



MISSISSIPPI STATE  
UNIVERSITY<sup>TM</sup>

# CONSOLIDATED FINANCIAL REPORT

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FOR THE YEAR ENDED JUNE 30, 2010

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# MISSISSIPPI STATE UNIVERSITY™

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The following Management's Discussion and Analysis (MD&A) is provided to allow an overview of Mississippi State University's financial position and performance. The discussion focuses on the reasons for material change as they relate to specific categories in the statements and is intended to be read in conjunction with the financial statements and accompanying note disclosures. These statements present financial information for the fiscal year ended June 30, 2010, and comparative data for the fiscal year ended June 30, 2009. The accompanying financial statements, footnotes and this discussion are the responsibility of management.

## OVERVIEW OF THE INSTITUTION

Mississippi State University (the "University") is a comprehensive public institution of higher education. The University regularly receives state appropriations and covers a major portion of its costs through external user charges for its services. According to paragraphs 44 through 47 of GASB Statement 35 and related paragraph 67 of GASB Statement 34, the University is allowed to report as a special purpose government engaged solely in business-type activities (BTA). The University is one of eight institutions of higher learning under the direction of the Board of Trustees of Institutions of Higher Learning.

The mission of Mississippi State University is to educate the workforce and leaders of the future, produce robust research for our state and nation, and provide expert services to our citizens, communities and businesses. The University will serve the State of Mississippi and beyond through its broad range of instruction, research, and outreach functions. The institution regularly enrolls students from each of the state's eighty-two counties and is actively engaged with business and industry, agriculture and natural resources, schools, communities and organizations in every part of the state. The institution also maintains four strategically located research and extension cen-



The student population is 18,601 as of Fall 2009 with the main campus in Starkville and off-campus locations at Meridian and Vicksburg.

ters around the state and has staff in every county of Mississippi.

## USING THE ANNUAL FINANCIAL REPORT

A key objective of the financial statements is to address the question whether the University's finances improved or worsened as a result of the fiscal year's activities. The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows are provided to assist the reader in answering this question. The University's net assets (defined as the difference between assets and liabilities) is one gauge of the institution's financial well-being. The increase or decrease in net assets over a period of time combined with facts such as enrollment levels and condition of the physical plant are good indicators of the financial health of the University.

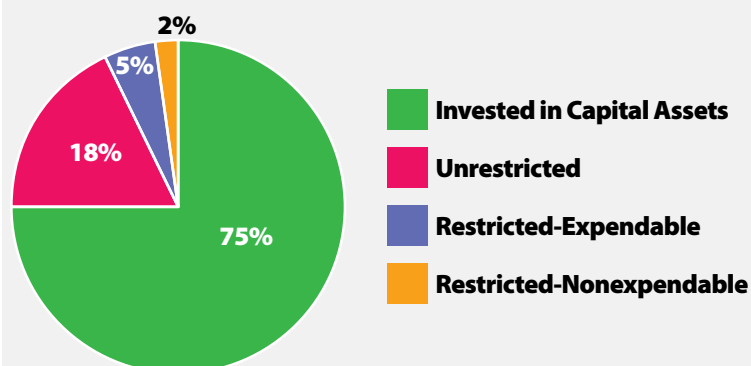
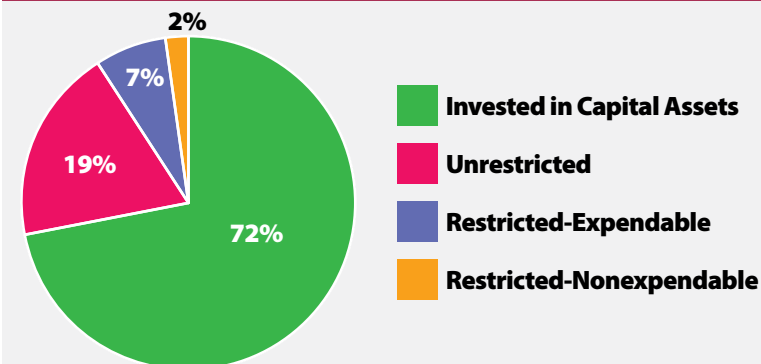
## STATEMENT OF NET ASSETS

The statement of net assets presents the financial position of the University at the end of the fiscal year. This statement reflects the assets, liabilities and net assets of

the University as of the fiscal years ended June 30, 2010 and 2009 and is prepared under the accrual basis of accounting. Revenues and assets are recognized when the services are provided and expenses and liabilities are recognized when services are received, regardless of when cash is exchanged. It is also important to note both assets and liabilities are presented as current and non-current. This distinction allows readers to determine the availability of assets to continue current operations and also provides a long-term perspective. Likewise the reader is also able to determine from the presentation of liabilities the current obligations due within one year, as well as, future obligations due more than one year from the date of the statement. Net assets are further broken down into three categories: (1) invested in capital assets, net of related debt, which represents the historical cost of property and equipment reduced by the balance of related debt outstanding and depreciation expense charged over the years; (2) restricted net assets which have constraints imposed by third parties; (3) and unrestricted assets that can be used at the

**CONDENSED STATEMENT OF NET ASSETS**

	FY 2010	FY 2009
<b>Assets:</b>		
Current Assets	\$122,536,525	\$110,371,653
Capital Assets Net	638,793,568	608,309,269
Other Noncurrent Assets	119,258,394	134,337,157
<b>Total Assets</b>	<b>880,588,487</b>	<b>853,018,079</b>
<b>Liabilities:</b>		
Current Liabilities	54,710,635	43,767,845
Noncurrent Liabilities	190,510,723	197,964,624
	<b>245,221,358</b>	<b>241,732,469</b>
<b>Net Assets:</b>		
Invested in Capital Assets (net of related debt)	473,568,153	439,568,571
Restricted-Nonexpendable Scholarships	2,072,283	1,956,950
Restricted-Nonexpendable Research	4,003,684	3,711,699
Restricted-Nonexpendable Other Purposes	7,288,903	6,372,116
Restricted-Expendable Scholarships	1,995,229	827,917
Restricted-Expendable Research	12,136,108	10,906,232
Restricted-Expendable Loans	3,934,585	3,955,813
Restricted-Expendable Capital Projects	10,510,633	26,858,988
Restricted-Expendable Debt Service	1,249,411	(1,146,898)
Restricted-Expendable Other Purposes	1,255,835	1,763,803
Unrestricted	117,352,305	116,510,419
<b>Total Net Assets</b>	<b>\$635,367,129</b>	<b>\$611,285,610</b>

**NET ASSETS, FY 2010****NET ASSETS, FY 2009**

discretion of University administration within the bounds of state law. Additionally, restricted net assets are either non-expendable, as in the case of endowment gifts to be held in perpetuity, or expendable, as in the case of funds for scholarships, research, or other reasons.

**FINANCIAL HIGHLIGHTS**

The financial position of the University improved for fiscal year 2010 over the prior fiscal year. Net assets for 2010 increased approximately \$24.1 million with total assets increasing \$27.5 million and total liabilities increasing \$3.4 million. The increase in total assets is in large part due to the capitalization of construction in progress for the new residence hall South Dorm and renovations to Harned Hall and Lloyd-Ricks building. The increase in liabilities is the result of a net increase in current liabilities of deferred revenue realized at year end for a grant from British Petroleum and a decrease in non current liabilities for accrued leave and long term debt.

The University offered a retirement incentive of one half of the annual salary for any employee eligible for retirement. Two hundred seventy eight employees accepted the offer thereby decreasing the long term accrued leave liability for the institution.

Positive material increases in current assets include cash and short term investments due to increases in the master investment accounts and short term bonds account as a result of receipt of a \$10 million grant from British Petroleum and a \$6.5 million increase in athletic revenue sharing from the Southeastern Conference over the previous fiscal year. Material decreases include accounts receivable due to the prior year's recognition at year end of federal appropriations due to the University for expenses incurred during the fiscal year.

Non current assets show a material positive increase in capital assets net due to construction in progress mentioned previously. Decreases in restricted cash are attributed to the distribution of proceeds from the issuance of bonds for the new student residence hall.



Current liabilities increased in large part due to a grant in the amount of \$10 million received from British Petroleum mentioned previously. It was determined this grant was an exchange transaction with terms of the grant to be fulfilled within calendar year 2010 thereby necessitating recognition as a deferred revenue.

Non current liabilities show a decrease in the long term liability category as a result of reduction in bonded debt. No new debt was issued during fiscal year 2010. A complete summary of long-term indebtedness can be seen in Note 9 of the Notes to the Financial Statements. Non current Accrued Leave also decreased as a result of the retirement incentive offered to retirement eligible employees mentioned previously.

Material variances in the Restricted Nonexpendable category include a change in classification for the Sharp Estate-School of Forestry from a majority of the net assets classified as expendable to non expendable. The Nissan Endowment also recorded a material increase over the prior fiscal year due to increased revenue realization and a reduction in unrealized loss compared to the previous fiscal year.

Material variances in the Restricted Expendable category are relegated in large part to the disbursement of bond proceeds during the fiscal year for the new student housing facility

It should also be noted the bond premiums from bond issues recognized previously in Expendable Debt Service were moved to Invested in Capital Assets, Net of Related Debt.

Invested in Capital Assets increased \$34 million due to construction in progress for three major projects on campus.

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the year, regardless of when cash is received

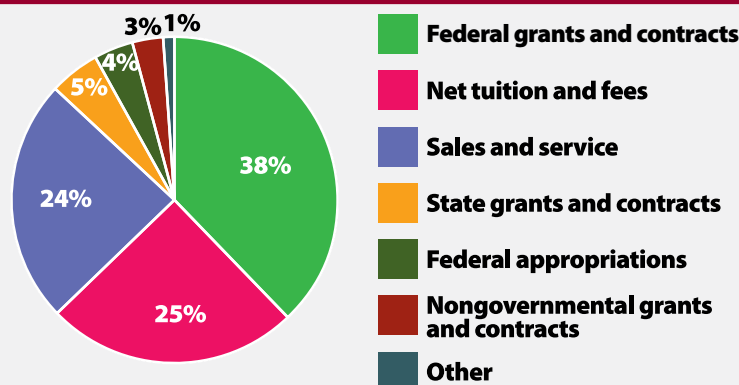
## CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	FY 2010	FY 2009
Operating revenues	\$371,121,456	\$356,360,470
Operating expenses	584,290,179	575,037,154
<b>Operating loss</b>	<b>(213,168,723)</b>	<b>(218,676,684)</b>
Nonoperating revenues and expenses	212,988,428	204,733,132
Income (loss) before other revenues, expenses, gains or losses	(180,295)	(13,943,552)
Other revenues, expenses, gains or losses	24,261,814	14,349,306
Increase in net assets	24,081,519	405,754
Net assets - beginning of year, as originally reported	611,285,610	610,879,856
Net assets - end of year	\$635,367,129	\$611,285,610

## OPERATING REVENUES

	FY 2010	FY 2009
Net tuition and fees	\$94,073,845	\$88,093,772
Federal appropriations	13,440,511	14,762,103
Federal grants and contracts	140,808,492	136,694,568
State grants and contracts	19,567,480	22,134,804
Nongovernmental grants and contracts	12,043,882	14,067,869
Sales and services	88,978,377	76,734,083
Other	2,208,869	3,873,271
<b>Total operating revenues</b>	<b>\$371,121,456</b>	<b>\$356,360,470</b>

## OPERATING REVENUES, FY 2010

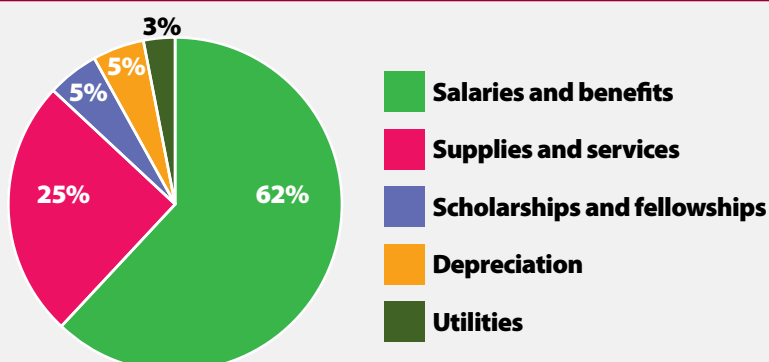


or disbursed. Activities in this statement are presented as either operating or non-operating. Operating revenues are recorded in exchange for providing goods and services. Operating expenses are incurred as a result of normal operations of the University but

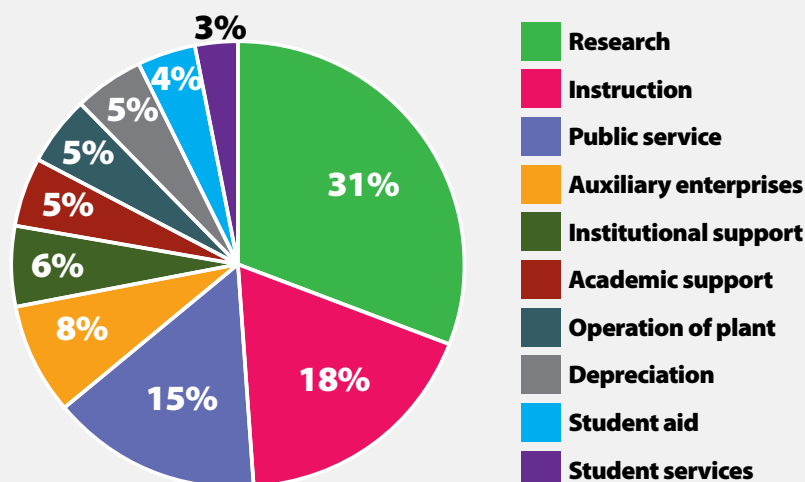
also include depreciation on capital assets. Also of note is the fact that state appropriations, gifts and investment income the University relies on to support day to day operations are required by the Government Accounting Standards Board to be classified

**OPERATING EXPENSES BY OBJECT**

	<b>FY 2010</b>	<b>FY 2009</b>
Salaries and benefits	\$363,020,049	\$350,827,255
Supplies and services	145,884,440	152,724,709
Utilities	14,000,855	16,362,438
Scholarships and fellowships	31,505,406	24,265,075
Depreciation	29,879,429	30,857,677
<b>Total operating expenses</b>	<b>\$584,290,179</b>	<b>\$575,037,154</b>

**OPERATING EXPENSES BY OBJECT, FY 2010****OPERATING EXPENSES BY FUNCTION**

	<b>FY 2010</b>	<b>FY 2009</b>
Instruction	\$107,512,619	\$103,705,106
Research	\$181,134,188	\$179,433,808
Public Service	\$85,869,039	\$86,569,193
Academic Support	\$29,895,185	\$32,657,525
Student Services	\$15,252,493	\$14,547,857
Institutional Support	\$34,455,361	\$32,357,605
Operation of Plant	\$28,167,751	\$30,535,494
Student Aid	\$23,711,653	\$17,826,166
Auxiliary Enterprises	\$48,412,461	\$46,546,723
Depreciation	\$29,879,429	\$30,857,677

**OPERATING EXPENSES BY FUNCTION, FY 2010**

as non-operating revenues. Non-operating expenses include capital financing costs and loan cancellation expenses.

Total operating revenues for fiscal year 2010 were \$371.1 million. This is an increase of \$14.8 million over fiscal year 2009 operating revenues of \$356.4 million. Tuition and fees, grants and contracts, and sales and services are the largest sources of operating revenues. Athletics auxiliary enterprises provided the largest monetary increase (\$8.8 million) over the previous fiscal year. Reasons for the increase include increase in ticket sales and additional revenue realized from the revenue sharing agreement with the Southeastern Conference. Net tuition increased over the prior fiscal year due to increased enrollment of approximately 4%.

Operating expenditures for fiscal year 2010 totaled \$584 million. Of this total 62% are used for salaries and fringes as displayed in the pie chart. The largest increase in operating expenses was in salaries and benefits reflecting an increase of \$10.5 million. This increase in salaries and fringes was in large part due to an early retirement incentive offered by the University. The incentive consisted of one half of the employee's base pay as of February 1, 2010. The university also experienced an increase in scholarship and fellowship expenses (\$7.2 million) as a result of the four percent increase in enrollment.

The pie chart reveals 64% of operating expenditures support the core mission of instruction, research and public service. This classification is further expanded in Note 11 of the Notes to Financial Statements.

**STATEMENT OF CASH FLOWS**

The Statement of Cash Flows must also be evaluated when considering the financial condition of the University's ability to meet financial obligations over time. This statement presents information related to cash inflows and outflows summarized in the categories of operating activities, non-capital financing activities, capital and related financing activities and in-



## CONDENSED STMT OF CASH FLOWS

	FY 2010	FY 2009
<b>Cash provided (used) by:</b>		
Operating activities	(\$168,958,605)	(\$192,781,730)
Noncapital financing activities	216,893,865	210,530,781
Capital financing activities	(45,706,916)	(2,772,966)
Investing activities	(3,587,449)	6,314,754
Net change in cash	(1,359,105)	21,290,839
Cash, beginning of year	72,700,145	51,409,306
<b>Cash, end of year</b>	<b>\$71,341,040</b>	<b>\$72,700,145</b>

vesting activities. Its purpose is to assist in the evaluation of the institution's ability to meet its obligations as they come due and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities display the uses of cash and cash equivalents to purchase investments. Cash flows from non-capital financing activities are those not covered in other sections.

Net cash for fiscal year 2010 decreased slightly compared to fiscal year 2009. The condensed Statement of Cash Flows is provided to illustrate the movement in cash sources and uses between the two fiscal years. Cash used for operations decreased by \$23.8 million primarily due to additional cash inflows from tuition and fees, grants and contracts and Athletics in

the amount of \$34.1 offsetting an increase in operating cash outflows of \$10.3 million over the previous year.

Net cash provided by non capital financing activities shows a marginal increase of \$6.4 million contrary to the fact state appropriation cash decreased by approximately \$15 million. The offset was primarily due to the increase in Other Sources of \$12.0 million associated with ARRA/SFSF appropriations and \$10 million for grants other than capital purposes associated with the grant from British Petroleum.

Net cash used for Capital Financing increased \$42.9 million mainly due to disbursing bond proceeds for construction in progress realized in the previous fiscal year.

Cash flows from investing activities show a change of \$9.9 million compared to the previous year primarily due to purchases of investments exceeding proceeds

from sales of investments in the current fiscal year by \$7.0 million.

## CAPTIAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2010 the University had \$638.8 million invested in capital assets, net of accumulated depreciation of \$337.3 million. Depreciation expense totaled \$29.9 million for fiscal year 2010. Major capital improvements for the year are summarized below:

### New Construction

- South Dorm

### Renovations of Existing Structures

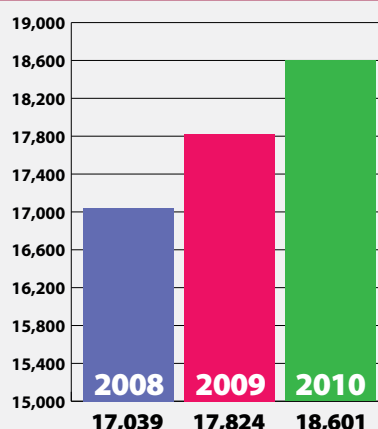
- Harned Hall
- Lloyd-Ricks Building

## ENROLLMENT

Enrollment shown in the accompanying chart reflects a continued upward trend. The University is encouraged by the 4.4% growth shown during FY 2010. Total enrollment for the fall 2009 semester was 18,601 students. In the fall of 2008 semester 17,824 students were enrolled. Mississippi residents accounted for 75% of the total enrollment in fall 2009 and for 76% of total enrollment for fall 2008. Enrollment totals are unduplicated and include all campuses of the University.



## TOTAL CAMPUS STUDENT ENROLLMENT



## DEGREES AWARDED

A total of 3,773 degrees were awarded in 2009-2010: 2,732 undergraduate and 1,041 graduates. A breakdown by college is shown in the accompanying table. Information from 2008-2009 is included for comparison.

## DEGREES AWARDED, 2009-2010

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	238	85	323
Architecture, Art and Design	117	2	119
Arts and Sciences	772	208	980
Business (Includes Accountancy)	619	212	831
Education	605	271	876
Engineering	335	148	483
Forest Resources	46	35	81
Veterinary Medicine	0	80	80
<b>TOTAL</b>	<b>2,732</b>	<b>1,041</b>	<b>3,773</b>

## DEGREES AWARDED, 2008-2009

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	256	89	345
Architecture, Art and Design	105	11	116
Arts and Sciences	767	240	1007
Business (Includes Accountancy)	573	195	768
Education	588	311	899
Engineering	327	124	451
Forest Resources	40	26	66
Veterinary Medicine	0	76	76
<b>TOTAL</b>	<b>2,656</b>	<b>1,072</b>	<b>3,728</b>

## FINANCIAL SUMMARY AND OUTLOOK

Mississippi State University made dramatic progress in a variety of areas during FY2010. The university enrolled a record 18,601 students in fall 2009 and awarded more than 3,700 degrees at all levels during the academic year, including a record 144 Ph.D. degrees and 72 first-professional degrees in veterinary medicine. MSU attracted more than \$65 million in private gifts and pledges. It was the third highest giving total in university history and the first time the university has had back-to-back giving totals above \$60 million. A new 350-bed state-of-the-art residence

hall was constructed that also includes offices and classrooms for student leadership programs and offers a new living-learning community for the Day One leadership program for freshmen.

As anticipated, FY2010 also presented numerous challenges. Funding shortfalls and budget cuts continued as the global economic downturn became more severe and wide spread. Mississippi State's leadership continued its proactive approach to address funding reductions by implementing money saving recommendations identified by the Select Committee on Efficiencies and Innovations (SCEI). In addition, a tuition increase and steady growth

of the student body also helped offset a portion of the appropriation shortfall.

MSU will continue to face funding obstacles in the future due to the loss of Federal stimulus funds in FY2012 and the continued uncertainty surrounding the timing and speed of the economic recovery. However, the leadership's focus, flexibility and dedication have positioned the university to weather the storm. These efforts continue to be supported by rising enrollment, record setting donations and the commitment of faculty and staff to the university's core competencies of teaching, service and research for the state of Mississippi and beyond.







# MISSISSIPPI STATE UNIVERSITY™

## ANNUAL FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2010

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### ASSETS

June 30

#### Current Assets:

2010

2009

Cash and Cash Equivalents	\$59,711,744	\$42,836,759
Short Term Investments	8,014,259	5,765,381
Accounts Receivable, Net (note #4)	44,776,219	51,942,931
Student Notes Receivable, Net (note #5)	2,565,264	2,267,920
Inventories	2,680,387	2,936,455
Prepaid Expenses	4,788,652	4,622,207

#### Total Current assets

\$122,536,525

\$110,371,653

#### Non-Current Assets:

2010

2009

Restricted Cash and Cash Equivalents	\$11,629,296	\$29,863,386
Endowment Investments (note #3)	21,297,650	19,434,469
Other Long Term Investments (note #3)	70,725,345	69,090,156
Student Notes Receivable, Net (note #5)	15,606,103	15,949,146
Capital Assets, Net (note #6)	638,793,568	608,309,269

#### Total Non-Current assets

\$758,051,962

\$742,646,426

#### Total Assets

\$880,588,487

\$853,018,079

### LIABILITIES AND NET ASSETS

June 30

#### Current Liabilities:

2010

2009

Accounts Payable and Accrued Liabilities (note #7)	\$25,441,014	\$24,932,594
Deferred Revenues (note #8)	21,512,391	11,099,027
Accrued Leave Liabilities - Current Portion (note #9)	1,737,092	1,482,835
Long Term Liabilities - Current Portion (note #9)	5,883,893	6,067,675
Other Current Liabilities	136,245	185,714

#### Total Current liabilities

\$54,710,635

\$43,767,845

#### Non-Current Liabilities:

2010

2009

Deposits Refundable (note #9)	\$82,000	\$86,300
Accrued Leave Liabilities (note #9)	18,542,102	19,862,814
Long Term Liabilities (note #9)	156,789,131	162,673,023
Other Non-Current Liabilities (note #9)	15,097,490	15,342,487

#### Total Non-Current liabilities

\$190,510,723

\$197,964,624

#### Total Liabilities

\$245,221,358

\$241,732,469

Accompanying notes are an integral part of the financial statements.

<b>NET ASSETS:</b>		
	June 30	
	2010	2009
<b>Invested in Capital Assets, Net of Related Debt</b>	\$473,568,153	\$439,568,571
<b>Restricted for:</b>		
<b>Nonexpendable -</b>		
Scholarships and Fellowships	\$2,072,283	\$1,956,950
Research	4,003,684	3,711,699
Other Purposes	7,288,903	6,372,116
<b>Expendable -</b>		
Scholarships and Fellowships	1,995,229	827,917
Research	12,136,108	10,906,232
Capital Projects	10,510,633	26,858,988
Debt Service	1,249,411	(1,146,898)
Loans	3,934,585	3,955,813
Other Purposes	1,255,835	1,763,803
<b>Unrestricted</b>	117,352,305	116,510,419
<b>Total Net Assets</b>	<b>\$635,367,129</b>	<b>\$611,285,610</b>
<b>Total Liabilities and Net Assets</b>	<b>\$880,588,487</b>	<b>\$853,018,079</b>

	2010	2009
<b>** 2010 and 2009 Unrestricted Net Assets:</b>		
Academic Programs & Research	\$9,335,072	9,980,187
Quasi-endowments	\$5,611,404	4,992,538
Capital projects	\$9,633,134	6,541,079
Repairs and maintenance	\$5,433,483	6,822,005
Auxiliary operations	\$2,262,822	470,355
Designated projects	\$85,076,390	87,704,255
Remaining purposes		
<b>Totals</b>	<b>\$117,352,305</b>	<b>\$116,510,419</b>





	June 30	
<b>Operating Revenues:</b>	<b>2010</b>	<b>2009</b>
Tuition and Fees	\$126,710,829	\$115,851,034
Less: Scholarship Allowance	(32,193,044)	(27,757,262)
Less: Bad Debt	(443,940)	
Net Tuition and Fees	\$94,073,845	\$88,093,772
Federal Appropriations	13,440,511	14,762,103
Federal Grants and Contracts	140,808,492	136,694,568
State Grants and Contracts	19,567,480	22,134,804
Nongovernmental Grants and Contracts	12,043,882	14,067,869
Sales and Services of Educational Departments	31,564,881	28,577,163
Auxiliary Enterprises:		
• Student Housing	17,593,644	16,433,838
• Food Services	1,375,040	1,095,548
• Bookstore	818,915	863,876
• Athletics	33,829,810	25,043,900
• Other Auxiliary revenues	10,862,853	10,812,816
Less: Auxiliary Enterprise Scholarship Allowance	(7,066,766)	(6,093,058)
Interest Earned on Loans to Students	248,224	210,754
Other Operating Revenues	1,960,645	3,662,517
<b>Total Operating Revenues</b>	<b>\$371,121,456</b>	<b>\$356,360,470</b>

	June 30	
<b>Operating Expenses:</b>	<b>2010</b>	<b>2009</b>
Salaries and Wages	\$281,126,533	\$270,816,525
Fringe Benefits	81,893,516	80,010,730
Travel	13,278,944	14,882,980
Contractual Services	88,147,942	91,441,725
Utilities	14,000,855	16,362,438
Scholarships and Fellowships	31,505,406	24,265,075
Commodities	44,457,554	46,400,004
Depreciation/Amortization Expense	29,879,429	30,857,677
Other Operating Expense		
<b>Total Operating Expenses</b>	<b>\$584,290,179</b>	<b>\$575,037,154</b>
<b>Operating Income (Loss)</b>	<b>(\$213,168,723)</b>	<b>(\$218,676,684)</b>



Accompanying notes are an integral part of the financial statements.

**STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS, Cont.**

<b>Nonoperating Revenues (Expenses):</b>	<b>2010</b>	<b>June 30</b>	<b>2009</b>
State Appropriations	\$159,293,347		\$174,087,626
Federal ARRA (SFSF) Revenues	12,046,172		
Gifts and Grants	42,839,689		37,898,674
Investment Income, Net of Investment Expense	5,686,083		(205,707)
Interest Expense on Capital Asset—Related Debt	(6,694,571)		(6,376,500)
Other Nonoperating Revenues	241,801		21,005
Other Nonoperating Expenses	(424,093)		(691,966)
<b>Total Net Nonoperating Revenues (Expenses)</b>	<b>\$212,988,428</b>		<b>\$204,733,132</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains and Losses</b>	<b>(180,295)</b>		<b>(13,943,552)</b>
Capital Grants and Gifts	\$11,259,638		\$10,085,837
State Appropriations Restricted for Capital Purposes	13,883,081		4,720,622
Other Deletions	(880,905)		(457,153)
<b>Net Increase in Net Assets</b>	<b>24,081,519</b>		<b>405,754</b>

**NET ASSETS**

<b>Net Assets - Beginning of Year</b>	<b>\$611,285,610</b>	<b>\$610,879,856</b>
<b>Net Assets - End of Year</b>	<b>\$635,367,129</b>	<b>\$611,285,610</b>





	June 30	
<b>Cash Flows from Operating Activities:</b>	<b>2010</b>	<b>2009</b>
Tuition and Fees	\$93,219,365	\$87,320,168
Grants and Contracts	187,809,486	168,428,759
Sales and Services of Educational Departments	31,388,598	28,894,083
Payments to Suppliers	(146,449,817)	(154,074,730)
Payments to Employees for Salaries and Benefits	(363,226,728)	(350,735,095)
Payments for Utilities	(14,000,855)	(16,362,438)
Payments for Scholarships and Fellowships	(31,505,406)	(24,265,114)
Loans Issued to Students and Employees	(3,731,240)	(3,000,722)
Collection of Loans to Students and Employees	3,776,940	3,248,387
Auxiliary Enterprise Charges:		
Student Housing	17,491,140	16,636,118
Food Services	1,375,869	1,096,861
Bookstore	818,915	863,876
Athletics	31,134,095	22,300,982
Other Auxiliary Enterprises	7,857,503	8,370,847
Interest Earned on Loans to Students	248,224	210,754
Other Receipts	14,837,029	18,298,894
Other Payments	(1,723)	(13,360)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(\$168,958,605)</b>	<b>(\$192,781,730)</b>
	June 30	
<b>Cash Flows from NonCapital Financing Activities:</b>		
State Appropriations	\$159,452,471	\$174,509,760
Gifts and Grants for Other Than Capital Purposes;	46,481,423	36,334,081
Federal Loan Program Receipts	88,887,396	83,591,956
Federal Loan Program Disbursements	(89,541,375)	(83,489,597)
Other Sources	12,046,171	
Other Uses	(432,221)	(415,419)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>\$216,893,865</b>	<b>\$210,530,781</b>
	June 30	
<b>Cash Flows from Capital Financing Activities:</b>		
Proceeds from Capital Debt		\$46,885,350
Cash Paid for Capital Assets	(\$39,285,927)	(17,131,062)
Capital Grants and Contracts Received	3,008,907	230,837
Proceeds from Sales of Capital Assets	199,035	99,946
Principal Paid on Capital Debt and Leases	(22,602,675)	(23,350,606)
Interest Paid on Capital Debt and Leases	(6,574,898)	(7,178,470)
Other Source	19,709,655	
Other Uses	(161,013)	(2,328,961)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(\$45,706,916)</b>	<b>(\$2,772,966)</b>
	June 30	
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales and Maturities of Investments	\$28,272,420	\$116,862,611
Interest Received on Investments	3,434,111	3,637,770
Purchases of Investments	(35,293,980)	(114,185,627)
<b>Net Cash Provided by Investing Activities</b>	<b>(\$3,587,449)</b>	<b>\$6,314,754</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(\$1,359,105)</b>	<b>\$21,290,839</b>
<b>Cash and Cash Equivalents - Beginning of the Year</b>	<b>72,700,145</b>	<b>51,409,306</b>
<b>Cash and Cash Equivalents - End of the Year</b>	<b>\$71,341,040</b>	<b>\$72,700,145</b>

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

## SECTION 2

	June 30	
	2010	2009
<b>Operating Income (Loss)</b>	<b>(\$213,168,723)</b>	<b>(\$218,676,684)</b>
<b>Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Depreciation/Amortization Expense	29,879,429	30,857,677
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables, Net	3,672,215	(5,764,391)
Inventories	256,068	(169,072)
Prepaid Expenses	(1,471,994)	(819,618)
Other Assets	476,026	554,303
Increase (Decrease) in Liabilities:		
Accounts Payables and Accrued Liabilities	(974,808)	306,404
Deferred Revenues	11,302,465	1,501,785
Accrued Leave Liability	1,066,454	(570,620)
Other Liabilities	4,263	(1,514)
<b>Total Adjustments:</b>	<b>\$44,210,118</b>	<b>\$25,894,954</b>
<b>Net Cash Provided (Used) by Operating Activities:</b>	<b>(\$168,958,605)</b>	<b>(\$192,781,730)</b>

		June 30
ENTER NON-CASH TRANSACTIONS BELOW		
1.) Construction in Progress	\$13,883,081	\$4,720,622
Bureau of Buildings Appropriations	(13,883,081)	(4,720,622)
2.) Buildings	8,256,527	9,855,000
Gifts	(8,256,527)	(9,855,000)
3.) Unrealized Loss on Investments	0	5,802,479
Investments	0	(5,802,479)
4.) Investments	3,070,859	0
Unrealized Gain on Investments	(3,070,859)	0



Accompanying notes are an integral part of the financial statements.





# MISSISSIPPI STATE UNIVERSITY™

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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## NOTE 1

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### REPORTING ENTITY

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

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

The members of the Board of Trustees

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

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

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

### BASIS OF PRESENTATION

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments, and Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities, issued in June and November, 1999. The University now follows the "business type activities" reporting requirements of

GASB Statement No. 34 that provides a comprehensive one-look at the universities' financial activities.

### BASIS OF ACCOUNTING

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

### CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### INVESTMENTS

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

### ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of tuition and fee charges to students. Accounts receivable also include amounts due from federal and state governments, and non-governmental sources, in connection with reimbursement of allowable expenses made pursuant to the University grants and contracts. Accounts receivable are recorded net of an allowance for doubtful accounts.

### PREPAID EXPENSES

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

## STUDENT NOTES RECEIVABLE, NET

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

## INVENTORIES

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

## NON-CURRENT CASH AND INVESTMENTS

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or non-current assets, are classified as non-current assets in the Statement of Net Assets.

## CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Livestock for educational purposes is adjusted at year-end to reflect market price. Renovations to buildings, and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional categories. See Note No. 6 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress

are capitalized as incurred. Certain maintenance and replacement reserves have been established to fund costs relating to residence halls and other auxiliary activity facilities.

In fiscal year 2010, the University adopted Governmental Accounting Standards Board pronouncement 51, which mandated the recording of intangible assets as capital assets. The University conducted an analysis of potential intangible assets and concluded that none met the criteria for capitalization at this time. Procedures are being developed for use by the University to ensure proper capitalization of intangible assets in the future.

## ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

## DEPOSITS REFUNDABLE

Deposits Refundable represent good faith deposits from students to reserve housing assignments, key deposits and post breakage deposits in a University System residence hall.

## DEFERRED REVENUES

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

## NONCURRENT LIABILITIES

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

## INCOME TAXES

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

## COMPENSATED ABSENCES

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

Nine-month employees earn major medical leave at a rate of 13 1/3 hours per month for one month to three years of service; 14 1/5 hours per month for three to eight years of service; 15 2/5 hours per month for eight to 15 years of service; and from 15 years of service and over, 16 hours per month are earned. There is no limit on the accumulation of sick leave. At retirement, these employees are paid for up to 240 hours of accumulated major medical leave.

## REVENUES AND EXPENDITURES

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

Operating revenues and expenses have the characteristics of exchange transactions. These transactions can be defined as an ex-



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

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

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

## AUXILIARY ENTERPRISE ACTIVITIES

Auxiliary enterprises typically exist to furnish goods or services to students, faculty, or staff, and that charge a fee directly related to, although not necessarily equal to, the cost of the goods or services. One distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities. Examples are residence halls, food services, and intercollegiate athletic programs (only if they are essentially self-supporting). The general public may be served incidentally by auxiliary enterprises.

## SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans,

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

## NET ASSETS

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

The unrestricted net asset balance of \$117,352,305 at June 30, 2010 includes \$9,335,072 reserved for academic programs and research, \$9,633,134 reserved for capital projects, \$5,433,483 reserved for repairs and maintenance, with \$92,950,616 remaining for other purposes.

## UNIVERSITY FOUNDATION

Although the University is the exclusive beneficiary of the Foundation, the Foun-

dation is independent of the University in all respects. The Foundation is not a subsidiary of the University and is not directly or indirectly controlled by the University. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge or encumber the assets of the Foundation. The trustees of the Foundation are entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Under state law, neither the principal nor income generated by the assets of the Foundation can be taken into consideration in determining the amount of State-appropriated funds allocated to the University. Third parties dealing with the University, the Mississippi State Board of Trustees and the State of Mississippi (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

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

For the year ended June 30, 2010, the University recorded prior period adjustments that consisted of the following additions net asset balances:

## OUTSTANDING CHECKS CLEARED — \$1,723

The University also adopted a change in accounting classification. Bad debt, previously reported as an expense, is now re-

## PRIOR PERIOD ADJUSTMENTS AND CHANGES IN ACCOUNTING CLASSIFICATIONS

Explanation(s)	Additions (Deductions) at 6-30-2010	Additions (Deductions) at 6-30-2009
Change in Reserve for Outstanding Checks	(\$1,723)	(\$13,360)
<b>Total Adjustments</b>	<b>(\$1,723)</b>	<b>(\$13,360)</b>

flected on the Statement of Revenues, Expenses and Changes in Net Assets as a contra-revenue. Financial statements for fiscal year 2009 were not restated for this change.

### NOTE 3 CASH AND INVESTMENTS

#### POLICIES:

##### A. CASH AND SHORT-TERM INVESTMENTS

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

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents representing endowment assets are included in non-current investments.

The collateral for public deposits in financial institutions is now held in the name of the State Treasurer

under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code Annotated (1972). Under this program, the University's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the

#### FAIR VALUE OF INVESTMENT TYPE

Investment Type	FY 2010	FY 2009
U.S. Government Agency Obligations	\$60,264,642	\$63,155,629
Repurchase Agreements	0	0
U.S. Treasury Obligations	226,487	327,170
Certificates of Deposit	6,109,804	4,794,280
Corporate Bonds	475,195	480,221
Commercial Mortgage Backed Securities	255,306	276,122
Collateralized Mortgage Obligations	4,695,861	3,269,832
Municipal Bonds	7,106,249	3,154,310
Mutual Funds	2,736,753	2,738,230
Asset Backed Securities	3,454,646	2,925,774
Equity Securities	14,452,560	12,900,056
International Obligations	19,962	28,593
Landgrant	239,789	239,789
<b>Total</b>	<b>\$100,037,254</b>	<b>\$94,290,006</b>

#### INVESTMENT RATE RISK, FY 2010

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Agency Obligations	\$60,264,642	\$5,600,572	\$27,994,445	\$8,096,875	\$18,572,750
Repurchase Agreements					
U.S. Treasury Obligations	226,487	226,487			
Corporate Bonds	475,195			475,195	
Commercial Mortgage Backed Securities	255,306			255,305	
Collateralized Mortgage Obligations	4,695,861				4,695,861
Municipal Bonds	7,106,249		3,718,350	3,387,899	
Asset Backed Securities	3,454,646			3,454,646	
International Obligations					
<b>Total</b>	<b>\$76,478,386</b>	<b>\$5,827,059</b>	<b>\$31,712,795</b>	<b>\$15,669,920</b>	<b>\$23,268,611</b>

#### INVESTMENT RATE RISK, FY 2009

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Agency Obligations	\$63,123,620	\$2,284,645	\$44,531,777	\$16,307,198	
Repurchase Agreements					
U.S. Treasury Obligations	327,170	64,747	262,423		
Corporate Bonds	480,221			480,221	
Commercial Mortgage Backed Securities	276,122			276,122	
Collateralized Mortgage Obligations	3,269,832				3,269,832
Municipal Bonds	3,154,310		3,154,310		
Asset Backed Securities	2,892,885			2,892,885	
International Obligations					
Certificates of Deposit					
<b>Total</b>	<b>\$73,524,160</b>	<b>\$2,349,392</b>	<b>\$47,948,510</b>	<b>\$19,956,426</b>	<b>\$3,269,832</b>



## CREDIT RISK

Fair Value	FY 2010	FY 2009
A	\$508,165	\$523,810
A-		
A+		
A-1		
A-1+		
AA	5,827,470	2,630,500
AA-		
AA+		
AAA	43,901,378	63,110,406
AAAe	11,377,664	
B		
BBB		
BBB-		
BBB+		
CC		
CCC-		
CCC+		
Rating		
Not Available	14,863,709	7,259,444
<b>Total</b>	<b>\$76,478,386</b>	<b>\$73,524,160</b>

## CONCENTRATION OF CREDIT RISK

Issuer	Fair Value	% of Total Investment
<b>FY 2010</b>		
FHLB	\$23,630,364	23.62%
FNDB	19,019,740	19.01%
FHLMC	12,142,860	12.14%
Municipal Bond	6,856,185	6.85%
<b>Total</b>	<b>\$61,649,148</b>	

### FY 2009

FHLB	\$22,758,394	32.73%
FNDB	13,319,990	19.16%
FHLMC	10,005,881	14.39%
FFCB	7,748,792	11.14%
Freddie Mac	8,950,180	12.87%
<b>Total</b>	<b>\$62,783,237</b>	

## FOREIGN CURRENCY RISK

	Fair Value
Australian Dollar	\$0
Canadian Dollar	0
Swiss Franc	0
Danish Krone	0
Euro	0
<b>Total</b>	<b>\$0</b>

## CUSTODIAL CREDIT RISK

	Fair Value
U.S. Government Agency Obligations	\$0
Repurchase Agreements	0
U.S. Treasury Obligations	0
Corporate Bonds	0
Commercial Mortgage Backed Securities	0
Collateralized Mortgage Obligations	0
Municipal Bonds	0
Asset Backed Securities	0
International Obligations	0
<b>Total</b>	<b>\$0</b>

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

The table to the right presents the fair value of investments by type at June 30, 2010 compared to June 30, 2009.

## INTEREST RATE RISK

Per GASB Statement No. 40, Interest

Rate Risk is defined as the risk a government may face should interest rate variances affect the fair value of investments. As of June 30, 2010, the institution had the following investments subject to Interest Rate Risk. Amounts for June 30, 2009 presented for comparison in the table below.

## 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, 2010 the institution had the investment credit profile shown in the table above. Amounts for June 30, 2009 presented for comparison.

## CONCENTRATION OF CREDIT RISK

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



**NOTE 4**

**ACCOUNTS RECEIVABLE CONSISTED OF THE FOLLOWING AT JUNE 30, 2010.  
AMOUNTS FOR JUNE 30, 2009 ARE PRESENTED FOR COMPARISON**

**ACCOUNTS RECEIVABLE****Fiscal Year 2010:**

	<b>June 30, 2010</b>	<b>Purging Memo Reclassification</b>	<b>Adjusted Disclosure</b>
Student tuition	\$14,698,293	(\$4,602,813)	\$10,095,480
Auxiliary enterprises and other operating activities	3,934,844	(228,873)	3,705,971
Contributions and gifts	168,668		168,668
Federal, state, and private grants and contracts	28,754,954		28,754,954
State Appropriations	1,261,289		1,261,289
Accrued Interest	1,315,169		1,315,169
Patient Income			
Other			
Total Accounts receivable	\$50,133,218	(\$4,831,686)	\$45,301,532
Less allowance for doubtful accounts	5,356,999	(4,831,686)	525,313
<b>Net Accounts receivable</b>	<b>\$44,776,219</b>	<b>0.00</b>	<b>\$44,776,219</b>

**Fiscal Year 2009:**

	<b>June 30, 2009</b>	<b>Purging Memo Reclassification</b>	<b>Adjusted Disclosure</b>
Student tuition	\$13,680,403	(\$3,994,454)	\$9,685,949
Auxiliary enterprises and other operating activities	3,153,624	(315,713)	2,837,911
Contributions and gifts	3,814,666		3,814,666
Federal, state, and private grants and contracts	34,225,799		34,225,799
State Appropriations	1,420,866		1,420,866
Accrued Interest	551,505		551,505
Patient Income			
Other			
Total Accounts receivable	\$56,846,863	(\$4,310,167)	\$52,536,696
Less allowance for doubtful accounts	4,903,932	(4,310,167)	593,765
<b>Net Accounts receivable</b>	<b>\$51,942,931</b>	<b>0.00</b>	<b>\$51,942,931</b>





## NOTE 5

### NOTES RECEIVABLE FROM STUDENTS

Notes receivable from students are payable in installments over a period of up to ten years, commencing three to twelve months from

the date of separation from the institution. The above is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the institution at June 30, 2010. Amounts for June 30, 2009 presented for comparison.

### NOTES RECEIVABLE FROM STUDENTS

#### Fiscal Year 2010:

	Interest Rates	June 30, 2010	Current Portion	Non-Current Portion
Perkins student loans	3% to 9%	\$18,945,474	\$2,277,872	\$16,667,602
Nursing student loans	3% to 9%			
Other Federal loans	3% to 9%			
Institutional loans	0% to 9%	811,695	287,392	524,303
Medical student loans	3% to 9%			
Dental student loans	3% to 9%			
Total Notes receivable		\$19,757,170	\$2,565,264	\$17,191,905
Less allowance for doubtful accounts		\$1,585,802		\$1,585,802
<b>Net Notes receivable</b>		<b>\$18,171,368</b>	<b>\$2,565,264</b>	<b>\$15,606,103</b>

#### Fiscal Year 2009:

	Interest Rates	June 30, 2009	Current Portion	Non-Current Portion
Perkins student loans	3% to 9%	\$19,028,868	\$2,000,000	\$17,028,868
Nursing student loans	3% to 9%			
Other Federal loans	3% to 9%			
Institutional loans	0% to 9%	789,935	267,920	522,015
Medical student loans	3% to 9%			
Dental student loans	3% to 9%			
Total Notes receivable		\$19,818,804	\$2,267,920	\$17,550,883
Less allowance for doubtful accounts		1,601,737		1,601,737
<b>Net Notes receivable</b>		<b>\$18,217,067</b>	<b>\$2,267,920</b>	<b>\$15,949,146</b>



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

A summary of changes in capital assets for the year ended June 30, 2010 is presented in the table on page 27. Amounts for June 30, 2009 presented for comparison.

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

<b>CAPITAL ASSETS</b>				
<b>Fiscal Year 2010:</b>				
	<b>July 1, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2010</b>
<b>Nondepreciable Capital Assets:</b>				
Land	\$12,986,731	\$100,000	\$5,796	\$13,080,935
Construction in Progress	30,018,702	34,417,021	1,354,745	63,080,978
Livestock	1,601,111	107,037	178,115	1,530,033
Total Nondepreciable Capital Assets	\$44,606,544	\$34,624,058	\$1,538,656	\$77,691,946
<b>Depreciable Capital Assets:</b>				
Improvements other than Buildings	\$61,450,406	\$3,826,056	\$0	\$65,276,461
Buildings	607,514,191	9,133,403	66,839	616,580,755
Equipment**	127,053,049	10,251,421	6,282,086	131,022,384
Intangible Assets	0			0
Library Books	80,736,942	4,972,468	155,682	85,553,728
Total Depreciable Capital Assets	\$876,754,588	\$28,183,348	\$6,504,607	\$898,433,328
<b>Less Accumulated Depreciation for:</b>				
Improvements other than Buildings	\$16,061,203	\$2,470,770	\$0	\$18,531,973
Buildings	139,168,607	11,408,514	223	150,576,898
Equipment	96,572,017	11,620,509	5,443,681	102,748,844
Intangible Assets	0			0
Library Books	61,250,037	4,379,636	155,682	65,473,991
Total Accumulated Depreciation	\$313,051,864	\$29,879,429	\$5,599,586	\$337,331,706
<b>Capital Assets, Net</b>	<b>\$608,309,269</b>	<b>\$32,927,976</b>	<b>\$2,443,677</b>	<b>\$638,793,568</b>

\*\* As of June 30, 2010, capital assets included assets under capital leases with an original cost of \$1,399,722 and accumulated depreciation of \$592,054.

<b>Fiscal Year 2009:</b>				
	<b>July 1, 2008</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2009</b>
<b>Nondepreciable Capital Assets:</b>				
Land	\$12,737,925	\$252,500	\$3,694	\$12,986,731
Construction in Progress	81,688,416	7,720,816	59,390,530	30,018,702
Livestock	1,586,027	114,072	98,988	1,601,111
Total Nondepreciable Capital Assets	\$96,012,368	\$8,087,388	\$59,493,211	\$44,606,544
<b>Depreciable Capital Assets:</b>				
Improvements other than Buildings	\$59,337,117	\$2,113,288		\$61,450,406
Buildings	540,651,096	67,603,700	740,605	607,514,191
Equipment**	124,149,617	8,997,116	6,093,684	127,053,049
Library Books	76,459,773	4,565,964	288,794	80,736,942
Total Depreciable Capital Assets	\$800,597,603	\$83,280,068	\$7,123,083	\$876,754,588
<b>Less Accumulated Depreciation for:</b>				
Improvements other than Buildings	\$13,680,674	\$2,380,529		\$16,061,203
Buildings	129,445,568	10,306,062	583,023	139,168,607
Equipment	88,442,317	13,922,853	5,793,154	96,572,017
Library Books	57,290,598	4,248,233	288,794	61,250,037
Total Accumulated Depreciation	\$288,859,157	\$30,857,677	\$6,664,971	\$313,051,864
<b>Capital Assets, Net</b>	<b>\$607,750,814</b>	<b>\$60,509,779</b>	<b>\$59,951,323</b>	<b>\$608,309,269</b>

\*\* As of June 30, 2009, capital assets included assets under capital leases with an original cost of \$5,686,182 and accumulated depreciation of \$1,899,535.



## NOTE 7

### ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable consisted of the following at June 30, 2010. Amounts for June 30, 2009 are presented for comparison.

## NOTE 8

### DEFERRED REVENUES

Deferred revenues consisted of the following at June 30, 2010. Amounts for June 30, 2009 are presented for comparison.

## NOTE 9

### LONG-TERM LIABILITIES

Long-term liabilities of the University consist of notes and bonds payable, capital lease obligations and certain other liabilities that are expected to be liquidated at least one year from June 30, 2010. 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

## ACCOUNTS PAYABLE

	2010	2009
Payable to vendors and contractors	\$13,546,881	\$14,502,444
Accrued salaries, wages and employee withholdings	12,065,144	9,952,083
Other	(171,011)	478,067
<b>Total</b>	<b>\$25,441,014</b>	<b>\$24,932,594</b>

## DEFERRED REVENUE

	2010	2009
Unearned summer school revenue	\$1,782,373	\$2,424,227
Unearned grants and contract revenue	10,132,446	218,374
Other	9,597,572	8,456,426
<b>Total</b>	<b>\$21,512,391</b>	<b>\$11,099,027</b>

liabilities balance at June 30, 2010, is listed in the schedule on page 29. Amounts for June 30, 2009 provided for comparison.

On May 5, 2009, the University issued \$47,120,491 in Educational Building Corporation (EBC) revenue and refunding bonds, Series A-1 and A-2, with interest rates ranging from 2.5% to 5.25%. Series A-2 was used to defease \$16,535,000 of outstanding EBC-Revenue Bonds, Series 1998 on August 1, 2009. Series A-1 in the amount of \$29,615,000 is being used to finance and construct new student housing facilities.

## LONG-TERM LIABILITIES, FY 2010

Description and Purpose	Original Issue	Annual Interest Rate	Maturity	July 1, 2009	Additions	Deletions	June 30, 2010	Due Within One Year
<b>Bonded Debt</b>								
Dormitory Revenue System	\$2,250,000	3.00%	2020	\$970,000		\$70,000	\$900,000	\$70,000
Student Apartments	2,038,000	3.00%	2021	970,000		60,000	910,000	65,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2023	7,105,000		1,080,000	6,025,000	0
EBC01 - Revenue Bonds	16,920,000	4.00%-5.50%	2026	11,700,000		875,000	10,825,000	920,000
EBC04 - Revenue Bonds	17,000,000	2.00%-5.00%	2028	14,810,000		515,000	14,295,000	525,000
EBC04A - Revenue Bonds	28,790,000	2.00%-5.00%	2029	24,455,000		1,335,000	23,120,000	1,370,000
EBC05 - Revenue Bonds	58,965,000	4.00%-5.00%	2035	55,345,000		1,430,000	53,915,000	1,485,000
EBC07A - Revenue Bonds	6,110,000	4.50%-4.75%	2028	5,920,000		195,000	5,725,000	210,000
EBC09A-1 Revenue Bonds	29,615,000	3.00%-5.25%	2039	29,615,000		0	29,615,000	0
EBC09A-2 Refunding Bonds	17,105,000	3.00%-5.25%	2024	17,105,000		0	17,105,000	1,080,000
<b>Total Bonded Debt</b>				<b>\$167,995,000</b>	<b>\$0</b>	<b>\$5,560,000</b>	<b>\$162,435,000</b>	<b>\$5,725,000</b>
<b>Capital Leases</b>								
Farm Equipment				\$238,827		\$235,724	\$3,103	\$3,103
Computer Equipment				43,869		40,784	3,085	2,301
Vehicles				229,551		82,179	147,372	78,972
Other				233,451		148,988	84,463	74,517
<b>Total Capital Leases</b>				<b>\$745,698</b>	<b>\$0</b>	<b>\$507,675</b>	<b>\$238,023</b>	<b>\$158,893</b>
<b>Other Long-term Liabilities</b>								
Accrued Leave Liabilities				\$21,345,649		\$1,066,454	\$20,279,195	\$1,737,092
Deposits Refundable				86,300		4,300	82,000	
<b>Total Other Liabilities</b>				<b>\$21,431,949</b>	<b>\$0</b>	<b>\$1,070,754</b>	<b>\$20,361,195</b>	<b>\$1,737,092</b>
Federal Portion of NDSL				15,342,487		244,997	15,097,490	
<b>Total</b>				<b>\$205,515,134</b>	<b>\$0</b>	<b>\$7,383,426</b>	<b>\$198,131,708</b>	<b>\$7,620,985</b>
<b>Due Within One Year</b>							<b>7,620,985</b>	
<b>Total Long-term Liabilities</b>							<b>\$190,510,723</b>	

**LONG-TERM LIABILITIES, FY 2009**

Description and Purpose	Original Issue	Annual Interest Rate	Maturity	July 1, 2008	Additions	Deletions	June 30, 2009	Due Within One Year
<b>Bonded Debt</b>								
Dormitory Revenue System	\$2,250,000	3.00%	2020	\$1,035,000		\$65,000	\$970,000	\$70,000
Student Apartments	2,038,000	3.00%	2021	1,030,000		60,000	970,000	60,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2023	24,660,000		17,555,000	7,105,000	1,080,000
EBC01 - Revenue Bonds	16,920,000	4.00%-5.50%	2026	12,535,000		835,000	11,700,000	875,000
EBC04 - Revenue Bonds	17,000,000	2.00%-5.00%	2028	15,310,000		500,000	14,810,000	515,000
EBC04A - Revenue Bonds	28,790,000	2.00%-5.00%	2029	26,015,000		1,560,000	24,455,000	1,335,000
EBC05 - Revenue Bonds	58,965,000	4.00%-5.00%	2035	56,735,000		1,390,000	55,345,000	1,430,000
EBC07A - Revenue Bonds	6,110,000	4.50%-4.75%	2028	6,110,000		190,000	5,920,000	195,000
EBC09A-1 Revenue Bonds	29,615,000	3.00%-5.25%	2039		29,615,000		29,615,000	0
EBC09A-2 Refunding Bonds	17,105,000	3.00%-5.25%	2024		17,105,000		17,105,000	0
<b>Total Bonded Debt</b>				<b>\$143,430,000</b>	<b>\$46,720,000</b>	<b>\$22,155,000</b>	<b>\$167,995,000</b>	<b>\$5,560,000</b>
<b>Capital Leases</b>								
Farm Equipment				\$606,906		\$368,079	\$238,827	\$235,724
Computer Equipment				356,612		312,743	43,869	40,785
Vehicles				312,863		83,312	229,551	82,178
Other				499,573		266,122	233,451	148,988
<b>Total Capital Leases</b>				<b>\$1,775,954</b>	<b>\$0</b>	<b>\$1,030,256</b>	<b>\$745,698</b>	<b>\$507,675</b>
<b>Other Long-term Liabilities</b>								
Accrued Leave Liabilities				\$20,775,028	\$570,621		\$21,345,649	\$1,482,835
Deposits Refundable				82,240	4,060		86,300	
<b>Total Other Liabilities</b>				<b>\$20,857,268</b>	<b>\$574,681</b>	<b>\$0</b>	<b>\$21,431,949</b>	<b>\$1,482,835</b>
Federal Portion of NDSL				\$15,363,492		\$21,005	\$15,342,487	
<b>Total</b>				<b>\$181,426,714</b>	<b>\$47,294,681</b>	<b>\$23,206,261</b>	<b>\$205,515,134</b>	<b>\$7,550,510</b>
<b>Due Within One Year</b>							<b>7,550,510</b>	
<b>Total Long-term Liabilities</b>							<b>\$197,964,624</b>	

**OUTSTANDING DEBT AMORTIZATION SCHEDULE, FY2010**

Fiscal Year	Bonded Debt	Capital Leases	Notes Payable	Interest	Total
2011	\$5,725,000	\$158,893		\$7,449,372	\$13,333,266
2012	6,720,000	79,130		7,196,779	13,995,909
2013	6,985,000			6,914,978	13,899,978
2014	7,270,000			6,609,453	13,879,453
2015	7,520,000			6,270,063	13,790,063
2016-2020	36,330,000			26,026,786	62,356,786
2021-2025	38,050,000			17,731,254	55,781,254
2026-2030	26,910,000			9,897,369	36,807,369
20231-2035	17,445,000			4,772,825	22,217,825
2036-2040	9,480,000			825,413	10,305,413
<b>Totals</b>	<b>\$162,435,000</b>	<b>\$238,023</b>	<b>\$0</b>	<b>\$93,694,291</b>	<b>\$256,367,314</b>

**OUTSTANDING DEBT AMORTIZATION SCHEDULE, FY2009**

Fiscal Year	Bonded Debt	Capital Leases	Notes Payable	Interest	Total
2010	\$5,560,000	\$507,675		\$7,162,448	\$13,230,123
2011	5,725,000	158,892		7,449,363	13,333,255
2012	6,720,000	79,131		7,196,779	13,995,910
2013	6,985,000			6,914,978	13,899,978
2014	7,270,000			6,609,453	13,879,453
2015-2019	36,680,000			27,733,038	64,413,038
2020-2024	38,760,000			19,457,989	58,217,989
2025-2029	29,145,000			11,250,645	40,395,645
2030-2034	17,820,000			5,666,825	23,486,825
2035-2039	13,330,000			1,415,213	14,745,213
<b>Totals</b>	<b>\$167,995,000</b>	<b>\$745,698</b>	<b>\$0</b>	<b>\$100,856,731</b>	<b>\$269,597,429</b>

**NOTE 10  
OPERATING LEASES**

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

The total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the fiscal year ending June 30, 2010 was \$3,092,579.

**OPERATING LEASES**

	2010	2009
2010		\$3,404,317
2011	\$3,092,579	3,404,317
2012	3,092,579	3,404,317
2013	3,092,579	3,404,317
2014	3,092,579	3,404,317
2015	3,092,579	
<b>Total Minimum Payments Required</b>	<b>\$15,462,895</b>	<b>\$17,021,585</b>



## NOTE 11

### NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional classification were as follows for the year ended June 30, 2010. Amounts for June 30, 2009 presented for comparison.



#### NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS, FY 2010

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Other	Total
Instruction	\$75,705,382	\$22,189,847	\$1,384,647	\$4,907,347	\$24,544	\$1,497,099	\$1,803,752		\$0	107,512,619
Research	78,510,527	24,491,877	4,222,673	52,620,961	2,636,394	1,653,096	16,998,660			181,134,188
Public Service	49,478,316	14,821,424	3,716,088	13,168,024	846,777	548,847	3,289,565			85,869,039
Academic Support	17,955,668	4,699,027	399,573	3,585,007	183,778	26,784	3,045,349			29,895,185
Student Services	8,814,688	2,537,073	486,647	1,910,857	106,512	631,250	765,466			15,252,493
Institutional Support	17,985,360	1,669,516	192,872	2,044,048	129,003	1,393	12,433,170			34,455,362
Operation of Plant	13,553,267	4,085,815	61,409	0	7,813,339	0	2,653,922			28,167,751
Student Aid	1,061,125	3,075,735	7,577	149,059	0	19,334,127	84,030			23,711,653
Auxiliary Enterprises	18,062,199	4,323,204	2,807,458	9,762,640	2,260,509	7,812,810	3,383,641			48,412,461
Depreciation								29,879,429		29,879,429
Hospital										0
<b>Total Operating Expenses</b>	<b>\$281,126,533</b>	<b>\$81,893,516</b>	<b>\$13,278,944</b>	<b>\$88,147,942</b>	<b>\$14,000,855</b>	<b>\$31,505,406</b>	<b>\$44,457,554</b>	<b>\$29,879,429</b>	<b>\$0</b>	<b>584,290,179</b>

#### NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS, FY 2009

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Other	Total
Instruction	\$72,424,981	\$21,156,329	\$1,542,269	\$4,747,335	\$10,293	\$1,200,248	\$2,623,651			\$103,705,106
Research	76,046,085	23,283,158	4,862,648	52,245,354	3,113,394	1,286,225	18,596,944			179,433,808
Public Service	47,635,396	14,599,045	4,466,391	11,906,625	974,318	484,016	6,503,402			86,569,193
Academic Support	17,272,187	4,613,424	632,389	4,279,577	167,732	14,516	5,677,700			32,657,525
Student Services	8,777,847	2,523,341	536,723	1,312,719	115,845	41,898	1,239,484			14,547,857
Institutional Support	18,307,800	3,048,459	232,907	7,860,432	-114,769	32,859	2,989,917			32,357,605
Operation of Plant	12,684,201	3,933,714	57,223		9,671,505		4,188,851			30,535,494
Student Aid	1,029,830	2,776,556	4,888	414,929		13,471,981	127,982			17,826,166
Auxiliary Enterprises	16,638,198	4,076,704	2,547,542	8,674,754	2,424,120	7,733,332	4,452,073			46,546,723
Depreciation								30,857,677		30,857,677
Hospital										0
<b>Total Operating Expenses</b>	<b>\$270,816,525</b>	<b>\$80,010,730</b>	<b>\$14,882,980</b>	<b>\$91,441,725</b>	<b>\$16,362,438</b>	<b>\$24,265,075</b>	<b>\$46,400,004</b>	<b>\$30,857,677</b>	<b>\$0</b>	<b>\$575,037,154</b>



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

The University has contracted for various construction projects as of June 30, 2010. Estimated costs to complete the various projects and the sources of anticipated funding are presented below. Amounts for June 30, 2009 presented for comparison.

**CONSTRUCTION COMMITMENTS AND FINANCING, FY 2010**

	<b>Total Costs to Complete</b>	<b>Funded by Federal Sources</b>	<b>Institutional State Sources</b>	<b>Funds</b>	<b>Other</b>
105-310 Harned Hall Renovation - Phase I	\$16,999,110		\$16,999,110		
105-330 IT - Harned Hall Renovation	20,000.00		20,000.00		
105-332 Pre-Plan Lee Hall Renovation	1,070.00		1,070.00		
South Campus Entrance (MDOT)	5,000,000.00	\$5,000,000.00			
North Campus Entrance - Research Park	2,500,000.00	2,500,000.00			
Fence Project (MDOT)	500,000.00	400,000.00		\$100,000.00	
EBC 2009 Phase III Residence Hall	29,615,000.00			29,615,000.00	
New Parking Garage - Schematic Design	12,000,000.00			12,000,000.00	
Fraternity Parking Lot	315,000.00			315,000.00	
Buckner Ln Lockup Improvements	300,000.00			300,000.00	
Golf Course Practice Facility	650,000.00				\$650,000.00
Spencer Track Resurfacing	3,200,000.00			3,200,000.00	
113-099 MS Veterinary Diagnostic Lab (Phase I)	12,324,744.99		12,324,744.99		
113-102 Agricultural & Biological Engineering Bldg	9,418,317.45		9,415,117.45	3,200.00	
113-110 Pre-plan Wise Center Renovation	338,677.66		338,677.66		
113-111 Communications MS Vet Lab	1,574,943.91		1,574,943.91		
113-112 Communications Ag/Bio Eng	75,987.22		75,987.22		
113-113 Wise Center Fire Alarm/Security	589,166.86		549,166.86	40,000.00	
113-115 Lloyd-Ricks Renovation	12,000,000.00	3,234,963.00	8,765,037.00		
113-122 IT Lloyd-Ricks Renovation	10,000.00		10,000.00		
<b>Total</b>	<b>\$107,432,018</b>	<b>\$11,134,963</b>	<b>\$50,073,855</b>	<b>\$45,573,200</b>	<b>\$650,000</b>

**CONSTRUCTION COMMITMENTS AND FINANCING, FY 2009**

	<b>Total Costs to Complete</b>	<b>Funded by Federal Sources</b>	<b>Institutional State Sources</b>	<b>Funds</b>	<b>Other</b>
105-310 Harned Hall Renovation - Phase I	\$16,999,110		\$16,999,110		
105-330 IT - Harned Hall Renovation	20,000.00		20,000.00		
105-332 Pre-Plan Lee Hall Renovation	1,070.00		1,070.00		
Old Main Plaza	5,000,000.00			\$5,000,000.00	
South Campus Entrance (MDOT)	5,000,000.00	\$5,000,000.00			
North Campus Entrance - Research Park	2,500,000.00	2,500,000.00			
Simrall Hall Renovation	707,745.26			707,745.26	
EBC 2009 Phase III Residence Hall	29,615,000.00			29,615,000.00	
Moseley Plaza	254,475.67			254,475.67	
Gast Building Renovation	393,000.00			393,000.00	
113-099 MS Veterinary Diagnostic Lab (Phase I)	12,324,744.99		12,324,744.99		
113-102 Agricultural & Biological Engineering Bldg	9,418,317.45		9,415,117.45	3,200.00	
113-110 Pre-plan Wise Center Renovation	338,677.66		338,677.66		
113-111 Communications MS Vet Lab	1,574,943.91		1,574,943.91		
113-112 Communications Ag/Bio Eng	75,987.22		75,987.22		
113-113 Wise Center Fire Alarm/Security	589,166.86		549,166.86	40,000.00	
113-115 Lloyd-Ricks Renovation	12,000,000.00	3,234,963.00	8,765,037.00		
113-122 IT Lloyd-Ricks Renovation	10,000.00		10,000.00		
<b>Total</b>	<b>\$79,823,129</b>	<b>\$10,734,963</b>	<b>\$33,074,745</b>	<b>\$36,013,421</b>	<b>\$0</b>



## NOTE 13 PENSION PLANS PLAN DESCRIPTION

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

## FUNDING POLICY

PERS members are required to contribute 9.00% of their annual salary and the institution is required to contribute at an actuarially determined rate. The employer rate is 12.00%. The contribution requirement of PERS members are established and may be amended only by the State of Mississippi Legislature. The institutional contributions to PERS for the years ending June 30, 2010, 2009, and 2008 were \$21,630,361, \$21,312,496, and \$20,563,412 respectively, and equal to the required contributions for each year.

## VESTING PERIOD

In 2007, the Mississippi Legislature amended the PERS plan to change the vesting period from four to eight years for members who entered the system after July 1, 2007. A member who entered the system prior to July 1, 2007 is still subject to the four-year vesting period provided that the member does not subsequently refund their account balance.

PERS also administers an Optional Retirement Plan (ORP) whereby new

faculty members may select from three investment companies. ORP contribution rates are identical to the PERS rates. University contributions for the years ending June 30, 2010, 2009, and 2008 were \$7,381,516, \$7,037,167, and \$6,385,793 respectively.

## NOTE 14 DONOR RESTRICTED ENDOWMENTS

The net depreciation on investments of donor restricted endowments that is available for authorization for expenditure increased \$5,418,833 to \$9,102,457. This amount is included on the Statement of Net Assets as Restricted Expendable.

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

## NOTE 15 FEDERAL DIRECT LENDING AND FFEL PROGRAMS

The University distributed \$89,541,375 for the year ended June 30, 2010, for student loans through the U.S. Department of Education lending programs. These distributions and their related funding sources are included as "Non-Capital Financing Distributions" in the Cash Flows Statement.

## NOTE 16 FOUNDATIONS AND AFFILIATED PARTIES

Mississippi State University Foundation (Foundation) is a legally separate, tax-exempt organization supporting Mississippi State University (University). The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The 44-member board of the Foundation is self-

perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the university by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2010, the Foundation made distributions of \$17,667,575 to or on behalf of the University for both restricted and unrestricted purposes. Immediately following Note 16 are the financial statements for the Foundation. Any questions regarding the Foundation statements or requests for additional information may be addressed to the Administrative Office, Hunter Henry Center, P.O. Box 6149, Mississippi State, MS 39762.





# MISSISSIPPI STATE UNIVERSITY™

## MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC. JUNE 30, 2010 AND 2009 (WITH INDEPENDENT AUDITORS' REPORT THEREON)

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







**KPMG LLP**  
Morgan Keegan Tower  
Suite 900  
50 North Front Street  
Memphis, TN 38103-1194

## **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, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

November 1, 2010

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Statements of Financial Position

June 30, 2010 and 2009

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash	\$ 4,509,074	2,370,160
Restricted cash	2,823,125	2,032,354
Accrued interest, other receivables and prepaid assets	429,215	568,524
Receivable from Mississippi State University	7,383	2,982
Receivable from MSU Alumni Foundation	11,053	12,933
Receivable from MSU Alumni Association	111,661	131,424
Notes receivable (note 4)	277,971	366,117
Pledges receivable, net (note 3)	17,353,218	19,562,300
Investments (note 2)	230,578,784	204,400,418
Present value of amounts due from externally managed trusts	28,799,932	26,986,042
Land, buildings, and equipment (note 5)	11,802,222	12,540,166
Total assets	<u>\$ 296,703,638</u>	<u>268,973,420</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,738,325	2,484,360
Agency payable	2,823,125	2,032,354
Obligation under capital leases (note 9)	2,821,970	3,175,353
Liabilities under split interest agreements	3,942,324	3,784,736
Note payable (note 6)	228,813	267,941
Total liabilities	<u>11,554,557</u>	<u>11,744,744</u>
Net assets (deficit):		
Unrestricted	11,139,689	(3,839,125)
Temporarily restricted (note 7)	33,569,574	32,564,787
Permanently restricted (note 7)	240,439,818	228,503,014
Total net assets	<u>285,149,081</u>	<u>257,228,676</u>
Commitments (notes 8 and 9)		
Total liabilities and net assets	<u>\$ 296,703,638</u>	<u>268,973,420</u>

See accompanying notes to financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Statement of Activities

Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contributions	\$ 3,692,435	9,830,893	9,234,758	22,758,086
Net investment income (note 2)	15,173,009	8,437,435	482,982	24,093,426
Change in value of split interest agreements	—	117,294	2,219,064	2,336,358
Other	2,619,994	86,971	—	2,706,965
Net assets released from restrictions	17,467,806	(17,467,806)	—	—
Total revenues and support	<u>38,953,244</u>	<u>1,004,787</u>	<u>11,936,804</u>	<u>51,894,835</u>
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	17,667,275	—	—	17,667,275
Contributions and support for Bulldog Club	489,599	—	—	489,599
Contributions and support for Bulldog Foundation	63,504	—	—	63,504
Contributions and support for MSU Alumni Association	513,275	—	—	513,275
Total program services	<u>18,733,653</u>	<u>—</u>	<u>—</u>	<u>18,733,653</u>
Supporting services:				
General and administrative	2,685,370	—	—	2,685,370
Fund raising	2,555,407	—	—	2,555,407
Total supporting services	<u>5,240,777</u>	<u>—</u>	<u>—</u>	<u>5,240,777</u>
Total expenditures	<u>23,974,430</u>	<u>—</u>	<u>—</u>	<u>23,974,430</u>
Increase in net assets	14,978,814	1,004,787	11,936,804	27,920,405
Net assets (deficit) at beginning of year	(3,839,125)	32,564,787	228,503,014	257,228,676
Net assets at end of year	<u>\$ 11,139,689</u>	<u>33,569,574</u>	<u>240,439,818</u>	<u>285,149,081</u>

See accompanying notes to financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Statement of Activities

Year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contributions	\$ 4,675,367	12,387,527	11,073,098	28,135,992
Net investment loss (note 2)	(24,242,720)	(7,203,227)	(332,523)	(31,778,470)
Change in value of split interest agreements	—	(164,376)	392,000	227,624
Other	2,562,793	—	—	2,562,793
Change in restrictions by donor	455,046	(599,481)	144,435	—
Net assets released from restrictions	17,330,572	(17,330,572)	—	—
Total revenues and support	<u>781,058</u>	<u>(12,910,129)</u>	<u>11,277,010</u>	<u>(852,061)</u>
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	17,875,592	—	—	17,875,592
Contributions and support for Bulldog Club	2,387,142	—	—	2,387,142
Contributions and support for Bulldog Foundation	21,375	—	—	21,375
Contributions and support for MSU Alumni Association	566,877	—	—	566,877
Total program services	<u>20,850,986</u>	<u>—</u>	<u>—</u>	<u>20,850,986</u>
Supporting services:				
General and administrative	2,453,821	—	—	2,453,821
Fund raising	2,780,273	—	—	2,780,273
Total supporting services	<u>5,234,094</u>	<u>—</u>	<u>—</u>	<u>5,234,094</u>
Total expenditures	<u>26,085,080</u>	<u>—</u>	<u>—</u>	<u>26,085,080</u>
(Decrease) increase in net assets	(25,304,022)	(12,910,129)	11,277,010	(26,937,141)
Net assets at beginning of year	<u>21,464,897</u>	<u>45,474,916</u>	<u>217,226,004</u>	<u>284,165,817</u>
Net assets (deficit) at end of year	<u>\$ (3,839,125)</u>	<u>32,564,787</u>	<u>228,503,014</u>	<u>257,228,676</u>

See accompanying notes to financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 27,920,405	(26,937,141)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	808,666	800,654
Loss on early redemption of bonds	—	63,600
Realized and unrealized (gains) losses on investments, net	(18,892,477)	38,861,557
Change in value of internally managed split interest agreements	145,362	(499,457)
Fair value of donated assets	(4,092,500)	(1,584,128)
Change in accrued interest, other receivables and prepaid assets	139,309	89,130
Change in pledges receivable, net	2,209,082	(2,531,863)
Change in externally managed trusts	(1,813,890)	(1,049,207)
Change in accounts payable and accrued liabilities	(746,035)	(287,087)
Change in receivable from Mississippi State University	(4,401)	10,768
Change in receivable from MSU Alumni Foundation	1,880	6,177
Change in receivable from MSU Alumni Association	19,763	(10,471)
Permanently restricted investment dividends and interest	—	(4,219)
Permanently restricted contributions	(12,472,222)	(11,128,623)
Net cash used in operating activities	<u>(6,777,058)</u>	<u>(4,200,310)</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(70,722)	(33,902)
Purchases of investments	(16,120,876)	(15,225,227)
Proceeds from sales and maturities of investments	13,324,700	12,131,248
Payments on notes receivable	88,146	77,365
Net cash used in investing activities	<u>(2,778,752)</u>	<u>(3,050,516)</u>
Cash flows from financing activities:		
Principal payments on bonds and note payable	(39,128)	(3,943,849)
Permanently restricted investment dividends and interest	—	4,219
Permanently restricted contributions	12,472,222	11,128,623
New liabilities under split interest agreements	173,273	132,809
Payments to split interest agreement beneficiaries	(558,260)	(609,162)
Principal payments on capital lease obligation	(353,383)	(334,746)
Net cash provided by financing activities	<u>11,694,724</u>	<u>6,377,894</u>
Net increase (decrease) in cash	2,138,914	(872,932)
Cash at beginning of year	<u>2,370,160</u>	<u>3,243,092</u>
Cash at end of year	\$ <u><u>4,509,074</u></u>	<u><u>2,370,160</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ —	26,993

See accompanying notes to financial statements.

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2010 and 2009

### (1) Significant Accounting Policies

#### (a) Organization

Mississippi State University Foundation, Inc. (the Foundation) is a not-for-profit entity established to solicit and manage funds for the benefit of Mississippi State University (the University). The Foundation also manages funds for affiliates of the University, including MSU Alumni Association, MSU Alumni Foundation, MSU Bulldog Club, Inc. and MSU Bulldog Foundation.

#### (b) Basis of Accounting

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

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

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

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2010 and 2009

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

- as increases in permanently restricted net assets if the terms of the gift or the Foundation's interpretation of relevant state law require that gains be added to the principal of a permanent endowment fund;
- as increases or decreases in temporarily restricted net assets if the terms of the gift impose restrictions on their use; and
- as increases or decreases in unrestricted net assets in all other cases.

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

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

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

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

### **(d) *Restricted Cash***

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

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

Land, buildings, and equipment are stated at cost, if purchased, or at fair value on the date of gift, if donated. Depreciation of buildings and equipment, including assets acquired under capital leases, is provided on the straight-line method over the shorter of the estimated useful life of the assets or the term of the lease. The estimated useful lives for buildings are 30-40 years and furniture, fixtures, and equipment are 5-10 years.

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

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2010 and 2009

### **(f) Investments**

#### **Overall Investment Objective**

The overall investment objective of the Foundation is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund donor-designated directives and maintain each fund's inflation-adjusted impact. The Foundation diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Foundation's Investment Committee, which oversees its investment program in accordance with an established investment policy.

#### **Allocation of Investment Strategies**

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

#### **Basis of Reporting**

Investments are reported at estimated fair value. If an investment is held directly by the Foundation and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds registered with the SEC are based on share prices reported by the funds as of the last business day of the fiscal year. The Foundation's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers, which is used a practical expedient to estimate the fair value of the Foundation's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2010 and 2009, the Foundation had no plans or intentions to sell investments at amounts different from NAV.

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2010 and 2009

**(g) Pledges**

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

**(h) Split Interest Agreements**

The Foundation accepts gifts subject to split interest agreements. These gifts may be in the form of gift annuities, charitable lead trusts, charitable remainder trusts, or perpetual trusts. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuity or trust beneficiary and are determined using appropriate discount rates (at June 30, 2010 rates ranged from approximately 1% to 8%). For certain split interest agreements where the measurement objective is fair value, the discount rate is adjusted to a current market rate at each reporting date. Funds subject to split interest agreements are classified as temporarily restricted or permanently restricted based upon donor designations.

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

Contribution revenue attributable to split interest agreements for the fiscal years ended June 30, 2010 and 2009 was \$969,476 and \$1,704,261, respectively.

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

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

**(j) Income Taxes**

The Foundation is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes has been made.

**(k) Liquidity**

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

**(l) Recent Accounting Pronouncements**

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes an enhanced framework for measuring fair value and expands disclosures about fair value measurements. In conjunction with the adoption of SFAS No. 157, the Foundation elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2010 and 2009

in funds that do not have readily determinable fair values including private equity investments, hedge funds, natural resources, contributed properties held for investment, and other funds. This guidance amends SFAS No. 157 and permits, as a practical expedient, for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to SFAS No. 157. The Foundation's adoption of SFAS No. 157 did not have a significant impact on the Foundation's determination of fair value in the financial statements but did result in expanded footnote disclosures in note 8 to the financial statements.

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA and expands disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP 117-1 is effective for fiscal years ending after December 15, 2008. As of June 30, 2010, the state of Mississippi had not yet adopted UPMIFA. The Foundation has complied with the disclosure provisions of FSP 117-1 during the years ended June 30, 2010 and 2009.

### **(m) Subsequent Events**

FASB Accounting Standards Codification (ASC) 855, *Subsequent Events*, introduces the concept of financial statements being "available to be issued," and requires disclosure of the date through which the entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. FASB ASC 855 does not result in significant changes to subsequent events that are reported either through recognition or disclosure in the financial statements. The Foundation has evaluated subsequent events through November 1, 2010, the date the financial statements were available to be issued.

### **(2) Investments**

The Foundation, the University, the MSU Alumni Foundation, and the MSU Bulldog Club, Inc. are participants in a joint venture whereby certain assets are pooled for investment purposes. The Foundation is the investment pool's general partner, 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, 2010 and 2009, approximately 84% and 83%, respectively, of the Foundation's investments are included in the pool.

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2010 and 2009

Investments are summarized as follows at June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Fixed income securities	\$ 56,386,320	56,403,186
Equity securities	92,149,861	77,530,352
Hedged funds	50,007,931	43,837,961
Private equity and venture capital funds	3,060,238	2,681,561
Natural resources	12,250,875	10,566,275
Short-term investments	5,205,777	5,042,878
Contributed properties held for investment	10,287,397	7,176,346
Cash surrender value of life insurance	1,230,385	1,161,859
	<u>\$ 230,578,784</u>	<u>204,400,418</u>

Within each asset class, the Foundation achieves diversification through allocations to several investment strategies and market capitalizations.

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, 2010 and 2009 with an approximate fair value of \$6,034,000 and \$5,468,000, respectively.

The following schedule summarizes net investment income (loss) in the statements of activities for the years ended June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Dividends and interest (net of expenses of \$813,359 and \$815,363, respectively)	\$ 5,200,949	7,083,087
Net realized and unrealized gains (losses)	18,892,477	(38,861,557)
	<u>\$ 24,093,426</u>	<u>(31,778,470)</u>

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

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### (3) Pledges Receivable

Pledges receivable, net, are summarized as follows at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 7,129,430	7,893,435
One year to five years	10,009,126	10,108,024
Over five years	<u>2,865,159</u>	<u>4,262,201</u>
	20,003,715	22,263,660
Less unamortized discount (rates ranging from 1% to 5% in 2010 and 2009)	<u>(1,859,760)</u>	<u>(2,024,659)</u>
	18,143,955	20,239,001
Less allowance for uncollectible pledges	<u>(790,737)</u>	<u>(676,701)</u>
	<u>\$ 17,353,218</u>	<u>19,562,300</u>

### (4) Notes Receivable

At June 30, 2010 and 2009, the Foundation had two notes receivable from a related party totaling \$277,971 and \$366,117, respectively. The notes receivable require semi-annual and monthly payments of \$33,238 and \$3,229, respectively, have interest rates of 6% and maturity dates of August 2014 and December 2010, respectively.

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

Land, buildings, and equipment are summarized as follows at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land and buildings	\$ 11,987,491	11,987,491
Furniture, fixtures, and equipment	<u>7,503,677</u>	<u>7,446,302</u>
	19,491,168	19,433,793
Less accumulated depreciation	<u>(7,688,946)</u>	<u>(6,893,627)</u>
	<u>\$ 11,802,222</u>	<u>12,540,166</u>

### (6) Bonds and Note Payable

In April 2002, the Foundation issued \$6,000,000 in Series 2002 Variable Rate Revenue Bonds through the Mississippi Business Finance Corporation. The Foundation redeemed the bonds in November 2008.

At June 30, 2010 and 2009, the Foundation had a non-interest bearing unsecured note payable to a private foundation in the amount of \$228,813 and \$267,941, respectively. Principal is payable as repayments are received from students.

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

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Interest expense incurred during the years ended June 30, 2010 and 2009 was \$0 and \$25,098, respectively.

### (7) Net Assets

Temporarily restricted and permanently restricted net assets at June 30, 2010 and 2009 were available for the following purposes:

	2010		2009	
	Net assets		Net assets	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
General college support	\$ 13,678,870	81,426,777	12,914,740	74,445,123
Student financial aid	12,753,182	93,020,431	12,073,790	87,879,020
Research	455,346	16,475,183	1,010,879	16,297,408
Faculty and staff support	2,022,599	40,421,874	1,274,278	39,780,153
Facilities	3,816,912	6,955,463	4,808,804	7,915,287
Other	842,665	2,140,090	482,296	2,186,023
Total	\$ 33,569,574	240,439,818	32,564,787	228,503,014

### (8) Fair Value Measurements

#### (a) Fair Value of Financial Instruments

The carrying amounts 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 approximates fair value as they are presented on a discounted basis. The fair value of the notes receivable has been estimated using current interest rates and approximate the carrying amounts at June 30, 2010 and 2009. 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, 2010 and 2009. Investments and amounts due from externally managed trusts are reflected in the accompanying financial statements at fair value. The fair value of annuity obligations approximates carrying value at June 30, 2010 and 2009 due to discount rates and actuarial assumptions used in the calculation of the Foundation's liability.

#### (b) Fair Value Hierarchy

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date;

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

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- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

The following tables summarize the Foundation's assets by major category in the fair value hierarchy as of June 30, 2010 and 2009:

	June 30, 2010				Redemption or Liquidation	Days' Notice
	Level 1	Level 2	Level 3	Total		
Fixed income:						
Fixed income securities	\$ 262,797	8,428,390	—	8,691,187	Daily	1
Fixed income - mutual funds	47,695,133	—	—	47,695,133	Daily	1
Total fixed income	47,957,930	8,428,390	—	56,386,320		
Equities:						
Domestic large cap/mid cap	964,313	31,869,056	—	32,833,369	Daily	1-3
Domestic small cap	22,064,622	—	—	22,064,622	Daily	3
Non-U.S. equity	18,132,121	11,391,197	—	29,523,318	Daily/monthly	1-15
Real-estate investment trusts	7,728,552	—	—	7,728,552	Daily	1
Total equities	48,889,608	43,260,253	—	92,149,861		
Hedged funds	—	—	50,007,931	50,007,931	(1)	(1)
Private equity and venture capital funds	—	—	3,060,238	3,060,238	Illiquid (2)	—
Natural resources	—	—	12,250,875	12,250,875	(3)	(3)
Short-term investments	5,205,777	—	—	5,205,777	Daily	1
Contributed properties held for investment	—	—	10,287,397	10,287,397	Illiquid (4)	—
Cash surrender value of life insurance	—	1,230,385	—	1,230,385	(5)	(5)
Total investments	\$ 102,053,315	52,919,028	75,606,441	230,578,784		
Present value of amounts due from externally managed trusts	\$ —	28,799,932	—	28,799,932		

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## Notes to Financial Statements

June 30, 2010 and 2009

	June 30, 2009				Redemption or Liquidation	Days' Notice
	Level 1	Level 2	Level 3	Total		
Fixed income:						
Fixed income securities	\$ 271,157	9,865,842	—	10,136,999	Daily	1
Fixed income - mutual funds	46,266,187	—	—	46,266,187	Daily	1
Total fixed income	46,537,344	9,865,842	—	56,403,186		
Equities:						
Domestic large cap/mid cap	859,013	32,764,019	—	33,623,032	Daily	1-3
Domestic small cap	15,081,939	—	—	15,081,939	Daily	3
Non-U.S. equity	14,151,211	8,426,707	—	22,577,918	Daily/monthly	1-15
Real-estate investment trusts	6,247,463	—	—	6,247,463	Daily	1
Total equities	36,339,626	41,190,726	—	77,530,352		
Hedged funds	—	—	43,837,961	43,837,961	(1)	(1)
Private equity and venture capital funds	—	—	2,681,561	2,681,561	Illiquid (2)	—
Natural resources	—	—	10,566,275	10,566,275	(3)	(3)
Short-term investments	5,042,878	—	—	5,042,878	Daily	1
Contributed properties held for investment	—	—	7,176,346	7,176,346	Illiquid (4)	—
Cash surrender value of life insurance	—	1,161,859	—	1,161,859	(5)	(5)
Total investments	\$ 87,919,848	52,218,427	64,262,143	204,400,418		
Present value of amounts due from externally managed trusts	\$ —	26,986,042	—	26,986,042		

- (1) Some of the hedge fund investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually with the majority requiring 15 to 180 days notice after the initial lock up period, which may be monthly, quarterly, or annually. At June 30, 2010 and 2009, the Foundation had no alternative investment funds for which an otherwise redeemable investment was not redeemable.
- (2) These funds have ten-year terms, with extensions of one to four years, and are expected to liquidate within five to seven years; future commitments to these funds total \$674,287 and \$1,188,975 at June 30, 2010 and 2009, respectively. Private equity and venture capital investments are generally made through limited partnerships. Under the terms of such agreements, the Foundation may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Foundation cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain.
- (3) One partnership expected to terminate in May 2019, but is subject to two 2-year extensions. The master limited partnership allows for monthly redemptions with 30 days notice.
- (4) Bulldog Forest properties may be held in perpetuity or liquidated at the Foundation's discretion. Other properties are for immediate sale.
- (5) The Foundation currently has no plans to surrender these policies prior to maturity, but cash would be realized in a minimal amount of time if the insurance policy was cancelled.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Financial Statements

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The following tables present the Foundation's activities for the years ended June 30, 2010 and 2009 for investments classified in Level 3:

<b>2010</b>					
	<b>Hedged funds</b>	<b>Private equity and venture capital funds</b>	<b>Natural resources</b>	<b>Contributed properties held for investment</b>	<b>Total</b>
Beginning value as of July 1, 2009	\$ 43,837,961	2,681,561	10,566,275	7,176,346	64,262,143
Acquisitions	24,252,351	192,662	—	3,450,000	27,895,013
Dispositions	(20,283,831)	(52,114)	(387,357)	(239,303)	(20,962,605)
Net realized and unrealized gains (losses)	<u>2,201,450</u>	<u>238,129</u>	<u>2,071,957</u>	<u>(99,646)</u>	<u>4,411,890</u>
Fair value at June 30, 2010	<u><u>\$ 50,007,931</u></u>	<u><u>3,060,238</u></u>	<u><u>12,250,875</u></u>	<u><u>10,287,397</u></u>	<u><u>75,606,441</u></u>
<b>2009</b>					
	<b>Hedged funds</b>	<b>Private equity and venture capital funds</b>	<b>Natural resources</b>	<b>Contributed properties held for investment</b>	<b>Total</b>
Beginning value as of July 1, 2008	\$ 50,628,551	2,837,694	12,738,086	7,076,718	73,281,049
Acquisitions	40,332	266,318	104,872	1,313,127	1,724,649
Dispositions	(1,776,341)	(21,501)	—	(2,203,641)	(4,001,483)
Net realized and unrealized gains (losses)	<u>(5,054,581)</u>	<u>(400,950)</u>	<u>(2,276,683)</u>	<u>990,142</u>	<u>(6,742,072)</u>
Fair value at June 30, 2009	<u><u>\$ 43,837,961</u></u>	<u><u>2,681,561</u></u>	<u><u>10,566,275</u></u>	<u><u>7,176,346</u></u>	<u><u>64,262,143</u></u>

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2010 and 2009

### (9) Leases

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

Fiscal year:		
2011	\$	458,938
2012		458,938
2013		458,938
2014		458,938
2015		458,938
Thereafter		<u>803,682</u>
Total future minimum lease payments		3,098,372
Amount representing interest		<u>(276,402)</u>
Present value of net minimum lease payments	\$	<u><u>2,821,970</u></u>

The equipment recorded under the capital lease agreement is included in property and equipment at an original cost of \$4,538,794 with accumulated depreciation of \$1,817,816 and \$1,592,438 as of June 30, 2010 and 2009, respectively.

### (10) Endowment

The Foundation's endowment consists of approximately 1000 individual donor-restricted endowment funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors of the Foundation (the Board) to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### (a) Interpretations of Relevant Law

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

- 1) The purpose of the Foundation
- 2) The intent of the donor of the endowment fund

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2010 and 2009

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

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

### **(b) *Spending Policy***

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

The annual rate for spendable transfers, distributed semi-annually, is 4% of the investment pool's average unit value over the most recent 24-month period. In addition, each endowed fund is assessed an annual 1% administrative fee. This fee is a portion of the funding mechanism for the development and alumni programs of the University.

### **(c) *Investment Policy***

The Foundation's investment objectives are to provide an annualized real (adjusted for inflation) rate of return of 5% or more in order to preserve, or increase, the purchasing power of endowment capital, while generating an income stream to support activities of the funds held for the colleges and units of the University. This policy is designed to tolerate volatility in short and intermediate-term performance. The endowment assets are invested as a part of the investment pool, as discussed in note 2.

To satisfy its long-term rate of return objectives, the pool embraces a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation, through the Mississippi State Investment

# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

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Pool, targets a diversified asset allocation that includes global equities, fixed income, natural resources, and hedge strategies to achieve long-term objectives within prudent risk constraints.

Endowment net asset composition by type of fund as of June 30, 2010:

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (11,053,355)	6,057,746	240,439,818	235,444,209
Board-designated endowment funds	11,201,036	—	—	11,201,036
Total funds	<u>\$ 147,681</u>	<u>6,057,746</u>	<u>240,439,818</u>	<u>246,645,245</u>

Changes in endowment net assets for the fiscal year ended June 30, 2010:

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ (12,890,771)	6,690,128	228,503,014	222,302,371
Investment return:				
Investment income	444,418	3,223,116	—	3,667,534
Net appreciation (realized and unrealized)	11,581,126	4,303,194	482,982	16,367,302
Total investment return	12,025,544	7,526,310	482,982	20,034,836
Contributions	—	—	9,234,758	9,234,758
Appropriation of endowment assets for expenditure	(341,060)	(6,804,724)	—	(7,145,784)
Other changes:				
Other transfers	1,353,968	(1,353,968)	—	—
Change in value of split interest agreements	—	—	2,219,064	2,219,064
Endowment net assets, end of year	<u>\$ 147,681</u>	<u>6,057,746</u>	<u>240,439,818</u>	<u>246,645,245</u>

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

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Endowment net asset composition by type of fund as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (22,080,786)	6,690,128	228,503,014	213,112,356
Board-designated endowment funds	<u>9,190,015</u>	<u>—</u>	<u>—</u>	<u>9,190,015</u>
Total funds	<u>\$ (12,890,771)</u>	<u>6,690,128</u>	<u>228,503,014</u>	<u>222,302,371</u>

Changes in endowment net assets for the fiscal year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 9,156,069	24,306,972	217,226,004	250,689,045
Investment return:				
Investment income	360,823	4,700,675	4,219	5,065,717
Net depreciation (realized and unrealized)	<u>(21,227,090)</u>	<u>(13,963,955)</u>	<u>(336,742)</u>	<u>(35,527,787)</u>
Total investment return	(20,866,267)	(9,263,280)	(332,523)	(30,462,070)
Contributions	—	—	11,073,098	11,073,098
Appropriation of endowment assets for expenditure	(2,290,573)	(8,353,564)	—	(10,644,137)
Other changes:				
Transfers to create board- designated endowment funds	1,110,000	—	—	1,110,000
Change in restrictions by donor	—	—	144,435	144,435
Change in value of split interest agreements	<u>—</u>	<u>—</u>	<u>392,000</u>	<u>392,000</u>
Endowment net assets, end of year	<u>\$ (12,890,771)</u>	<u>6,690,128</u>	<u>228,503,014</u>	<u>222,302,371</u>

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

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**(d) *Funds with deficiencies***

As a result of market declines for certain recently established endowments, the fair value of certain donor-restricted endowments was less than the historical cost value (original gift/book value) of such funds (“underwater”) by \$11,053,355 and \$22,080,786 at June 30, 2010 and 2009, respectively.

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



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