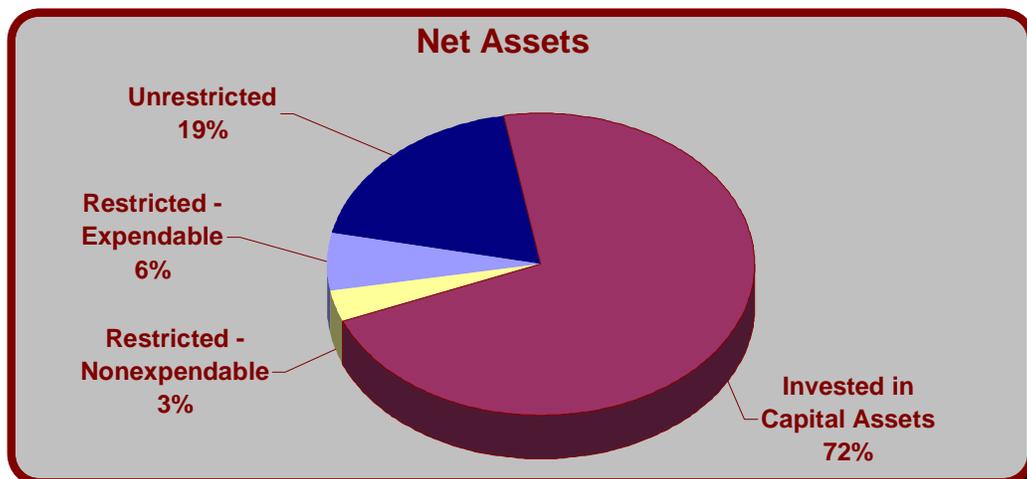
The following discussion and analysis of the University's financial statements provide an overview of its financial activities for the year ending June 2004. Fiscal year 2003 data is presented for comparative purposes. The statements are composed of the statement of net assets, statement of revenues, 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 2004</u>	<u>FY 2003</u>
Assets:		
Current Assets	\$94,884,323	\$95,166,978
Capital Assets Net	421,713,761	394,558,223
Other Noncurrent Assets	98,687,628	82,889,464
Total Assets	<u>\$615,285,712</u>	<u>\$572,614,665</u>
Liabilities:		
Current Liabilities	31,987,382	30,714,373
Noncurrent Liabilities	106,347,768	92,075,271
Total Liabilities	<u>\$138,335,150</u>	<u>\$122,789,644</u>
Net Assets:		
Invested in Capital Assets (net of related debt)	341,858,642	328,288,019
Restricted-Nonexpendable Scholarships	11,151,833	9,865,306
Restricted-Nonexpendable Research	4,500,000	4,558,233
Restricted-Nonexpendable Other Purposes	239,789	239,789
Restricted-Expendable Scholarships	2,409,376	1,923,928
Restricted-Expendable Research	13,244,412	10,749,467
Restricted-Expendable Loans	3,746,247	3,702,768
Restricted-Expendable Capital Projects	7,838,029	2,767,046
Restricted-Expendable Debt Service	1,389,238	754,975
Unrestricted	90,572,995	86,975,490
Total Net Assets	<u>\$476,950,562</u>	<u>\$449,825,021</u>



The total assets of the institution increased by \$42,671,047. This was due primarily to an increase in capital assets net of accumulated depreciation in the amount of \$27,155,538. Current assets of the university decreased by \$282,655. This decrease was due to reductions in cash and cash equivalents of \$1,157,109, short term investments of \$474,523, and account receivables net of allowance of \$1,269,422. Student notes receivables increased by \$202,923, inventories increased by \$244,278 and prepaid expenses increased by \$2,171,198.

Total liabilities of the institution increased by \$15,545,506. This was due primarily to the issuance of Educational Building Corporation revenue bonds in the amount of \$17,000,000. Current liabilities increased by \$1,273,009 mainly due to an increase in deferred revenues of \$1,870,542.

Total net assets of the institution increased by \$27,125,541. Invested in capital assets net of related debt increased by \$13,570,623. Unrestricted net assets increased by \$3,597,505. Restricted nonexpendable net assets increased by \$1,228,294. Restricted expendable assets increased by \$8,729,118.

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.

	FY 2004	FY 2003
Operating Revenues	\$284,142,942	\$283,086,217
Operating Expenses	438,847,165	420,445,809
Operating Loss	<u>(154,704,223)</u>	<u>(137,359,592)</u>
Nonoperating Revenues and Expenses	<u>161,434,717</u>	<u>150,798,519</u>
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	6,730,494	13,438,927
Other Revenues, Expenses, Gains or Losses	<u>20,395,047</u>	<u>12,574,110</u>
Increase in Net Assets	27,125,541	26,013,037

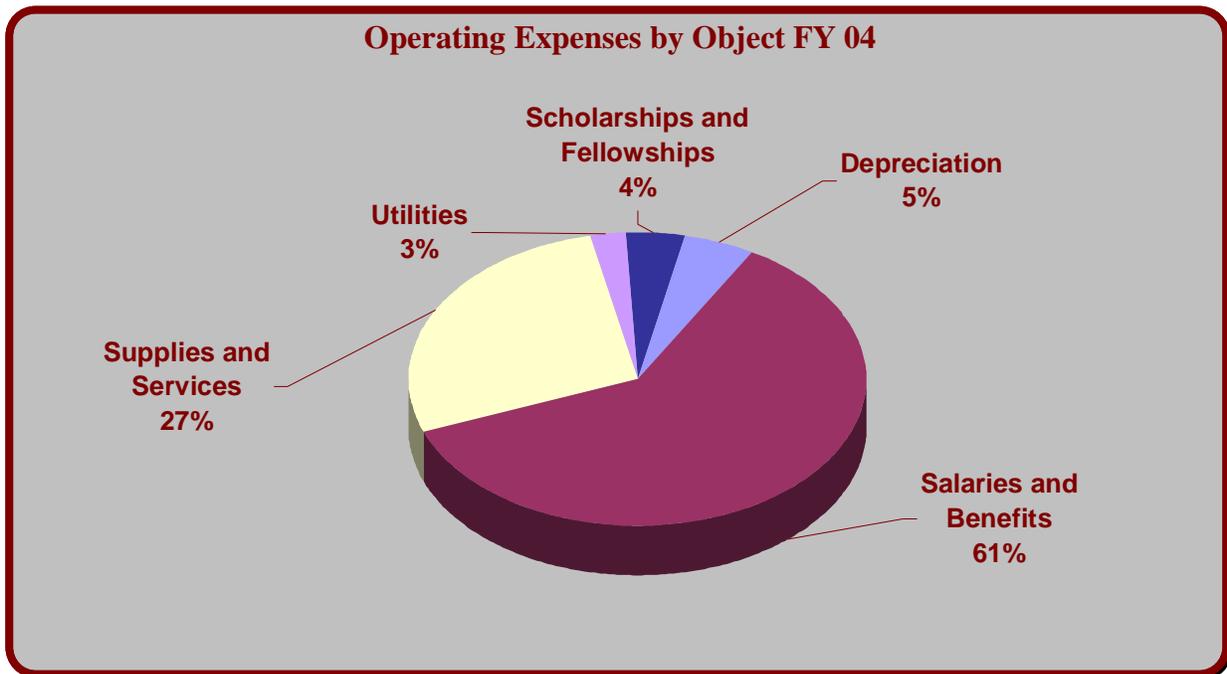
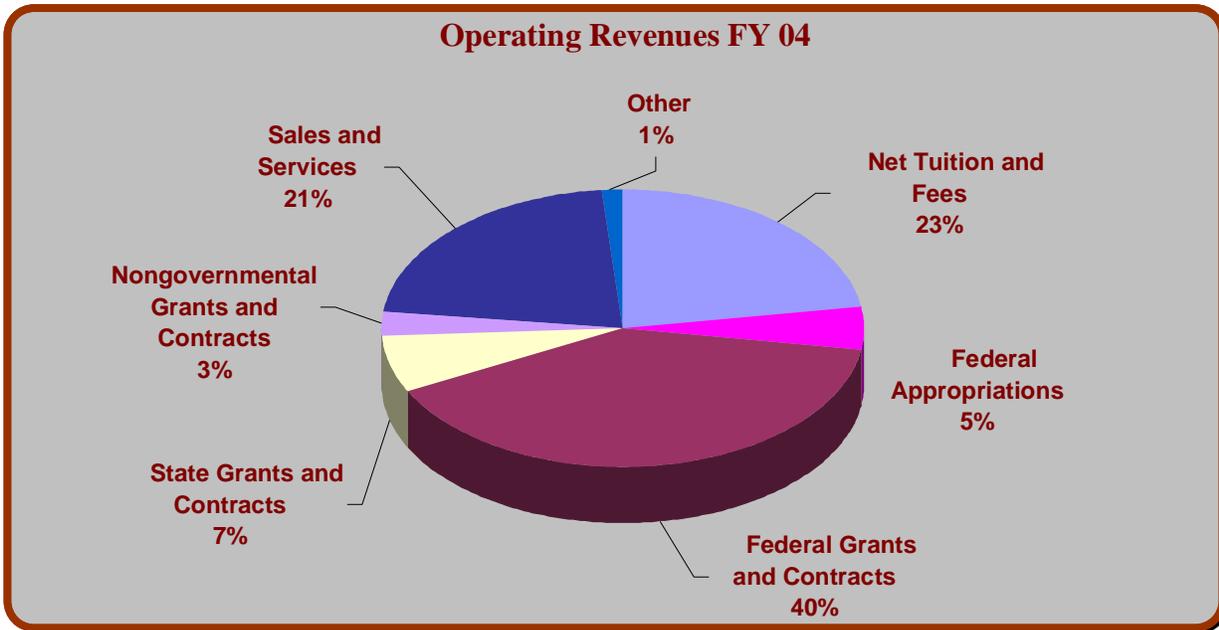
Statement of Revenues, Expenses and Changes in Net Assets (Continued)

Net Assets at Beginning of Year, as Originally Reported	449,825,021	437,915,784
Cumulative Effect of Changes in Accounting Principle		(14,103,800)
	<u>449,825,021</u>	<u>423,811,984</u>
Net Assets at Beginning of Year-Restated		
	<u>449,825,021</u>	<u>423,811,984</u>
Net Assets at End of Year	<u>\$476,950,562</u>	<u>\$449,825,021</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 \$27,125,541. The following overview discusses variances that exceed 5% from FY 2003 totals:

- **Federal Appropriations 14.0% Increase**– Federal Smith-Lever 3(b) & (c) show an increase of \$1,161,679. Other Federal Appropriations which show a material increase are Penalty Mail in the amount of \$259,130 and Retirement of \$389,633. These funds are drawn based on expenditures which also increased by this same amount.
- **State Grants and Contracts 15.6% Increase**- Majority of increase due to grants received from the Mississippi Development Authority/Nissan and the Mississippi Department of Education.
- **Sales and Services of Educational Departments 7.2% increase** – College of Veterinary Medicine's General Fund shows an increase of 17% due to additional fees realized for laboratory testing. On Campus service centers' sales increased by 40% primarily due to interdepartmental revenue realized by the Electrical and Computer Engineering MCASP Operations designated fund. Mississippi Agricultural and Forestry Experiment Station designated funds' sales increased by 18% due to additional revenue realized from sales of farm products and livestock.
- **Interest Earned on Loans to Students (22.9% Decrease)** – Interest income on National Direct Student Loans decreased by \$81,301 compared to FY 2003.
- **Other Operating Revenues (40.1% Decrease)** – Variance due to one time revenue realized in FY 2003 for storm damage reimbursement.
- **Travel 11.4% Increase** – Most categories of travel increased over FY 2003 with the largest increases realized for in-state official travel and out-of-state group travel.

- **Contractual Services 7.6% Increase** – Majority of increase realized in additional expenditures in unexpended plant funds.
- **Scholarships and Fellowships 7.3% Increase**– Majority of increase realized in restricted expendable scholarship funds. Also the scholarship allowance for FY 2004 decreased by \$501,691.
- **Depreciation Expense 11.2 % Increase** – Increase due to net addition of capital assets during FY 2004 in the amount of \$22,402,827.
- **Non-operating Revenue Gifts and Grants 26.3% Increase** – Majority of increase due to gifts from alumni and land additions of \$1,364,337.
- **Investment Income, net of investment expense (20.8% Decrease)** - Unrealized loss on investments exceeded unrealized gains for FY 2004 by \$1,368,019.
- **Other Non-operating Revenues 211.5% Increase** – Variance due to the sale of land in the amount of \$61,275 by the Mississippi Agricultural and Forestry Experiment Station and an increase in Outstanding Check Allocated balance of \$30,033. This accounts for a majority of this increase for FY2004.
- **Other non-operating expenses (49.3% Decrease)** – Variance due to FY 2003 unrealized loss on valuation of \$662,307 on notes receivable not applicable in FY 2004.
- **Capital Grants and Gifts 586.2% Increase** - Due to federal capital grants recognized for Stoneville Multi-purpose building, Social Science Research Center, Delta Health Initiative Renovation, Grand Opera House restoration and Environmental Health Research Lab renovation.
- **State Appropriations Restricted for Capital Purposes 31.4% increase** – Variance primarily due to increase in Bureau of Buildings funding for Hand Chemical Lab Phase III, Furniture Research Building, Stone Multi-purpose building and the Veterinary Diagnostic Lab.
- **Other Deletions (56.2% Decrease)** – This category reflects the difference between the cost of an asset and the accumulated depreciation on the asset at the time of disposal. The most significant difference was realized in On Campus operations in the amount of \$1,457,101.
- **Cumulative Effect of Changes in Accounting Principle** – Beginning in FY03 the University reclassified the federal portion of the Perkins Loan Program fund balance as a non-current liability. Per the Institutions of Higher Learning memo dated July 30, 2003 the agreed upon portion was 85% of the year-end fund balance. The treatment of these funds for FY04 remains unchanged. As of June 30, 2004 this liability was valued at \$14,886,551.



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.

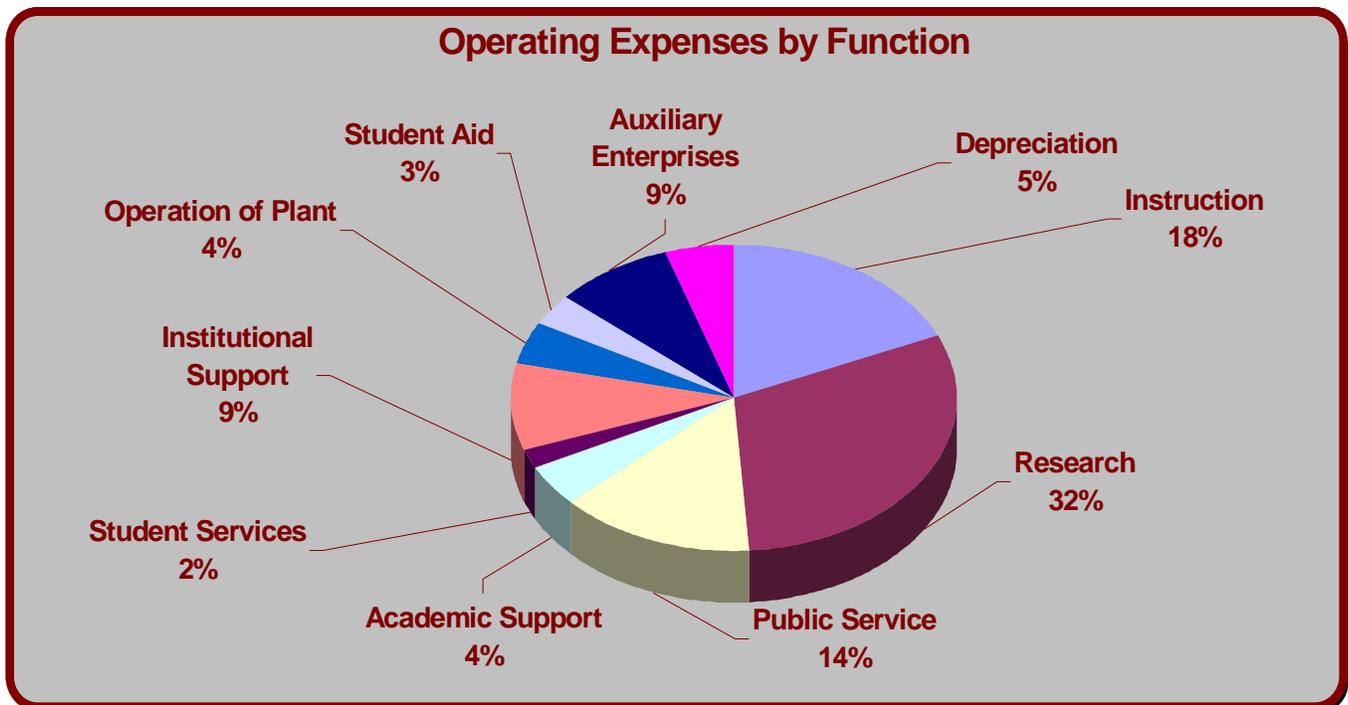
	<u>FY 2004</u>	<u>FY 2003</u>
Cash provided (used) by:		
Operating activities	(\$129,048,530)	(\$115,034,480)
Noncapital financing activities	165,200,019	152,620,887
Capital financing activities	(31,460,787)	(34,091,592)
Investing activities	(5,847,811)	2,240,109
Net change in cash	<u>(1,157,109)</u>	<u>5,734,924</u>
Cash, beginning of year	<u>46,390,252</u>	<u>40,655,328</u>
Cash, end of year	<u>\$45,233,143</u>	<u>\$46,390,252</u>

The primary cash receipts from operating activities for fiscal year 2004 consist of tuition and fees in the amount of \$63,491,772 and grants and contracts in the amount of \$144,182,725. Cash outlays include payments to employees in the amount of \$262,718,590 and payments to suppliers in the amount of \$121,803,304. State appropriations are the primary source of non-capital financing in the amount of \$145,181,422. The new accounting standards require that we present this source of revenue as non-operating.

Functional Classification of Operating Expenses

**Year Ended June 30, 2004
Natural Classification**

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	57,496,558	14,952,550	1,280,115	4,053,666	109,196	810,242	1,189,979		79,892,306
Research	60,607,118	15,728,172	3,557,673	36,711,573	2,204,131	595,465	15,558,263		134,962,396
Public Service	37,092,747	9,652,786	2,994,428	9,076,763	437,783	98,333	3,014,127		62,366,967
Academic Support	10,677,651	2,490,419	328,365	2,800,656	12,604	3,311	2,580,699		18,893,705
Student Services	5,884,985	1,359,477	173,551	1,236,063	22,333	9,775	491,160		9,177,342
Institutional Support	16,828,795	2,839,891	203,015	8,488,068	162,103	166,123	10,825,314		39,513,309
Operation of Plant	9,843,517	2,413,389	42,074		6,666,881		765,853		19,731,714
Student Aid	1,011,196	1,412,094	13,106	95,709		12,557,795	43,818		15,133,718
Auxiliary Enterprises	13,827,437	3,121,827	2,232,671	8,619,850	1,554,097	4,103,208	4,056,598		37,515,688
Depreciation								21,660,021	21,660,021
Total Operating Expenses	213,270,003	53,970,604	10,824,997	71,082,349	11,169,128	18,344,251	38,525,812	21,660,021	438,847,165



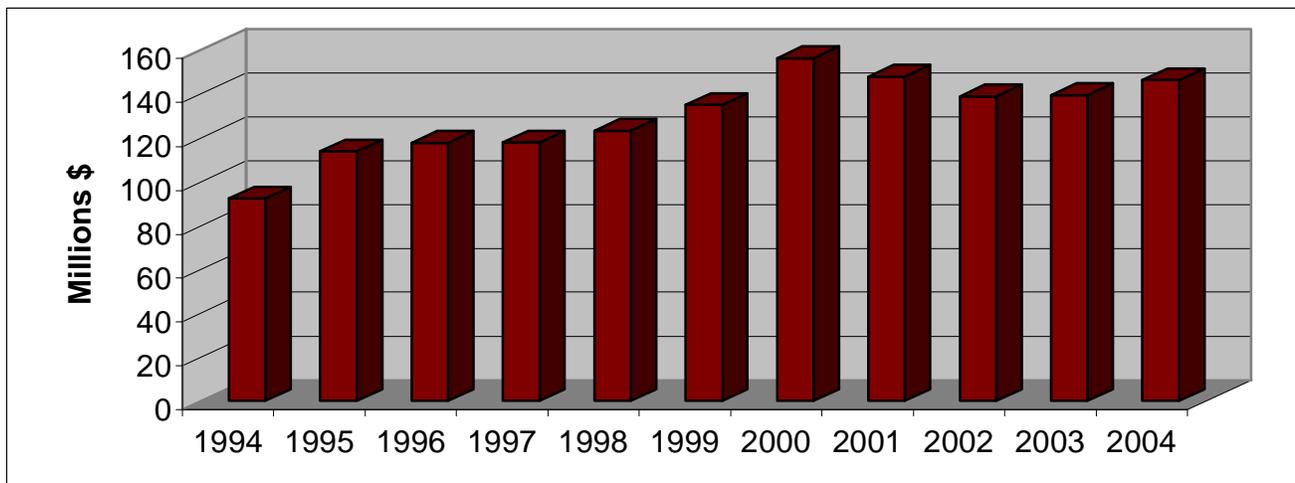
Capital Asset and Debt Administration

The university's most significant capital asset additions in fiscal year 2004 were the renovations of Hathorn and Cresswell halls. These projects were funded by the 2001 MSU Educational Building Corporation.

In FY 2004 the university issued revenue bonds through the MSU Educational Building Corporation in the amount of \$17,000,000 for construction of a power generation plant.

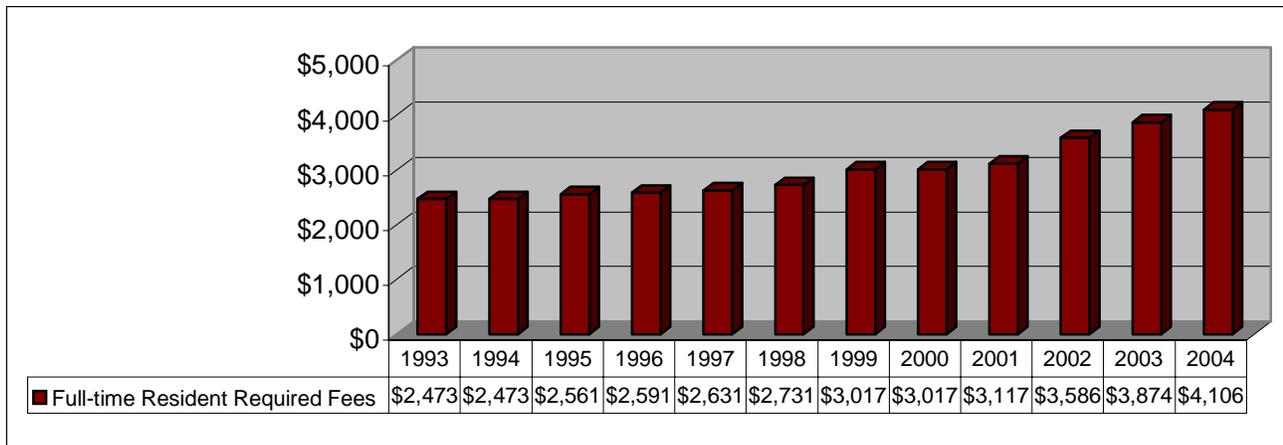
Trends

Total State Appropriations:

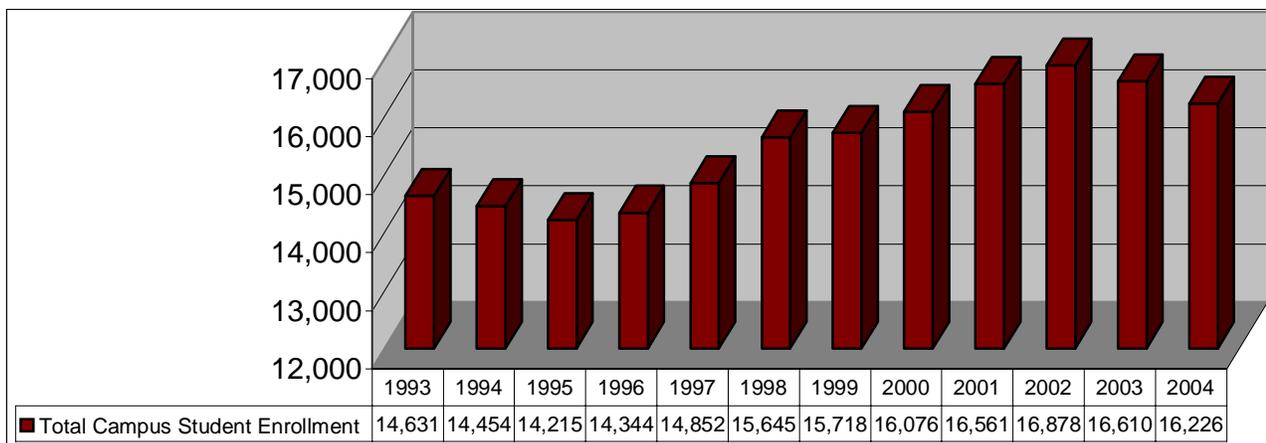


Trends (continued)

Full-time Resident Tuition and Required Fees:



Total Campus Student Enrollment:



Economic Outlook

The year ending June 30, 2004, brought significant leadership changes at the university. The positions of Vice President for Finance and Administration, Vice President for Student Affairs, and Vice President for Research and Graduate Studies were filled during the year. With these appointments, all of the top leadership positions at the university are now filled on a permanent basis. The executive team comprises a healthy mix of veteran MSU administrators and newcomers who provide a combination of institutional memory and fresh perspectives.

The president has articulated a short list of goals for the next year, including:

- More predictability in enrollments
- Increased commercialization of research
- Expanded industrial outreach
- Development and implementation of a master plan for financing major transformations of streets and parking
- Expanded contributions to community development
- Increased focus on closing the university's perception/reputation gap
- Accelerated fund raising during the public phase of the capital campaign

The planning process at the university has been enhanced. The provost is leading an effort to update and clarify "Leadership for the 21st Century: Mississippi State Priorities and Goals," and the second year of performance-based budgeting will be in place for all campus units in FY 2005.

The institution ended the year with current unrestricted and restricted fund balances increasing as appropriate. Tuition rates were increased by six percent, effective for Fall 2004 (FY 2005). The first new residence hall constructed in over 30 years was initiated and will be completed for Fall 2005.

Mississippi State faces economic uncertainty from the state legislative appropriation process, but we are committed to a long-term financial plan that will sustain the university, allow it to grow, and support the institution's missions of teaching, research, and outreach.

C. Ray Hayes
Vice President for Finance and Administration

**MISSISSIPPI STATE UNIVERSITY
STATEMENT OF NET ASSETS**

	June 30,	
	2004	2003
Assets		
Current Assets:		
Cash and Cash Equivalents	\$45,233,143	\$46,390,252
Short Term Investments (note #3)	7,668,184	8,142,707
Accounts Receivables, Net (note #4)	31,428,068	32,697,490
Student Notes Receivables (note #5)	3,504,852	3,301,929
Inventories	2,995,848	2,751,570
Prepaid Expenses	4,054,228	1,883,030
Total Current assets	\$94,884,323	\$95,166,978
Non-Current Assets:		
Endowment Investments (note #3)	17,831,176	16,679,765
Other Long Term Investments (note #3)	67,254,570	48,365,049
Student Notes Receivable, net (note #5)	13,601,882	13,006,390
Capital Assets, Net of Accumulated Depreciation (note #6)	421,713,761	394,558,223
Other Noncurrent Assets		4,838,260
Total Non-Current assets	\$520,401,389	\$477,447,687
Total Assets	\$615,285,712	\$572,614,665
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	19,666,147	20,514,443
Deferred Revenues	6,266,368	4,395,826
Accrued Leave Liabilities - Current Portion (note #7)	1,781,553	1,851,751
Long Term Liabilities - Current Portion (note #7)	4,101,106	3,784,930
Other Current Liabilities	172,208	167,423
Total Current liabilities	\$31,987,382	\$30,714,373

**MISSISSIPPI STATE UNIVERSITY
STATEMENT OF NET ASSETS**

(Continued)

	2004	2003
Non-Current Liabilities:		
Deposits Refundable (note #7)	87,361	87,150
Accrued Leave Liabilities (note #7)	15,619,844	14,875,123
Long Term Liabilities (note #7)	75,754,012	62,485,275
Other Non-Current Liabilities (note #7)	14,886,551	14,627,723
Total Non-Current liabilities	\$106,347,768	\$92,075,271
Total Liabilities	\$138,335,150	\$122,789,644
Net Assets:		
Invested in Capital Assets, Net of Related Debt	341,858,642	328,288,019
Restricted for:		
Nonexpendable -		
Scholarships and Fellowships	11,151,833	9,865,306
Research	4,500,000	4,558,233
Other Purposes	239,789	239,789
Expendable -		
Scholarships and Fellowships	2,409,376	1,923,928
Research	13,244,412	10,749,467
Capital Projects	7,838,029	2,767,046
Debt Service	1,389,238	754,975
Loans	3,746,247	3,702,768
Unrestricted	90,572,995	86,975,490
Total Net Assets	\$476,950,562	\$449,825,021
Supplemental Information		
-- Academic Programs & Research	16,687,285	17,100,206
-- Capital projects	10,497,282	14,863,080
-- Repairs and maintenance	6,763,642	3,080,836
-- Remaining purposes	56,624,785	51,931,368
	\$90,572,995	\$86,975,490

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

	June 30,	
	2004	2003
Operating Revenues:		
Tuition and Fees	\$84,421,028	\$85,718,792
Less: Scholarship Allowances	(20,259,976)	(20,762,168)
Net Tuition and Fees	64,161,052	64,956,624
Federal Appropriations	14,066,727	12,339,489
Federal Grants and Contracts	113,428,708	113,913,977
State Grants and Contracts	19,273,087	16,668,855
Nongovernmental Grants and Contracts	7,988,097	8,380,194
Sales and Services of Educational Departments	22,716,751	21,194,392
Auxiliary Enterprises:		
Student Housing	8,918,137	9,363,335
Food Services	5,387,708	5,260,278
Bookstore		
Athletics	16,505,193	16,282,121
Other Auxiliary revenues	7,510,647	7,839,029
Interest Earned on Loans to Students	274,103	355,404
Other Operating Revenues	3,912,732	6,532,519
Total Operating Revenues	\$284,142,942	\$283,086,217
Operating Expenses:		
Salaries and Wages	213,270,003	204,699,949
Fringe Benefits	53,970,604	53,232,202
Travel	10,824,997	9,713,251
Contractual Services	71,082,349	66,066,628
Utilities	11,169,128	11,128,392
Scholarships and Fellowships	18,344,251	17,082,505
Commodities	38,525,812	39,040,912
Depreciation Expense	21,660,021	19,481,970
Total Operating Expenses	\$438,847,165	\$420,445,809
Operating Income (Loss)	(\$154,704,223)	(\$137,359,592)

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

	June 30,	
(continued)	2004	2003
Nonoperating Revenues (Expenses):		
State Appropriations	\$146,152,071	\$139,378,818
Gifts and Grants	17,471,361	13,835,773
Investment Income, Net of Investment Expense	1,552,501	2,305,767
Interest Expense on Capital Asset---Related Debt	(3,088,317)	(3,247,113)
Other Nonoperating Revenues	128,736	41,332
Other Nonoperating Expenses	(781,635)	(1,516,058)
Total Net Nonoperating Revenues (Expenses)	\$161,434,717	\$150,798,519
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	6,730,494	13,438,927
Capital Grants and Gifts	2,439,235	355,448
State Appropriations Restricted for Capital Purposes	18,903,986	14,385,901
Other Deletions	(948,174)	(2,167,239)
Net Increase in Net Assets	\$27,125,541	\$26,013,037
Net Assets		
Net Assets - Beginning of Year, as Originally Reported	449,825,021	437,915,784
Cumulative Effects of Changes in Accounting Principle		(14,103,800)
Net Assets - Beginning of Year, as Restated	\$449,825,021	\$423,811,984
Net Assets - End of Year	\$476,950,562	\$449,825,021

**MISSISSIPPI STATE UNIVERSITY
STATEMENT OF CASH FLOWS**

	June 30,	
	2004	2003
Cash Flows from Operating Activities:		
Tuition and Fees	\$63,491,772	\$65,100,152
Grants and Contracts	144,182,725	141,263,676
Sales and Services of Educational Departments	23,638,814	17,482,482
Payments to Suppliers	(121,803,304)	(115,043,668)
Payments to Employees for Salaries and Benefits	(262,718,590)	(258,600,301)
Payments for Utilities	(11,169,128)	(11,128,392)
Payments for Scholarships and Fellowships	(18,344,251)	(17,073,101)
Loans Issued to Students and Employees	(6,742,714)	(7,434,924)
Collection of Loans to Students and Employees	5,944,299	6,883,698
Auxiliary Enterprise Charges:		
Student Housing	8,998,304	9,363,335
Food Services	5,383,091	5,249,257
Bookstore		
Athletics	16,411,752	24,206,724
Other Auxiliary Enterprises	7,511,602	7,838,836
Other Receipts	16,167,098	16,857,746
Net Cash Provided (Used) by Operating Activities	(\$129,048,530)	(\$115,034,480)
Cash Flows from NonCapital Financing Activities:		
State Appropriations	145,181,422	139,378,818
Gifts and Grants for Other Than Capital Purposes	20,394,245	13,452,313
Federal Loan Program Receipts	50,540,675	47,835,530
Federal Loan Program Disbursements	(50,630,556)	(47,895,261)
Other Sources	4,784	
Other Uses	(290,550)	(150,513)
Net Cash Provided by Noncapital Financing Activities	\$165,200,019	\$152,620,887

**MISSISSIPPI STATE UNIVERSITY
STATEMENT OF CASH FLOWS**

	June 30,	
	2004	2003
<u>(continued)</u>		
Cash Flows from Capital Financing Activities:		
Proceeds from Capital Debt	17,000,000	71,243
Cash Paid for Capital Assets	(31,644,182)	(22,386,429)
Capital Grants and Contracts Received	2,439,235	355,448
Proceeds from Sales of Capital Assets	124,181	284,711
Principal Paid on Capital Debt and Leases	(3,828,094)	(3,811,973)
Interest Paid on Capital Debt and Leases	(3,088,317)	(3,247,113)
Other Uses	(12,463,611)	(5,357,479)
Net Cash Used by Capital and Related Financing Activities	(\$31,460,787)	(\$34,091,592)
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investments	20,765,515	32,536,453
Interest Received on Investments	2,854,467	2,550,099
Purchases of Investments	(29,467,793)	(32,846,443)
Net Cash Provided by Investing Activities	(\$5,847,811)	\$2,240,109
Net Increase (Decrease) in Cash and Cash Equivalents	(1,157,109)	5,734,924
Cash and Cash Equivalents - Beginning of the Year	46,390,252	40,655,328
Cash and Cash Equivalents - End of the Year	\$45,233,143	\$46,390,252

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

	June 30,	
	2004	2003
Operating Income (Loss)	(\$154,704,223)	(\$137,359,592)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	21,660,021	19,481,970
Other	1,919,362	
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables, Net	2,932,706	6,926,569
Inventories	(244,278)	455,660
Prepaid Expenses	(1,603,145)	(708,227)
Other Assets	(117,810)	(293,546)
Increase (Decrease) in Liabilities:		
Accounts Payables and Accrued Liabilities	590,844	(2,638,343)
Deferred Revenues	1,121,152	(103,223)
Accrued Leave Liability	(674,524)	(837,080)
Other Liabilities	71,365	41,332
Total Adjustments:	25,655,693	22,325,112
Net Cash Provided (Used) by Operating Activities:	(\$129,048,530)	(\$115,034,480)

NON-CASH TRANSACTIONS

1.) Equipment	\$300,978	\$1,934,070
Capital Lease	(300,978)	(1,934,070)
2.) Construction in Progress	18,903,986	14,385,901
Bureau of Buildings Appropriations	(18,903,986)	(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 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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 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 \$90,572,995 at June 30, 2004 includes \$16,687,285 reserved for academic programs and research, \$10,497,282 reserved for capital projects, \$6,763,642 reserved for repairs and maintenance, with \$56,624,785 remaining for other purposes.

Note 2 – Change in Accounting Principle

For the year ended June 30, 2004 there were no changes in accounting principle.

Note 3 - Cash and Investments

Policies:

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

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

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

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

The following table presents the fair value of investments by type at June 30, 2004:

Investment Type	Fair Value
U.S. Government Agency Obligations	\$76,970,659
Repurchase Agreements	
U.S. Treasury Obligations	
Certificates of Deposit	1,597,554
Corporate Bonds	626,468
Commercial Mortgage Backed Securities	452,489
Collateralized Mortgage Obligations	1,398,854
Municipal Bonds	161,378
Mutual Funds	6,254,121
Asset Backed Securities	
Equity Securities	5,052,619
International Obligations	
Landgrant	239,789
Total	<u>\$92,753,931</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, 2004, 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	\$75,772,804	\$6,070,630	\$50,027,217	\$14,443,808	\$5,231,149
Repurchase Agreements					
U.S. Treasury Obligations					
Corporate Bonds					
Commercial Mortgage Backed Securities					
Collateralized Mortgage Obligations	1,398,854				1,398,854
Municipal Bonds	161,378			161,378	
Asset Backed Securities					
International Obligations					
Certificates of Deposit	1,597,554	1,597,554			
Total	\$78,930,590	\$7,668,184	\$50,027,217	\$14,605,186	\$6,630,003

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, 2004, the institution had the following investment Credit Risk:

	Fair Value
A+	\$161,378
AAA	75,772,805
Not Rated	16,819,748
Total	\$92,753,931

Index: S&P

Mississippi State University

Notes to Financial Statements
June 30, 2004

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	\$29,139,516	38.46%
FHLMC	19,629,954	25.91%
FNMA	21,627,151	28.54%
FFCB	5,376,182	7.09%
Total	<u>\$75,772,803</u>	

Note 4 - Accounts Receivable

Accounts receivable consisted of the following at June 30, 2004:

	<u>June 30, 2004</u>
Student tuition	\$8,909,531
Auxiliary enterprises and other operating activities	1,707,478
Contributions and gifts	2,426,465
Federal, state, and private grants and contracts	18,928,820
State Appropriations	2,354,819
Accrued Interest	486,653
Total Accounts receivable	<u>34,813,765</u>
Less allowance for doubtful accounts	3,385,697
Net Accounts receivable	<u>\$31,428,068</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, 2004:

	<u>Interest Rates</u>	<u>June 30, 2004</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Perkins student loans	3% to 9%	\$17,892,421	\$3,200,000	\$14,692,421
Institutional loans	0% to 9%	771,207	304,852	466,355
Total Notes receivable		<u>18,663,628</u>	<u>3,504,852</u>	<u>15,158,776</u>
Less allowance for doubtful accounts		1,556,894		1,556,894
Net Notes receivable		<u><u>\$17,106,734</u></u>	<u><u>\$3,504,852</u></u>	<u><u>\$13,601,882</u></u>

Note 6 - Capital Assets

A summary of changes in capital assets for the year ended June 30, 2004 is presented as follows:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>
Nondepreciable Capital Assets:				
Land	\$10,695,597	\$1,401,837	\$3,904	\$12,093,530
Construction in Progress	41,057,037	33,519,879	13,495,036	61,081,881
Livestock	1,682,424	183,967	62,906	1,803,485
Total Nondepreciable Capital Assets	<u>\$53,435,058</u>	<u>\$35,105,683</u>	<u>\$13,561,846</u>	<u>\$74,978,895</u>
Depreciable Capital Assets:				
Improvements other than Buildings	42,800,642	416,934		43,217,576
Buildings	348,948,130	12,882,546	1,806,314	360,024,362
Equipment	98,663,770	12,431,449	5,842,582	105,252,637
Library Books	55,786,438	4,386,751	65,958	60,107,231
Total Depreciable Capital Assets	<u>\$546,198,980</u>	<u>\$30,117,681</u>	<u>\$7,714,854</u>	<u>\$568,601,806</u>
Less Accumulated Depreciation for:				
Improvements other than Buildings	5,232,256	1,713,415		6,945,671
Buildings	96,385,113	7,020,720	87,796	103,318,037
Equipment	64,606,819	9,459,525	4,715,142	69,351,203
Library Books	38,851,626	3,466,361	65,958	42,252,029
Total Accumulated Depreciation	<u>\$205,075,814</u>	<u>\$21,660,021</u>	<u>\$4,868,896</u>	<u>\$221,866,939</u>
Capital Assets, Net	<u><u>\$394,558,223</u></u>	<u><u>\$43,563,342</u></u>	<u><u>\$16,407,804</u></u>	<u><u>\$421,713,761</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, 2004. 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, 2004, 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, 2003	Additions	Deletions	June 30, 2004	Due Within One Year
Bonded Debt								
Dormitory Revenue System	2,250,000	3.00%	2020	1,350,000		60,000	1,290,000	60,000
Student Apartments	2,038,000	3.00%	2021	1,305,000		50,000	1,255,000	55,000
EBC93 - Revenue Bonds	5,460,000	2.75%-5.00%	2008	2,080,000		305,000	1,775,000	325,000
EBC95 - Revenue Bonds	3,000,000	4.50%-6.15%	2015	2,105,000		130,000	1,975,000	140,000
EBC96 - Revenue Bonds	11,920,000	3.70%-5.00%	2016	9,470,000		470,000	9,000,000	490,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2024	29,135,000		815,000	28,320,000	855,000
EBC01 - Revenue Bonds	16,920,000	4.00%-5.50%	2026	16,260,000		685,000	15,575,000	715,000
EBC04 - Revenue Bonds	17,000,000	2.00%-5.00%	2028	0	17,000,000		17,000,000	245,000
Total Bonded Debt				<u>\$61,705,000</u>	<u>\$17,000,000</u>	<u>\$2,515,000</u>	<u>\$76,190,000</u>	<u>\$2,885,000</u>
Capital Leases								
Farm Equipment				1,074,754		449,050	625,704	411,695
Computer Equipment				1,238,348	5,350	454,073	789,625	356,999
Vehicles				312,734		104,629	208,105	96,435
Other				1,939,368	407,659	305,342	2,041,685	350,978
Total Capital Leases				<u>\$4,565,205</u>	<u>\$413,009</u>	<u>\$1,313,094</u>	<u>\$3,665,120</u>	<u>\$1,216,107</u>
Other Long-term Liabilities								
- Accrued leave liabilities				16,726,873	674,524		17,401,397	1,781,553
- Deposits refundable				87,150	211		87,361	
Total Other liabilities				<u>\$16,814,023</u>	<u>\$674,735</u>	<u>\$0</u>	<u>\$17,488,758</u>	<u>\$1,781,553</u>
Federal portion of NDSL				\$14,627,723	\$258,828		\$14,886,551	
Total				<u>\$97,711,951</u>	<u>\$18,346,572</u>	<u>\$3,828,094</u>	<u>\$112,230,429</u>	<u>\$5,882,660</u>
Due within one year							5,882,660	
Total long-term liabilities							<u>\$106,347,769</u>	

Note 7 – Long-term Liabilities (Continued)

<u>Fiscal Year</u>	<u>Bonded Debt</u>	<u>Capital Leases</u>	<u>Interest</u>	<u>Total</u>
2005	\$2,885,000	\$1,216,107	\$3,681,344	\$7,782,451
2006	3,240,000	780,787	3,453,306	\$7,474,093
2007	3,380,000	1,471,248	3,292,236	\$8,143,484
2008	3,525,000	148,860	3,132,971	\$6,806,831
2009	3,650,000	48,118	2,968,172	\$6,666,290
2010-2014	18,765,000		12,304,726	\$31,069,726
2015-2019	18,720,000		7,340,936	\$26,060,936
2020-2024	15,945,000		3,438,024	\$19,383,024
2025-2029	6,080,000		706,233	\$6,786,233
Totals	<u>\$76,190,000</u>	<u>\$3,665,120</u>	<u>\$40,317,948</u>	<u>\$120,173,068</u>

Note 8 - Operating Leases

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

<u>Year Ending June 30</u>	<u>Amount</u>
2005	\$2,272,824
2006	2,272,824
2007	2,272,824
2008	2,272,824
2009	2,272,824
Total Minimum Payments Required	<u><u>\$11,364,118</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, 2004, was \$2,272,824 .

Note 9 - Natural Classifications with Functional Classifications

The universities operating expenses by functional classification were as follows for the year ended June 30, 2004:

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	57,496,558	14,952,550	1,280,115	4,053,666	109,196	810,242	1,189,979		79,892,306
Research	60,607,118	15,728,172	3,557,673	36,711,573	2,204,131	595,465	15,558,263		134,962,396
Public Service	37,092,747	9,652,786	2,994,428	9,076,763	437,783	98,333	3,014,127		62,366,967
Academic Support	10,677,651	2,490,419	328,365	2,800,656	12,604	3,311	2,580,699		18,893,705
Student Services	5,884,985	1,359,477	173,551	1,236,063	22,333	9,775	491,160		9,177,342
Institutional Support	16,828,795	2,839,891	203,015	8,488,068	162,103	166,123	10,825,314		39,513,309
Operation of Plant	9,843,517	2,413,389	42,074		6,666,881		765,853		19,731,714
Student Aid	1,011,196	1,412,094	13,106	95,709		12,557,795	43,818		15,133,718
Auxiliary Enterprises	13,827,437	3,121,827	2,232,671	8,619,850	1,554,097	4,103,208	4,056,598		37,515,688
Depreciation								21,660,021	21,660,021
Total Operating Expenses	213,270,003	53,970,604	10,824,997	71,082,349	11,169,128	18,344,251	38,525,812	21,660,021	438,847,165

Note 10 - Construction Commitments and Financing

The university has contracted for various construction projects as of June 30, 2004. 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	\$6,388,317	\$925,000	\$4,286,409	\$1,176,908	
105-267 Montgomery Hall Renovation	5,168,264		5,168,264		
105-271 Landscape Architecture Building	3,657,924		3,657,924		
105-272 Blackjack Road Improvements	2,070,368		2,070,368		
105-276 Bowen Hall Renovations	3,785,813		3,785,813		
105-278 Lee Hall Renovation - Phase II	750,000		750,000		
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		
105-286 Hand Chemical Lab - Phase II	7,230,408		7,230,408		
105-291 Montgomery Hall Communications	76,847		76,847		
105-293 Hand Chem Lab - Phase III	7,230,408		7,230,408		
105-294 Simulation Design Center	6,000,000		6,000,000		
105-304 North MS R&E Center Expansion	960,000		960,000		
205-183 North Entrance Landscape Improvements	450,000		450,000		
205-190 Mark Rothenburg Bldg & Opera House - Meridian	19,000,000	3,000,000			16,000,000
205-191 Power Generation Plant	17,000,000			17,000,000	
205-198 McCain Parking Lot	190,860	190,860			
205-199 McCool Hall Additions & Renovations	10,000,000				10,000,000
113-079 Gulf Coast Research & Extension Building	3,747,653		3,747,653		
113-082 Furniture Research Building	4,839,422		3,000,000	743,526	1,095,896
113-085 Scales Equine Facility Renovation	150,000		150,000		
113-086 Biomedical Research Facility Renovation	480,000		450,000	30,000	
113-087 Veterinary Diagnostic Lab (Poultry)	500,000		500,000		
113-089 South Farm Water System Renovation	400,000		271,000	129,000	
113-094 Stoneville Multi-Purpose Building	2,775,000	800,000	1,200,000	775,000	
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)	18,000,000		18,000,000		
113-102 Agricultural & Biological Engineering Bldg	4,750,000		4,750,000		
213-131 Delta Research and Extension Center Reno	590,693		590,693		
Poultry House	150,000			150,000	
Total	<u>\$148,012,517</u>	<u>\$4,915,860</u>	<u>\$95,056,787</u>	<u>\$20,943,974</u>	<u>\$27,095,896</u>

Note 11 - Pension Plan

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

PERS members are required to contribute 7.25% of their annual salary and the institution is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the state of Mississippi legislature. The institution’s contributions to PERS for the years ending June 30, 2004, 2003, and 2002 were \$14,362,646, \$14,003,765, and \$13,989,670, respectively, equal to the required contributions for each year.

House Bill No. 1070, adopted during the 1990 general session of the Mississippi state legislature, established an optional retirement plan (ORP) for teaching and administrative faculty of the state Institutions of Higher Learning who initially were employed on or after July 1, 1990. Contributions to the optional retirement plan are the same as those required for PERS participation, except that the university’s contribution is split between the ORP and the PERS. ORP members are required to contribute 7.25% on total earnings up to a maximum of \$150,000 and the university contributes 7.25% to the ORP and 2.50% to PERS. The university’s and the member’s contributions are portable. The institution’s contributions to the ORP for June 30, 2004, 2003, and 2002 were \$3,843,060, \$3,442,690, and \$3,201,304, 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 \$115,968. 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 \$50,630,556 for the year ended June 30, 2004, for student loans through the U. S. Department of Education lending programs. These distributions and their related funding sources are included as “Non-Capital Financing: distributions in the Cash Flows Statement.

Note 14 - Foundations and Affiliated Parties.

Mississippi State University Foundation (Foundation) is a legally separate, tax-exempt organization supporting Mississippi State University (University). The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The 44-member board of the Foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are 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, 2004, the Foundation made distributions of \$25,030,402 to or on behalf of the University for both restricted and unrestricted purposes. Immediately following this note are the financial statements for the Foundation. Any questions regarding the Foundation statements or requests for additional information may be addressed to the Administrative Office, Hunter Henry Center, P. O. Box 6149, Mississippi State, MS 39762.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

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

We have audited the accompanying statements of financial position of Mississippi State University Foundation, Inc. (the Foundation) as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation at June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 16, 2004, except for
the fifth paragraph of note 6,
which is as of October 4, 2004

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position

June 30, 2004 and 2003

Assets	2004	2003
	<hr/>	<hr/>
Cash	\$ 505,264	964,691
Accrued interest, other receivables and prepaid assets	1,391,303	1,382,149
Due from Alumni Foundation	8,556	4,173
Notes receivable (note 4)	512,947	1,029,041
Pledges receivable, net (note 3)	31,881,138	39,332,568
Investments (note 2)	141,358,419	118,156,634
Present value of amounts due from externally managed trusts	31,497,667	32,507,287
Unamortized bond issuance costs	90,729	102,312
Land, buildings and equipment (note 5)	13,856,720	14,256,560
	<hr/>	<hr/>
Total assets	\$ 221,102,743	207,735,415
	<hr/>	<hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 786,617	1,487,218
Annuities payable	2,856,125	2,509,481
Liability for amounts held for others	5,996,652	5,375,084
Long-term debt (note 6)	7,811,600	8,406,800
Due to Mississippi State University	—	10,743
	<hr/>	<hr/>
Total liabilities	17,450,994	17,789,326
	<hr/>	<hr/>
Net assets:		
Unrestricted	12,914,774	3,802,374
Temporarily restricted (note 7)	49,764,271	53,597,442
Permanently restricted (note 7)	140,972,704	132,546,273
	<hr/>	<hr/>
Total net assets	203,651,749	189,946,089
	<hr/>	<hr/>
Commitments (note 9)		
	<hr/>	<hr/>
Total liabilities and net assets	\$ 221,102,743	207,735,415
	<hr/>	<hr/>

See accompanying notes to financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Statement of Activities
Year ended June 30, 2004

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

See accompanying notes to financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Statement of Activities
Year ended June 30, 2003

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contributions	\$ 4,040,221	19,158,532	7,097,100	30,295,853
Net investment income (loss) (note 2)	(3,649,779)	7,550,893	28,002	3,929,116
Change in value of split interest agreements	—	830,470	4,523,352	5,353,822
Other	1,061,325	97,127	—	1,158,452
Net assets released from restrictions	<u>21,055,854</u>	<u>(20,811,926)</u>	<u>(243,928)</u>	<u>—</u>
Total revenues and support	<u>22,507,621</u>	<u>6,825,096</u>	<u>11,404,526</u>	<u>40,737,243</u>
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	17,017,110	—	—	17,017,110
Contributions and support for Mississippi State University Alumni Association	<u>425,914</u>	<u>—</u>	<u>—</u>	<u>425,914</u>
Total program services	<u>17,443,024</u>	<u>—</u>	<u>—</u>	<u>17,443,024</u>
Supporting services:				
General and administrative	1,810,507	—	—	1,810,507
Fund raising	<u>2,001,620</u>	<u>—</u>	<u>—</u>	<u>2,001,620</u>
Total supporting services	<u>3,812,127</u>	<u>—</u>	<u>—</u>	<u>3,812,127</u>
Total expenditures	<u>21,255,151</u>	<u>—</u>	<u>—</u>	<u>21,255,151</u>
Other change – reclassification of net assets	<u>—</u>	<u>1,815,429</u>	<u>(1,815,429)</u>	<u>—</u>
Increase in net assets	1,252,470	8,640,525	9,589,097	19,482,092
Net assets at beginning of year	<u>2,549,904</u>	<u>44,956,917</u>	<u>122,957,176</u>	<u>170,463,997</u>
Net assets at end of year	<u>\$ 3,802,374</u>	<u>53,597,442</u>	<u>132,546,273</u>	<u>189,946,089</u>

See accompanying notes to financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Increase in net assets	\$ 13,705,660	19,482,092
Adjustments to reconcile increase in net assets to cash provided (used) by operating activities:		
Depreciation and amortization	955,356	514,483
Realized and unrealized gains on investments, net	(12,466,400)	(728,150)
Present value adjustments to annuities	(39,934)	274,854
Fair value of donated assets	(2,253,906)	(2,516,891)
Change in accrued interest, other receivables and prepaid assets	(9,154)	202,217
Change in due from Alumni Foundation	(4,383)	329,029
Change in pledges receivable, net	7,451,430	312,284
Change in externally managed trusts	1,009,620	(14,890,412)
Change in accounts payable and accrued liabilities	(700,601)	(1,361,091)
Change in liability for amounts held for others	621,568	(938,049)
Change in due to Mississippi State University	(10,743)	(159,947)
Permanently restricted investment gain	(330,310)	(28,002)
Permanently restricted contributions	(6,816,642)	(7,097,100)
Net cash provided (used) by operating activities	<u>1,111,561</u>	<u>(6,604,683)</u>
Cash flows from investing activities:		
Purchases of land, buildings, and equipment	(539,133)	(6,470,148)
Purchases of investments	(14,100,000)	(9,031,979)
Proceeds from sales and maturities of investments	5,618,521	12,663,043
Payments on notes receivable	516,094	1,447,449
Net cash used by investing activities	<u>(8,504,518)</u>	<u>(1,391,635)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	—	1,500,000
Principal payments on long-term debt	(600,000)	(600,000)
Permanently restricted investment gain	330,310	28,002
Permanently restricted contributions	6,816,642	7,097,100
Investments subject to annuity agreements	861,057	500,970
Annuity payments	(474,479)	(483,556)
Net cash provided by financing activities	<u>6,933,530</u>	<u>8,042,516</u>
Net increase (decrease) in cash	(459,427)	46,198
Cash at beginning of year	<u>964,691</u>	<u>918,493</u>
Cash at end of year	\$ <u>505,264</u>	\$ <u>964,691</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest, net of amount capitalized in 2003	\$ <u>59,347</u>	\$ <u>46,391</u>

See accompanying notes to financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004 and 2003

(1) Significant Accounting Policies

(a) Organization

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

(b) Basis of Accounting

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

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

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

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

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

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

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

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

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004 and 2003

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

(c) Use of Estimates

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

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

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

(d) Land, Buildings and Equipment

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

(e) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Other investments, including real estate held for investment, are recorded at cost or, for donated property, at estimated value at the date of gift based on appraised value.

(f) Pledges

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

(g) Split Interest Agreements

The Foundation accepts gifts subject to split interest agreements. These gifts may be in the form of annuities, charitable lead trusts, charitable remainder trusts or perpetual trusts. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuity or trust beneficiary and are determined using appropriate discount rates (at June 30, 2004 rates ranged from approximately 1% to

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004 and 2003

8%). For certain split interest agreements where the measurement objective is fair value, the discount rate is adjusted to a current market rate at each reporting date. Funds subject to split interest agreements are classified as temporarily restricted or permanently restricted based upon donor designations.

Contribution revenue attributable to split interest agreements for the fiscal years ended June 30, 2004 and 2003 was \$318,495 and \$10,472,871, respectively.

(h) Bond Issuance Costs and Bond Discounts

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

(i) Income Taxes

The Foundation is exempt from Federal and state income taxes.

(j) Liquidity

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

(k) Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform with the 2004 presentation.

During the fiscal year ended June 30, 2003, the Foundation performed additional research and analysis and identified and reclassified \$1,815,429 of temporarily restricted net assets that had been previously reported as permanently restricted net assets. Such reclassifications did not affect total net assets.

(2) Investments

The Foundation, the University and the Bulldog Club, Inc. are participants in a joint venture whereby certain assets are pooled for investment purposes. During the fiscal year ended June 30, 2004, the Alumni Foundation became a participant in the joint venture. The Foundation manages the assets of the pool and maintains separate accounts for each participant. Investment income, gains and losses and expenses of the pool are allocated to each participant based on their share of ownership of the pool. At June 30, 2004 and 2003, approximately 71% and 66%, respectively, of the Foundation's investments are included in the pool.

Endowment earnings are primarily allocated to temporarily restricted net assets based on specified annual rates as determined by the Foundation's board of directors. At June 30, 2004 and 2003, the fair value of certain permanently restricted investments have gone below their historical cost and the deficiency of \$2,169,554 and \$7,638,683, respectively, has been recorded in unrestricted net assets.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004 and 2003

Investments are summarized as follows at June 30, 2004 and 2003:

	2004		2003	
	Cost	Approximate fair value	Cost	Approximate fair value
U. S. Government securities	\$ 11,096,832	11,109,410	8,685,598	9,086,864
Corporate bonds	24,524,946	24,355,923	22,433,328	23,735,698
Corporate stocks	74,051,398	81,052,295	63,691,621	60,799,921
Partnership interests	17,484,145	18,804,132	15,491,632	16,773,157
Short-term investments	3,481,296	3,481,296	5,647,972	5,647,972
Real estate	1,332,295	1,332,295	976,389	976,389
Other	1,223,068	1,223,068	1,136,633	1,136,633
	<u>\$ 133,193,980</u>	<u>141,358,419</u>	<u>118,063,173</u>	<u>118,156,634</u>

The Foundation has entered into various split interest agreements, including charitable lead annuity trusts, charitable remainder unitrusts, and charitable gift annuities, whereby the Foundation serves as trustee. The assets held under these split interest agreements are included in investments at June 30, 2004 and 2003 with an approximate fair value of \$12,384,887 and \$12,508,504, respectively.

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2004:				
Dividends and interest (net of expenses of \$344,373)	\$ 2,030,869	1,606,264	260	3,637,393
Realized gains (losses), net	5,306,737	301,452	(32,138)	5,576,051
Unrealized gains, net	6,438,510	89,651	362,188	6,890,349
Allocation of earnings	(3,114,344)	3,114,344	—	—
	<u>\$ 10,661,772</u>	<u>5,111,711</u>	<u>330,310</u>	<u>16,103,793</u>
June 30, 2003:				
Dividends and interest (net of expenses of \$351,287)	\$ 1,875,260	1,323,627	2,079	3,200,966
Realized gains (losses), net	(5,649,004)	1,387,863	233,023	(4,028,118)
Unrealized gains (losses), net	4,961,471	1,897	(207,100)	4,756,268
Allocation of earnings	(4,837,506)	4,837,506	—	—
	<u>\$ (3,649,779)</u>	<u>7,550,893</u>	<u>28,002</u>	<u>3,929,116</u>

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004 and 2003

(3) Pledges Receivable

Pledges receivable, net, are summarized as follows at June 30, 2004 and 2003:

	2004	2003
Unconditional promises expected to be collected in:		
Less than one year	\$ 23,629,457	22,898,178
One year to five years	8,334,531	17,188,747
Over five years	2,798,804	2,495,877
	34,762,792	42,582,802
Less unamortized discount (rate approximated 4% in 2004 and 3.5% in 2003)	(2,285,470)	(2,443,126)
	32,477,322	40,139,676
Less allowance for uncollectible pledges	(596,184)	(807,108)
	\$ 31,881,138	39,332,568

(4) Notes Receivable

At June 30, 2004 and 2003, the Foundation had notes receivable of \$512,947 and \$1,029,041, respectively, of which \$512,947 and \$941,179, respectively, was with related parties. The Foundation received the remaining balances on two notes during fiscal year 2004. The remaining note receivable has an interest rate of 6% and a maturity date of August 2014.

(5) Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows at June 30, 2004 and 2003:

	2004	2003
Land and buildings	\$ 12,736,163	12,303,640
Furniture, fixtures, and equipment	2,741,443	2,637,471
	15,477,606	14,941,111
Less accumulated depreciation	(1,620,886)	(684,551)
	\$ 13,856,720	14,256,560

During the year ended June 30, 2003, the construction of the Hunter Henry Center was completed and construction costs of approximately \$11,200,000 were transferred to land and buildings. Total interest capitalized related to this project was \$40,044 during the year ended June 30, 2003.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004 and 2003

(6) Long-Term Debt

Long-term debt is summarized as follows at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Mississippi Business Finance Corporation, Variable Rate Revenue Bonds, Series 2002.	\$ 4,800,000	5,400,000
Unsecured note payable to private foundation, unpaid principal due January 2007. No interest until January 2003 and then interest is payable annually at a variable amount not to exceed 4%.	1,000,000	1,000,000
Two non-interest bearing unsecured notes payable to a private foundation. Maturity dates range from November 2005 until September 2008.	550,000	550,000
Non-interest bearing unsecured note payable to private foundation, due March 2008.	<u>1,500,000</u>	<u>1,500,000</u>
	7,850,000	8,450,000
Less unamortized bond discount	<u>(38,400)</u>	<u>(43,200)</u>
	<u>\$ 7,811,600</u>	<u>8,406,800</u>

In April 2002, the Foundation obtained \$6,000,000 in Series 2002 Variable Rate Revenue Bonds from the Mississippi Business Finance Corporation. Principal installments are due in fixed amounts through 2012. Interest is payable at a variable rate (1.11% at June 30, 2004). The bonds are secured by a letter of credit. The bonds have an early redemption feature; however, a premium is due if the Foundation retires the bonds early.

Interest expense incurred during the years ended June 30, 2004 and 2003 was \$64,092 and \$89,479, respectively, of which \$40,044 was capitalized in 2003.

The aggregate future maturities of long-term debt at June 30, 2004 are summarized as follows:

Fiscal year:	
2005	\$ 600,000
2006	1,150,000
2007	1,600,000
2008	2,100,000
2009	600,000
Thereafter	<u>1,800,000</u>
	<u>\$ 7,850,000</u>

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004 and 2003

The Foundation is subject to various restrictive and financial maintenance covenants related to certain long-term debt. At June 30, 2004, the Foundation was not in compliance with one of the debt covenants but obtained a waiver, dated October 4, 2004, curing this violation.

(7) Net Assets

Temporarily restricted and permanently restricted net assets at June 30, 2004 and 2003 were available for the following purposes:

	<u>Net assets</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
June 30, 2004:		
General college support	\$ 14,286,736	40,582,890
Student financial aid	11,521,363	55,308,721
Research	2,150,634	8,622,744
Faculty and staff support	2,634,987	28,466,304
Facilities	18,289,106	6,426,578
Other	881,445	1,565,467
Total	<u>\$ 49,764,271</u>	<u>140,972,704</u>
June 30, 2003:		
General college support	\$ 13,685,900	36,853,501
Student financial aid	11,432,556	52,745,623
Research	2,827,424	8,607,773
Faculty and staff support	2,758,931	25,653,839
Facilities	22,147,397	7,344,605
Other	745,234	1,340,932
Total	<u>\$ 53,597,442</u>	<u>132,546,273</u>

(8) Financial Instruments

The carrying amount reported in the statements of financial position for cash, other receivables, and accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The carrying amount of pledges receivable and amounts due from externally managed trusts approximate fair value as they are presented on a discounted basis. The fair value of the various notes receivable has been estimated using current interest rates and approximate the carrying amounts at June 30, 2004 and 2003. The fair value of the various debt instruments has been estimated using interest rates currently offered to the Foundation for borrowings having similar character, collateral and duration. The fair value of such debt instruments approximates the carrying amounts at June 30, 2004 and 2003.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004 and 2003

(9) Lease Commitment

The Foundation had entered into a previous lease agreement for the use of an airplane under a noncancelable operating lease. Rent expense related to this lease was \$432,600 in 2004 and 2003. In August 2004, the Foundation entered into a new aircraft operating lease agreement under substantially the same terms of the previous lease with a new expiration date of August 2014. Future minimum lease payments are as follows:

Fiscal year:		
2005	\$	432,600
2006		432,600
2007		432,600
2008		432,600
2009		432,600
Thereafter		<u>2,235,100</u>
Total future minimum lease payments	\$	<u><u>4,398,100</u></u>