MISSISSIPPI STATE UNIVERSITY™

CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

MISSISSIPPI STATE
UNIVERSITY

MANAGEMENT'S DISCUSSION & ANALYSIS

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, 2011, and comparative data for the fiscal year ended June 30, 2010. The accompanying financial statements, footnotes and this discussion are the responsibility of management.

STATEMENT OF NET ASSETS

The statement of net assets presents the financial position of the University at the end of the fiscal year. This statement reflects the assets, liabilities and net assets of the University as of the fiscal years ended June 30, 2011 and 2010 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 or property and equipment reduced by the balance of related debt outstanding and depreciation expense charged over the years; (2) restricted net assets which have constraints imposed by third parties; (3) and unrestricted assets that can be used at the discretion of University administration within the bounds of state law. Additionally, restricted net assets are either nonexpendable, as in the case of endowment gifts to be held in perpetuity, or expendable, as in the case of funds for scholarships, research, or other reasons.

CONDENSED STATEMENT OF NET ASSETS

	FY 2011	FY 2010
ASSETS:		
Current Assets	$138,431,658	$128,481,333
Capital Assets, Net	652,251,119	638,793,568
Other Noncurrent Assets	118,739,151	119,258,394
Total Assets	**$909,421,928**	**$886,533,295**
LIABILITIES:		
Current liabilities	$50,898,600	$60,655,443
Non-Current liabilities	$183,830,823	$190,510,723
Total Liabilities	**$234,729,423**	**$251,166,166**
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	$499,096,655	$484,078,786
Restricted-Nonexpendable Scholarships	2,498,286	2,072,283
Restricted-Nonexpendable Research	4,715,840	4,003,684
Restricted-Nonexpendable Other Purposes	8,367,158	7,288,903
Expendable-Scholarships and Fellowships	2,622,093	1,995,229
Expendable-Research	11,157,440	12,136,108
Expendable-Capital Projects	(177,633)	0
Expendable-Debt Service	563,418	1,249,411
Expendable-Loans	3,845,072	3,934,585
Expendable-Other Purposes	1,248,053	1,255,835
Unrestricted	140,756,123	117,352,305
Total Net Assets	**$674,692,505**	**$635,367,129**

The financial position of the University improved for fiscal year 2011 over the prior fiscal year. Net assets for 2011 increased approximately $39.3 million with total assets increasing $22.9 million and total liabilities decreasing $16.4 million.

Positive material increases in current assets include an $11 million increase in accounts receivable in large part due to contracts and grants receivables at year end. The mix of cash and short term investments had a negligible variance between the fiscal years. A decrease of $1 million was realized in prepaid purchases orders compared to the previous fiscal year, as well as, a $1.3 million decrease in deferred terminal leave charges due to terminal leave rate adjustments that were required in response to the FY2010 retirement incentive program.

Noncurrent assets show a material positive increase of $13.5 million in capital assets net primarily due to the new, $11 million Mize Pavilion. Decreases in restricted cash of $4.7 million are attributed to expenditures of proceeds from the issuance of bonds for the new, South Hall student housing facility. Endowment investments in the investment pool also realized an increase of $5.2 million over 2010 due to proceeds invested from a land sale and unrealized market gains on the value of existing investments.

Current liabilities decreased in large part due to recognizing $5 million of deferred revenue previously received from British Petroleum (BP) in support of the oil spill cleanup effort. In addition, the $5.9 million accounts payable entry associated with the FY2010 retirement incentive was cleared in July 2010.

Non current liabilities show a decrease of $6.6 million as a result of reduction in bonded debt due to continued payments of principle and interest amounts. No new debt was issued during fiscal year 2011. A complete summary of long-term indebtedness can be seen in Note 9 of the Notes to the Financial Statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the year, regardless of when cash is received or disbursed. Activities in this statement are presented as either operating or non-operating. Operating revenues are recorded in exchange for providing goods and services. Operating expenses are incurred as a result of normal operations of the University but also include deprecia-

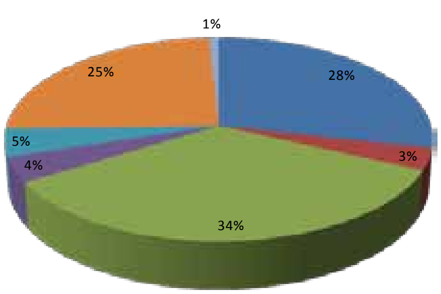
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	FY 2011	FY 2010
Operating Revenues	$368,841,928	$355,564,875
Operating Expenses	$565,042,292	$565,612,480
Operating Loss	**($196,200,364)**	**($210,047,605)**
Total Net Nonoperating Revenues (Expenses)	$209,849,103	$209,867,310
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	**$13,648,739**	**($180,295)**
Other revenues, expenses, gains or losses	25,676,637	24,261,814
Net Increase in Net Assets	39,325,376	24,081,519
Net Assets - Beginning of Year	$635,367,129	$611,285,610
Net Assets - End of Year	$674,692,505	$635,367,129

tion on capital assets. State appropriations, gifts and investment income the University relies on to support day to day operations are required by the Government Accounting Standards Board to be classified as non-operating revenues. Non-operating expenses include capital financing costs and loan cancellation expenses.

Total operating revenues for fiscal year 2011 were $368.8 million. This is an increase of $13.3 million over fiscal year 2010. Tuition and fees realized the largest dollar increase over the prior fiscal year. Net tuition increased over the prior fiscal year due to increased enrollment of approximately 5.6% and an increase in tuition of 6%. Student Housing revenue increased approximately $2.1 million due to a 2.75% increase in housing rates and increased occupancy from the opening of the new South Hall dormitory. Non-governmental Grants and Contracts revenue increased $5 million due to recognition of deferred revenue from British Petroleum. However, this increase was offset by $3 million of reductions in State Grants and Contracts associated with the Mississippi Department of Education and Mississippi Department of Human Services.

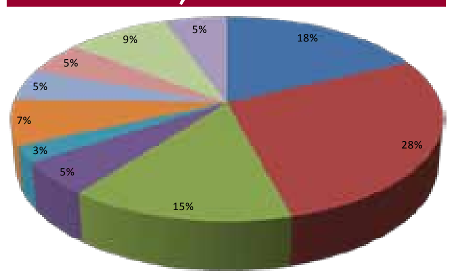
OPERATING REVENUES, FY 2011



28%	Net tuition and fees	104,995,144
3%	Federal appropriations	12,737,243
34%	Federal grants and contracts	126,237,708
4%	State grants and contracts	14,651,337
5%	Nongovernmental grants and contracts	16,473,395
25%	Sales and services	90,769,399
1%	Other	2,977,702
Total Operating Revenues		**368,841,928**

Operating expenditures for fiscal year 2011 totaled $565 million. Of this total 61% are used for salaries and fringes as displayed in the pie chart below. There was relatively no change in operating expenditures for 2011 as compared to 2010. A reduction in salary expense as a result of the previous year's retirement incentive was offset by increases in contractual services ($3.4 million for repair and maintenance of buildings and grounds, $2.8 million for payments to subcontractors and $1.7 million of fees for architectural services) and commodities ($1 million in computer equipment and $2.2 million in library expenditures).

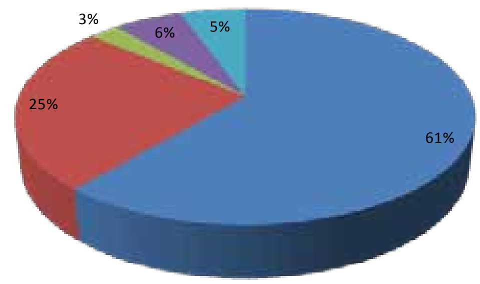
OPERATING EXPENSES BY FUNCTION, FY 2011



18%	Instruction	101,304,032
28%	Research	157,751,657
15%	Public service	82,159,678
5%	Academic support	30,137,745
3%	Student services	14,797,111
7%	Institutional support	41,115,355
5%	Operation of plant	27,018,237
5%	Student aid	29,332,388
9%	Auxiliary enterprises	50,379,169
5%	Depreciation	31,046,920
Total Operating Expenses		**565,042,292**

The pie chart above reveals 61% 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.

OPERATING EXPENSES BY OBJECT, FY 2011



61%	Salaries and benefits	345,591,263
25%	Supplies and services	141,392,694
3%	Utilities	14,430,990
6%	Scholarships and fellowships	32,580,425
5%	Depreciation	31,046,920
Total Operating Expenses		**565,042,292**

STATEMENT OF CASH FLOWS

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

Net cash for fiscal year 2011 decreased slightly compared to fiscal year 2010. The condensed Statement of Cash Flows is provided to illustrate the change in cash sources and uses between the two fiscal years.

Cash used for operations increased by $18.9 million primarily due to the large increase in accounts receivables booked for Grants and Contracts in FY2011 and the recognition of deferred revenue associated with the BP oil spill cleanup effort.

CONDENSED STATEMENT OF CASH FLOW

	FY 2011	FY 2010
Cash Provided (Used) by:		
Operating Activities	($178,820,443)	($159,892,679)
Noncapital Financing Activities	$207,852,972	$213,772,747
Capital and Related Financing Activities	($30,813,832)	($45,706,916)
Investing Activities	$598,586	($3,587,449)
Net Increase (Decrease) in Cash and Cash Equivalents	**($1,182,717)**	**$4,585,703**
Cash and Cash Equivalents - Beginning of the Year	77,285,848	72,700,145
Cash and Cash Equivalents - End of the Year	**$76,103,131**	**$77,285,848**

Net cash provided by non capital financing activities shows a decrease of $6.4 million primarily due to reductions in state appropriations as a result of budget constraints during the fiscal year 2011. Net cash used for Capital Financing decreased $14.9 million mainly due to disbursing less of the bond proceeds for construction in progress realized from the fiscal year 2009 bond issue.

Cash flows from investing activities show an increase of $4.2 million compared to the previous year. This fluctuation is primarily due to the fact that surplus cash was used to purchase new investments in FY2010 while in FY2011, a majority of the new investments were funded by re-investing proceeds from holdings that had matured or been called.

CAPTIAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2011 the University had $652.2 million invested in capital assets, net of accumulated depreciation of $363.2 million. Depreciation expense totaled $31 million for fiscal year 2011. Major capital improvements for the year are summarized below:

New Construction

- Mize Pavilion at Humphrey Coliseum
- Agriculture and Biological Engineering Building

ENROLLMENT

Enrollment reflects a continued upward trend. The University is encouraged by the 5.6% growth shown during FY 2011. Total enrollment for the fall 2010 semester was 19,644 students. In the fall of 2009 semester 18,601 students were enrolled. Mississippi residents accounted for 73.4% of the total enrollment in fall 2010 and for 75% of total enrollment for fall 2009. Enrollment totals are unduplicated and include all campuses of the University.

DEGREES AWARDED, 2010-2011

	UNDERGRADUATE	GRADUATE	TOTAL
AGRICULTURE AND LIFE SCIENCES	249	91	340
ARCHITECTURE, ART AND DESIGN	114	4	118
ARTS AND SCIENCES	850	252	1102
BUSINESS (INCLUDES ACCOUNTANCY)	622	223	845
EDUCATION	541	250	791
ENGINEERING	334	138	472
FOREST RESOURCES	49	50	99
VETERINARY MEDICINE	0	87	87
TOTAL	**2759**	**1095**	**3854**

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
TOTAL	**2732**	**1041**	**3773**

DEGREES AWARDED

A total of 3,854 degrees were awarded in 2010-2011: 2,759 undergraduate and 1,095 graduates. A breakdown by college is shown in the accompanying table. Information from 2009-2010 is included for comparison.

FINANCIAL SUMMARY AND OUTLOOK

Mississippi State University experienced substantial growth and a strong financial position in FY 2011. Enrollment increased by over 1,000 students resulting in a record 19,644 students during fall 2010; and, for the first time ever, MSU awarded more than 3,800 degrees during the academic year. The occupation of the 350-bed state-of-the-art South Hall, construction of the $11.2 million Mize Pavilion basketball practice facility, and the multi-million-dollar renovation of the Lloyd-Ricks-Watson building are indications of the continued growth and improvements at MSU.

As anticipated, FY 2011 also presented numerous challenges and opportunities. MSU experienced appropriation cuts as economic uncertainty and weakness continued. Mississippi State's leadership continued its proactive approach to address funding reductions by implementing money saving recommendations identified by the Select Committee on Efficiencies and Innovations (SCEI). The successful efficiency efforts, a tuition increase, and enrollment growth helped offset the appropriation shortfall and provided funding for the hiring of new faculty and merit pay raises for the first time in four years.

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

– Don A. Zant

Vice President for Budget and Planning

MISSISSIPPI STATE
UNIVERSITY

ANNUAL FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

STATEMENT OF NET ASSETS

ASSETS

CURRENT ASSETS:	June 30 2011	2010
Cash and Cash Equivalents	$69,213,549	$65,656,552
Short Term Investments	5,775,301	8,014,259
Accounts Receivable, Net	55,723,760	44,776,219
Student Notes Receivable, Net	2,792,154	2,565,264
Inventories	2,425,613	2,680,387
Prepaid Expenses	2,501,281	4,788,652
Total Current assets	**$138,431,658**	**$128,481,333**

NON-CURRENT ASSETS:	2011	2010
Restricted Cash and Cash Equivalents	$6,889,582	$11,629,296
Endowment Investments	26,481,462	21,297,650
Other Long Term Investments	70,979,567	70,725,345
Student Notes Receivable, Net	14,388,540	15,606,103
Capital Assets, Net	652,251,119	638,793,568
Total Non-Current assets	**$770,990,270**	**$758,051,962**
Total Assets	**$909,421,928**	**$886,533,295**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	June 30 2011	2010
Accounts Payable and Accrued Liabilities	$25,357,217	$31,385,822
Deferred Revenues	16,361,837	21,512,391
Accrued Leave Liabilities - Current Portion	2,245,298	1,737,092
Long Term Liabilities - Current Portion	6,799,131	5,883,893
Other Current Liabilities	135,117	136,245
Total Current liabilities	**$50,898,600**	**$60,655,443**

NON-CURRENT LIABILITIES:	2011	2010
Deposits Refundable	$67,125	$82,000
Accrued Leave Liabilities	19,015,085	18,542,102
Long Term Liabilities	149,990,000	156,789,131
Other Non-Current Liabilities	14,758,613	15,097,490
Total Non-Current liabilities	**$183,830,823**	**$190,510,723**
Total Liabilities	**$234,729,423**	**$251,166,166**

NET ASSETS:

June 30	2011	2010
Invested in Capital Assets, Net of Related Debt	$499,096,655	$484,078,786
Restricted for:		
Nonexpendable -		
Scholarships and Fellowships	2,498,286	2,072,283
Research	4,715,840	4,003,684
Other Purposes	8,367,158	7,288,903
Expendable -		
Scholarships and Fellowships	2,622,093	1,995,229
Research	11,157,440	12,136,108
Capital Projects	(177,633)	0
Debt Service	563,418	1,249,411
Loans	3,845,072	3,934,585
Other Purposes	1,248,053	1,255,835
Unrestricted	140,756,123	117,352,305
Total Net Assets	**674,692,505**	**635,367,129**
Total Liabilities and Net Assets	**$909,421,928**	**$886,533,295**

June 30	2011	2010
**** 2011 and 2010 Unrestricted Net Assets:**		
-- Academic Programs & Research	$11,398,824	$9,335,072
-- Quasi-endowments	8,779,337	5,611,404
-- Capital projects	5,547,774	9,633,134
-- Repairs and maintenance	6,345,708	5,433,483
-- Auxiliary operations	3,730,997	2,262,822
-- Designated projects	104,953,483	85,076,390
-- Remaining purposes		
Totals	**$140,756,123**	**$117,352,305**

Accompanying notes are an intergral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

OPERATING REVENUES:

	June 30 2011	2010
Tuition and Fees	$145,476,453	$126,710,829
Less: Scholarship Allowances	(39,606,339)	(32,193,044)
Less: Bad Debt Expenses	(874,970)	(443,940)
Net Tuition and Fees	$104,995,144	$94,073,845
Federal Appropriations	12,737,243	13,440,511
Federal Grants and Contracts	126,237,708	126,610,050
State Grants and Contracts	14,651,337	19,105,350
Nongovernmental Grants and Contracts	16,473,395	11,147,873
Sales and Services of Educational Departments	31,632,764	31,564,881
Auxiliary Enterprises:		
• Student Housing	19,756,731	17,593,644
• Food Services	1,606,682	1,375,040
• Bookstore	677,943	818,915
• Athletics	34,679,353	33,829,810
• Other Auxiliary revenues	11,110,001	10,862,853
Less: Auxiliary Enterprise Scholarship Allowances	(8,694,075)	(7,066,766)
Interest Earned on Loans to Students	255,229	248,224
Other Operating Revenues	2,722,473	1,960,645
Total Operating Revenues	**$368,841,928**	**$355,564,875**

OPERATING EXPENSES:

	June 30 2011	2010
Salaries and Wages	$264,173,617	$281,126,533
Fringe Benefits	81,417,646	81,893,516
Travel	14,097,582	13,278,944
Contractual Services	78,955,132	69,470,243
Utilities	14,430,990	14,000,855
Scholarships and Fellowships	32,580,425	31,505,406
Commodities	48,339,980	44,457,554
Depreciation/Amortization Expense	31,046,920	29,879,429
Total Operating Expenses	**$565,042,292**	**$565,612,480**
Operating Income (Loss)	**($196,200,364)**	**($210,047,605)**

NONOPERATING REVENUES (EXPENSES):

	June 30 2011	2010
State Appropriations	$151,649,034	$159,293,347
Federal ARRA (SFSF) Revenues	13,122,669	8,925,054
Gifts and Grants	44,941,008	42,839,689
Investment Income, Net of Investment Expense	6,091,339	5,686,083
Interest Expense on Capital Asset---Related Debt	(5,811,677)	(6,694,571)
Other Nonoperating Revenues	343,877	241,801
Other Nonoperating Expenses	(487,147)	(424,093)
Total Net Nonoperating Revenues (Expenses)	**$209,849,103**	**209,867,310**
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	**13,648,739**	**(180,295)**
Capital Grants and Gifts	12,479,949	11,259,638
State Appropriations Restricted for Capital Purposes	13,917,041	13,883,081
Other Deletions	(720,353)	(880,905)
Net Increase in Net Assets	**39,325,376**	**24,081,519**
Net Assets - Beginning of Year	**$635,367,129**	**$611,285,610**
Net Assets - End of Year	**$674,692,505**	**$635,367,129**

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES:	2011	June 30	2010
Tuition and Fees	$109,076,844		$93,219,365
Grants and Contracts	142,900,160		172,252,905
Sales and Services of Educational Departments	33,274,352		31,388,598
Payments to Suppliers	(141,730,432)		(127,772,118)
Payments to Employees for Salaries and Benefits	(351,500,066)		(357,281,920)
Payments for Utilities	(14,430,990)		(14,000,855)
Payments for Scholarships and Fellowships	(32,580,494)		(31,505,406)
Loans Issued to Students and Employees	(2,799,006)		(3,731,240)
Collection of Loans to Students and Employees	3,789,680		3,776,940
Auxiliary Enterprise Charges:			
Student Housing	19,513,342		17,491,140
Food Services	1,598,106		1,375,869
Bookstore	677,942		818,915
Athletics	31,259,972		31,134,095
Other Auxiliary Enterprises	7,195,503		7,857,503
Interest Earned on Loans to Students	255,229		248,224
Other Receipts	14,679,415		14,837,029
Other Payments			(1,723)
Net Cash Provided (Used) by Operating Activities	**($178,820,443)**		**($159,892,679)**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	2011	June 30	2010
State Appropriations	$151,540,733		$159,452,471
Gifts and Grants for Other Than Capital Purposes;	44,973,873		46,481,423
Federal Loan Program Receipts	96,680,009		88,887,396
Federal Loan Program Disbursements	(98,016,289)		(89,541,375)
Other Sources	13,122,669		8,925,053
Other Uses	(448,023)		(432,221)
Net Cash Provided by Noncapital Financing Activities	**$207,852,972**		**$213,772,747**

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	2011	June 30	2010
Cash Paid for Capital Assets	($20,080,434)		($39,285,927)
Capital Grants and Contracts Received	1,151,192		3,008,907
Proceeds from Sales of Capital Assets	106,408		199,035
Principal Paid on Capital Debt and Leases	(5,883,892)		(22,602,675)
Interest Paid on Capital Debt and Leases	(5,661,794)		(6,574,898)
Other Source	513,825		19,709,655
Other Uses	(959,137)		(161,013)
Net Cash Used by Capital and Related Financing Activities	**($30,813,832)**		**($45,706,916)**

CASH FLOWS FROM INVESTING ACTIVITIES:	2011	June 30	2010
Proceeds from Sales and Maturities of Investments	$109,337,672		$28,272,420
Interest Received on Investments	738,092		3,434,111
Purchases of Investments	(109,477,178)		(35,293,980)
Net Cash Provided by Investing Activities	**$598,586**		**($3,587,449)**
Net Increase (Decrease) in Cash and Cash Equivalents	**($1,182,717)**		**$4,585,703**
Cash and Cash Equivalents - Beginning of the Year	**77,285,848**		**72,700,145**
Cash and Cash Equivalents - End of the Year	**$76,103,131**		**$77,285,848**

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

	2011	June 30	2010
Operating Income (Loss)	**($196,200,364)**		**($210,047,605)**
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Depreciation/Amortization Expense	31,046,920		29,879,429
Other			
Changes in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Receivables, Net	(9,105,983)		3,672,215
Inventories	254,774		256,068
Prepaid Expenses	2,398,661		(1,471,994)
Other Assets	914,633		476,026
Increase (Decrease) in Liabilities:			
Accounts Payables and Accrued Liabilities	(2,744,823)		4,970,000
Deferred Revenues	(4,403,072)		11,302,465
Accrued Leave Liability	(981,189)		1,066,454
Other Liabilities			4,263
Total Adjustments:	**17,379,921**		**50,154,926**
Net Cash Provided (Used) by Operating Activities:	**($178,820,443)**		**($159,892,679)**
ENTER NON-CASH TRANSACTIONS BELOW:			
1.) Contstruction in Progress	13,917,041		13,883,081
Bureau of Buildings Appropriations	(13,917,041)		(13,883,081)
2.) Buildings	11,328,757		8,256,527
Gifts	(11,328,757)		(8,256,527)
3.) Unrealized Loss on Investments	135,253		0
Investments	(135,253)		0
4.) Investments	4,014,695		3,070,859
Unrealized Gain on Investments	(4,014,695)		(3,070,859)

MISSISSIPPI STATE
UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

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

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

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

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

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

BASIS OF PRESENTATION

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

BASIS OF ACCOUNTING

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

CASH EQUIVALENTS

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

INVESTMENTS

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

ACCOUNTS RECEIVABLE, NET

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

PREPAID EXPENSES

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

STUDENT NOTES RECEIVABLE, NET

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

INVENTORIES

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

NON-CURRENT CASH AND INVESTMENTS

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

CAPITAL ASSETS

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

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

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

DEPOSITS REFUNDABLE

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

DEFERRED REVENUES

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

NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable and capital lease obligations; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as 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 exchange in which two or more entities both receive and sacrifice value, such as purchases and sales of goods or services. Examples of operating revenues include (1) student tuition and fees; (2) sales and services of auxiliary enterprises; (3) most federal, state and local grants and contracts; and (4) other operating revenues. Examples of operating expenses include (1) employee compensation, benefits, and related expense; (2) scholarships and fellowships, net of scholarship discounts and allowances; (3) utilities, supplies and other services; (4) professional fees; and (5) depreciation expenses related to certain capital assets.

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

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

AUXILIARY ENTERPRISE ACTIVITIES

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

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

NET ASSETS

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

The unrestricted net asset balance of $140,756,123 at June 30, 2011 includes $11,398,824 reserved for academic programs and research, $5,547,774 reserved for capital projects, $6,345,708 reserved for repairs and maintenance, with $117,463,817 remaining for other purposes.

University Foundation — Although the University is the exclusive beneficiary of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a

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

NOTE 2

PRIOR PERIOD ADJUSTMENTS AND CHANGES IN ACCOUNTING CLASSIFICATIONS

For the year ended June 30, 2011, the University recorded prior period adjustments that consisted of the following additions and deletions to net asset balances:

NOTE 2: PRIOR PERIOD ADJUSTMENTS AND CHANGES IN ACCOUNTING CLASSIFICATIONS

Explanation(s)	Additions (Deductions) at 6-30-2011	Additions (Deductions) at 6-30-2010
Change in Reserve for Outstanding Checks	76,168	(1,723)
Correction on capitalization of chilled water loop	2,225,603	
Correction to steam plant	(124,970)	
Correction to capitalize substation and power lines	(856,278)	
Other prior period adjustments	(548,806)	
Total Adjustments	**$771,717**	**($1,723)**

NOTE 3

CASH AND INVESTMENTS POLICIES:
A. CASH AND SHORT-TERM INVESTMENTS

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

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

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

NOTE 3: FAIR VALUE OF INVESTMENT TYPE

Investment Type	FY 2011	FY 2010
U.S. Government Agency Obligations	$56,261,808	$60,264,642
Repurchase Agreements	0	0
U.S. Treasury Obligations	0	226,487
Certificates of Deposit	8,970,116	6,109,804
Corporate Bonds	1,165,571	475,195
Commercial Mortgage Backed Securities		255,306
Collateralized Mortgage Obligations	6,192,017	4,695,861
Municipal Bonds	8,195,015	7,106,249
Mutual Funds	0	2,736,753
Asset Backed Securities	1,960,822	3,454,646
Equity Securities	20,251,192	14,452,560
International Obligations	0	19,962
Landgrant	239,789	239,789
Total	**$103,236,330**	**$100,037,254**

NOTE 3: FY 2011 INTEREST RATE RISK

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

NOTE 3: FY 2010 INTEREST RATE RISK

		Fair Investment Maturities (in years)			
Investment Type	**Value**	**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					
Total	**$76,478,386**	**$5,827,059**	**$31,712,795**	**$15,669,920**	**$23,268,611**

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 on page 16 presents the fair value of investments by type at June 30, 2011 compared to June 30, 2010.

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, 2011, the institution had the following investments subject to Interest Rate Risk. Amounts for June 30, 2010 presented for comparison in the table on page 16.

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, 2011 the institution had the investment credit profile shown in the table to the right. Amounts for June 30, 2010 presented for comparison.

CONCENTRATION OF CREDIT RISK

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

NOTE 4
ACCOUNTS RECEIVABLE

Accounts Receivable amounts are presented in the table to right. Fiscal year 2010 is provided for comparison.

NOTE 3: CREDIT RISK

Fair Value	FY2011	FY 2010
A	$500,000	$508,165
A-		
A+		
A-1		
A-1+		
AA	$6,076,320	5,827,470
AA-		
AA+		
AAA	$38,946,517	43,901,378
AAAe	$13,489,628	11,377,664
B		
BBB		
BBB-		
BBB+		
CC		
CCC-		
CCC+		
Rating Not Available	$14,762,768	14,863,709
Total	**$73,775,233**	**$76,478,386**

NOTE 3: FY 2011 CONCENTRATION OF CREDIT RISK

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

FY 2010:

Issuer	Fair Value	% of Total Investments
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%
Total	**$61,649,148**	

NOTE 4: ACCOUNTS RECEIVABLE

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

Fiscal Year 2010: (examples)	June 30, 2010	Purging Memo Reclassification	Adjusted Disclosure
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
Net Accounts receivable	**$44,776,219**	**0.00**	**$44,776,219**

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 table shown is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the institution at June 30, 2011. Amounts for June 30, 2010 presented for comparison.

NOTE 6
CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2011 is presented in the table on page 19. Amounts for June 30, 2010 presented for comparison.

NOTE 5: NOTES RECEIVABLE FROM STUDENTS

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

Fiscal Year 2010: (examples)	**Interest Rates**	**June 30, 2011**	**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
Net Notes receivable		**$18,171,368**	**$2,565,264**	**$15,606,103**

NOTE 6: CAPITAL ASSETS

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

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

Fiscal Year 2010:	July 1, 2009	Additions	Deletions	June 30, 2010
Nondepreciable Capital Assets:				
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**
Depreciable Capital Assets:				
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
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**
Less Accumulated Depreciation for:				
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
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**
Capital Assets, Net	**$608,309,269**	**$32,927,976**	**$2,443,677**	**$638,793,568**

** 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.

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Payable to vendors and contractors	$16,808,531	$13,546,881
Accrued salaries, wages and employee withholdings	10,148,626	18,009,952
Other	(1,599,940)	(171,011)
Total	**$25,357,217**	**$31,385,822**

NOTE 8: DEFERRED REVENUE

	2011	2010
Unearned summer school revenue	$2,104,260	$1,782,373
Unearned grants and contract revenue	4,904,197	10,132,446
Other	9,353,380	9,597,572
Total	**$16,361,837**	**$21,512,391**

NOTE 7

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable consisted of the following at June 30, 2011. Amounts for June 30, 2010 are presented for comparison.

NOTE 8

DEFERRED REVENUES

Deferred revenues consisted of the following at June 30, 2011. Amounts for June 30, 2010 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, 2011. The various leases cover a period not to exceed five years. The University has the option to prepay all outstanding lease payments less any unearned interest to fully satisfy the obligation. There is also a fiscal funding addendum stating that if funds are not appropriated for periodic payment for any future fiscal period, the lessee will not be obligated to pay the remainder of the total payments due beyond the end of the current fiscal period.

Information regarding original issue amounts, interest rates and maturity dates for bonds, notes, and capital leases included in the long-term liabilities balance at June 30, 2011, is presented in the table at the bottom of the page. Amounts for June 30, 2010 provided for comparison on the following page.

NOTE 9: LONG-TERM LIABILITIES, FY 2011

Fiscal Year 2011: Description and Purpose	Original Issue	Annual Interest Rate	Maturity	June 30, 2010	Additions	Deletions	June 30, 2011	Due Within One Year
Bonded Debt								
Dormitory Revenue System	$2,250,000	3.00%	2020	$900,000		$70,000	$830,000	$70,000
Student Apartments	2,038,000	3.00%	2021	910,000		65,000	845,000	65,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2023	6,025,000			6,025,000	
EBC01 - Revenue Bonds	16,920,000	4.00%-5.50%	2026	10,825,000		920,000	9,905,000	965,000
EBC04 - Revenue Bonds	17,000,000	2.00%-5.00%	2028	14,295,000		525,000	13,770,000	540,000
EBC04A - Revenue Bonds	28,790,000	2.00%-5.00%	2029	23,120,000		1,370,000	21,750,000	1,410,000
EBC05 - Revenue Bonds	58,965,000	4.00%-5.00%	2035	53,915,000		1,485,000	52,430,000	1,540,000
EBC07A - Revenue Bonds	6,110,000	4.50%-4.75%	2028	5,725,000		210,000	5,515,000	220,000
EBC09A-1 Revenue Bonds	29,615,000	3.00%-5.25%	2039	29,615,000			29,615,000	580,000
EBC09A-2 Refunding Bonds	17,105,000	3.00%-5.25%	2024	17,105,000		1,080,000	16,025,000	1,330,000
Total Bonded Debt				**162,435,000**	**0**	**5,725,000**	**156,710,000**	**6,720,000**
Capital Leases								
Farm Equipment				3,103		3,103	0	0
Computer Equipment				3,085		2,300	785	785
Vehicles				147,372		78,972	68,400	68,400
Other				84,463		74,517	9,946	9,946
Total Capital Leases				**238,023**	**0**	**158,892**	**79,131**	**79,131**
Other Long-term Liabilities								
Accrued Leave Liabilities				20,279,195	981,188		21,260,383	2,245,298
Deposits Refundable				82,000		14,875	67,125	
Total Other Liabilities				**20,361,195**	**981,188**	**14,875**	**21,327,508**	**2,245,298**
Federal Portion of NDSL				15,097,490		338,877	14,758,613	
Total				**198,131,708**	**981,188**	**6,237,644**	**192,875,252**	**9,044,429**
Due Within One Year							**9,044,429**	
Total Long-term Liabilities							**$183,830,823**	

NOTE 9: LONG-TERM LIABILITIES, FY 2010

Fiscal Year 2010: Description and Purpose	Original Issue	Annual Interest Rate	Maturity	July 1, 2009	Additions	Deletions	June 30, 2010	Due Within One Year
Bonded Debt								
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
Total Bonded Debt				**167,995,000**	**0**	**5,560,000**	**162,435,000**	**5,725,000**
Capital Leases								
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
Total Capital Leases				**745,698**	**0**	**507,675**	**238,023**	**158,893**
Other Long-term Liabilities								
Accrued Leave Liabilities				21,345,649		1,066,454	20,279,195	1,737,092
Deposits Refundable				86,300		4,300	82,000	
Total Other Liabilities				**21,431,949**	**0**	**1,070,754**	**20,361,195**	**1,737,092**
Federal Portion of NDSL				15,342,487		244,997	15,097,490	
Total				**205,515,134**	**0**	**7,383,426**	**198,131,708**	**7,620,985**
Due Within One Year							**7,620,985**	
Total Long-term Liabilities							**$190,510,723**	

NOTE 9: OUTSTANDING DEBT AMORTIZATION SCHEDULE

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

FISCAL YEAR 2010: 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
Totals	**$162,435,000**	**$238,023**	**$0**	**$93,694,291**	**$256,367,314**

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 below.

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, 2011 was $3,106,811.

NOTE 10: OPERATING LEASES

	2011	2010
2011		$3,092,579
2012	$3,106,811	$3,092,579
2013	$3,106,811	$3,092,579
2014	$3,106,811	$3,092,579
2015	$3,106,811	$3,092,579
2016	$3,106,811	
Total Minimum Payments Required	**$15,534,055**	**$15,462,895**

NOTE 11
NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional classification were as follows for the year ended June 30, 2011. Amounts for June 30, 2010 presented for comparison.

NOTE 11: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Fiscal Year 2011:

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

Fiscal Year 2010:

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	75,705,382	22,189,847	1,384,647	4,907,347	24,544	1,497,099	1,803,752		107,512,619
Research	78,510,527	24,491,877	4,222,673	33,943,262	2,636,394	1,653,096	16,998,660		162,456,489
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
Total Operating Expenses	**281,126,533**	**81,893,516**	**13,278,944**	**69,470,243**	**14,000,855**	**31,505,406**	**44,457,554**	**29,879,429**	**565,612,480**

NOTE 12

CONSTRUCTION COMMITMENTS AND FINANCING

The University has contracted for various construction projects as of June 30, 2011. Estimated costs to complete the various projects and the sources of anticipated funding are presented below. Amounts for June 30, 2010 presented for comparison.

NOTE 12: CONSTRUCTION COMMITMENTS AND FINANCING

Fiscal Year 2011:

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

Fiscal Year 2010:

	Total Costs to Complete	Funded by Federal Sources	State Sources	Institutional Funds	Other
105-310 Harned Hall Renovation - Phase I	$16,999,110		$16,999,110		
105-330 IT - Harned Hall Renovation	$20,000		$20,000		
105-332 Pre-Plan Lee Hall Renovation	$1,070		$1,070		
South Campus Entrance (MDOT)	$5,000,000	$5,000,000			
North Campus Entrance - Research Park	$2,500,000	$2,500,000			
Fence Project (MDOT)	$500,000	$400,000		$100,000	
EBC 2009 Phase III Residence Hall	$29,615,000			$29,615,000	
New Parking Garage - Schematic Design	$12,000,000			$12,000,000	
Fraternity Parking Lot	$315,000			$315,000	
Buckner Ln Lockup Improvements	$300,000			$300,000	
Golf Course Practice Facility	$650,000				$650,000
Spencer Track Resurfacing	$3,200,000			$3,200,000	
113-099 MS Veterinary Diagnostic Lab (Phase I)	$12,324,745		$12,324,745		
113-102 Agricultural & Biological Engineering Bldg	$9,418,317		$9,415,117	$3,200	
113-110 Pre-plan Wise Center Renovation	$338,678		$338,678		
113-111 Communications MS Vet Lab	$1,574,944		$1,574,944		
113-112 Communications Ag/Bio Eng	$75,987		$75,987		
113-113 Wise Center Fire Alarm/Security	$589,167		$549,167	$40,000	
113-115 Lloyd-Ricks Renovation	$12,000,000	$3,234,963	$8,765,037		
113-122 IT Lloyd-Ricks Renovation	$10,000		$10,000		
Total	**$107,432,018**	**$11,134,963**	**$50,073,855**	**$45,573,200**	**$650,000**

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, 2011, 2010, and 2009 were $20,042,732, $21,630,361, and $21,312,496 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, 2011, 2010, and 2009 were $7,425,266, $7,381,516, and $7,037,167 respectively.

NOTE 14
DONOR RESTRICTED ENDOWMENTS

The net depreciation on investments of donor restricted endowments that is available for authorization for expenditure increased $3,340,566 to $12,443,023. 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 $98,016,289 for the year ended June 30, 2011, 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, 2011, the Foundation made distributions of $21,621,502 to or on behalf of the University for both restricted and unrestricted purposes. Immediately following Note 16 are the financial statements for the Foundation. Any questions regarding the Foundation statements or requests for additional information may be addressed to the Administrative Office, Hunter Henry Center, P.O. Box 6149, Mississippi State, MS 39762.

NOTE 17
SUBSEQUENT EVENTS

On July 28, 2011, the University issued $54,370,000 in Educational Building Corporation (EBC) revenue and refunding bonds, Series 2011 with interest rates ranging from 2.00% to 5.00%. The University set aside $8,380,000 of the bond proceeds to defease the outstanding EBC-Revenue Bonds, Series 2001 on August 1, 2011. The balance of the proceeds ($45,990,000) is being utilized to finance and construct new student housing facilities.

MISSISSIPPI STATE UNIVERSITY™

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

JUNE 30, 2011 AND 2010
(WITH INDEPENDENT AUDITORS' REPORT THERON)

THE MSU FOUNDATION
P.O. BOX 6149, MISSISSIPPI STATE, MS 39762
WWW.MSUFOUNDATION.COM

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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

We have audited the accompanying consolidated statement of financial position of Mississippi State University Foundation, Inc. (the Foundation) as of June 30, 2011, and the related consolidated statements of activities, changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based upon our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1(m) to the consolidated financial statements, the Foundation adopted the provisions of Accounting Standards Codification Subtopic 810–10, *Noncontrolling Interests in Consolidated Financial Statements* (previously Statement of Financial Accounting Standards No. 160), as of July 1, 2010.

KPMG LLP

November 11, 2011

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Financial Position

June 30, 2011

Assets

Cash	$	2,068,473
Restricted cash		3,536,619
Accrued interest, other receivables and prepaid assets		813,513
Receivable from Mississippi State University		3,998
Receivable from MSU Alumni Foundation		87,652
Receivable from MSU Alumni Association		137,918
Notes receivable (note 4)		207,171
Pledges receivable, net (note 3)		18,468,672
Investments (note 2)		324,088,172
Present value of amounts due from externally managed trusts		34,343,134
Land, buildings, and equipment (note 5)		11,138,241
Total assets	$	394,893,563

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued liabilities	$	1,869,692
Agency payable		3,536,619
Obligation under capital leases (note 9)		2,454,242
Liabilities under split interest agreements		3,768,700
Note payable (note 6)		202,235
Total liabilities		11,831,488
Net assets:		
Unrestricted:		
Net assets controlled by Foundation		24,827,789
Net assets related to noncontrolling interests		45,200,866
Total unrestricted net assets		70,028,655
Temporarily restricted (note 7)		57,647,303
Permanently restricted (note 7)		255,386,117
Total net assets		383,062,075
Commitments (notes 8 and 9)		
Total liabilities and net assets	$	394,893,563

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2011

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

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Changes in Net Assets

Year ended June 30, 2011

		Unrestricted net assets controlled by Foundation	Unrestricted net assets related to noncontrolling interests	Total unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total net assets
Net assets as of June 30, 2010 (See note 1(m))	$	11,139,689	36,944,852	48,084,541	33,569,574	240,439,818	322,093,933
Change in net assets from Statement of Activities		13,688,100	7,703,119	21,391,219	24,077,729	14,946,299	60,415,247
Payments to noncontrolling interests		—	(1,403,705)	(1,403,705)	—	—	(1,403,705)
Proceeds from noncontrolling interests		—	1,956,600	1,956,600	—	—	1,956,600
Change in total net assets		13,688,100	8,256,014	21,944,114	24,077,729	14,946,299	60,968,142
Net assets as of June 30, 2011	$	24,827,789	45,200,866	70,028,655	57,647,303	255,386,117	383,062,075

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activities:		
Change in net assets	$	60,415,247
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization		792,457
Realized and unrealized gains on investments, net		(44,858,253)
Change in value of internally managed split interest agreements		253,720
Fair value of donated assets		(1,409,800)
Change in accrued interest, other receivables and prepaid assets		(384,298)
Change in pledges receivable, net		(1,115,454)
Change in externally managed trusts		(5,543,202)
Change in accounts payable and accrued liabilities		131,367
Change in receivable from Mississippi State University		3,385
Change in receivable from MSU Alumni Foundation		(76,599)
Change in receivable from MSU Alumni Association		(26,257)
Permanently restricted contributions		(11,684,459)
Net cash used in operating activities		(3,502,146)
Cash flows from investing activities:		
Purchases of land, buildings and equipment		(128,476)
Purchases of investments		(126,988,418)
Proceeds from sales and maturities of investments		116,691,935
Payments on notes receivable		70,800
Net cash used in investing activities		(10,354,159)
Cash flows from financing activities:		
Principal payments on note payable		(26,578)
Permanently restricted contributions		11,684,459
New liabilities under split interest agreements		140,004
Payments to split interest agreement beneficiaries		(567,348)
Principal payments on capital lease obligation		(367,728)
Payments to noncontrolling interests		(1,403,705)
Proceeds from noncontrolling interests		1,956,600
Net cash provided by financing activities		11,415,704
Net decrease in cash		(2,440,601)
Cash at beginning of year		4,509,074
Cash at end of year	$	2,068,473
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$	87,146

See accompanying notes to consolidated financial statements.

(1) Significant Accounting Policies

(a) Organization

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

(b) Basis of Accounting

The consolidated financial statements include the Foundation and the Mississippi State Investment Pool in which the Foundation has a significant financial interest and control. These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes – permanently restricted, temporarily restricted or unrestricted as follows:

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

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

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

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

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

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

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

– as increases or decreases in temporarily restricted net assets if the terms of the gift impose restrictions on their use; and

– as increases or decreases in unrestricted net assets in all other cases.

(c) Use of Estimates

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

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

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

(d) Restricted Cash

Funds held for an unaffiliated organization that retains control over the expenditures of such funds are classified as restricted cash in the consolidated 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.

(f) Fair Value Measurements

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

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

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

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

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

(g) Investments

Overall Investment Objective

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

Mississippi State Investment Pool

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

During 2011, management identified that the MSIP should be consolidated with the Foundation. This error arose in periods prior to June 30, 2010. As a result, management determined that an adjustment to increase investments and minority interest liability in the amount of $36,944,852 as previously reported at June 30, 2010 was necessary to correct for this immaterial error. There was no change to the total net assets on the statement of financial position as of June 30, 2010 or the total change in net assets for the year ended June 30, 2010. Certain related footnotes have also been revised as a result of the correction. The Foundation implemented the provisions of FASB ASC Topic 810–10, *Noncontrolling Interests in Consolidated Financial Statements* (see note 1(m)) which reclassified the minority interest liability to unrestricted net assets related to noncontrolling interests as of June 30, 2010.

Allocation of Investment Strategies

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

Basis of Reporting

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

(h) Pledges

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

(i) Split Interest Agreements

The Foundation accepts gifts subject to split interest agreements. These gifts may be in the form of gift annuities, charitable lead trusts, charitable remainder trusts, or perpetual trusts. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuity or trust beneficiary and are determined using appropriate discount rates (at June 30, 2011 rates ranged from approximately 1% to 8%). For certain split interest agreements where the measurement objective is fair value, the discount rate is adjusted to a current market rate at each reporting date. Funds subject to split interest agreements are classified as temporarily restricted or permanently restricted based upon donor designations.

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

Contribution revenue attributable to split interest agreements for the fiscal year ended June 30, 2011 was $132,724.

(j) Income Taxes

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

(k) Liquidity

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

(l) Subsequent Events

FASB 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 11, 2011, the date the consolidated financial statements were available to be issued.

(m) Recent Accounting Pronouncements

The FASB issued FASB ASC 958, *Not-for-Profit Entities*, which provides guidance about the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and expands disclosures about endowment funds (both donor-restricted and board-designated endowment funds), regardless of whether an organization is subject to UPMIFA. As of June 30, 2011, the State of Mississippi had introduced UPMIFA, but the bill has not been enacted. The Foundation has not evaluated the impact of the enactment. The Foundation does apply the disclosure provision of FASB ASC 958.

During fiscal 2011, the Foundation implemented the provisions of FASB ASC Topic 810-10, *Noncontrolling Interests in Consolidated Financial Statements*, which requires noncontrolling interests to be reclassified from liabilities to unrestricted net assets on the consolidated statement of financial position. As a result, the Foundation reported $36,944,852 as unrestricted net assets related to noncontrolling interests as of June 30, 2010.

(Continued)

(2) Investments

Investments are summarized as follows at June 30, 2011:

Fixed income securities	$	67,112,840
Equity securities		147,675,903
Hedged funds		64,247,790
Private equity and venture capital funds		4,309,013
Natural resources		16,521,777
Short-term investments		7,838,602
Properties held for investment		14,723,873
Cash surrender value of life insurance		1,658,374
	$	324,088,172

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

The Foundation has entered into various split interest agreements, including charitable remainder unitrusts and charitable gift annuities, whereby the Foundation serves as trustee. The assets held under these split interest agreements are included in investments at June 30, 2011 with an approximate fair value of $6,040,000.

The following schedule summarizes net investment income in the consolidated statement of activities for the year ended June 30, 2011:

Dividends and interest (net of expenses of $819,488)	$	7,215,742
Net realized and unrealized gains		44,858,253
	$	52,073,995

(3) Pledges Receivable

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

Unconditional promises expected to be collected in:	
Less than one year	$ 8,087,092
One year to five years	10,736,142
Over five years	2,074,617
	20,897,851
Less unamortized discount (rates ranging from 1% to 5%)	(1,457,066)
	19,440,785
Less allowance for uncollectible pledges	(972,113)
	$ 18,468,672

(4) Notes Receivable

At June 30, 2011, the Foundation had a note receivable from a related party totaling $207,171. The note receivable requires semi-annual payments of $33,238 and has an interest rate of 6% and a maturity date of August 2014.

(5) Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows at June 30, 2011:

Land and buildings	$ 11,987,491
Furniture, fixtures, and equipment	7,563,920
	19,551,411
Less accumulated depreciation	(8,413,170)
	$ 11,138,241

(6) Note Payable

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

(7) Net Assets

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

	Net assets	
	Temporarily restricted	Permanently restricted
Specified college programs	$ 21,040,153	84,528,129
Student financial aid	22,006,189	102,304,733
Research	1,793,854	16,506,068
Faculty and staff support	5,793,346	42,752,094
Facilities	3,402,278	6,955,463
Other	3,611,483	2,339,630
Total	$ 57,647,303	255,386,117

(8) Fair Value Measurements

The following table summarizes the Foundation's assets by major category in the fair value hierarchy as of June 30, 2011:

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

(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, 2011, the Foundation had no alternative investment funds for which an otherwise redeemable investment was not redeemable.

(2) These funds have ten-year terms or twelve-year terms, with extensions of one to four years, and are expected to liquidate prior to fund closing; future commitments to these funds approximate $12,000,000 at June 30, 2011.
Private equity and venture capital investments are generally made through limited partnerships. Under the terms of such agreements, the MSIP may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Foundation cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain.

(3) One partnership expected to terminate in May 2019, but is subject to two 2-year extensions. The master limited partnership allows for monthly redemptions with 30 days notice.

(4) Bulldog Forest properties may be held in perpetuity or liquidated at the Foundation's discretion.
Other properties are for immediate sale.

(5) The Foundation currently has no plans to surrender these policies prior to maturity, but cash would be realized in a minimal amount of time if the insurance policy is cancelled.

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

		Hedged funds	Private equity and venture capital funds	Natural resources	Properties held for investment	Total
Beginning value as of July 1, 2010	$	57,964,685	3,653,771	14,582,843	10,287,397	86,488,696
Acquisitions		—	401,955	—	4,979,481	5,381,436
Dispositions		(310,682)	(712,200)	(143,733)	(470,190)	(1,636,805)
Net realized and unrealized gains (losses)		6,593,787	965,487	2,082,667	(72,815)	9,569,126
Fair value at June 30, 2011	$	64,247,790	4,309,013	16,521,777	14,723,873	99,802,453

(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:		
2012	$	458,938
2013		458,938
2014		458,938
2015		1,266,839
Total future minimum lease payments		2,643,653
Amount representing interest		(189,411)
Present value of net minimum lease payments	$	2,454,242

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

(10) Endowment

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

(a) Interpretations of Relevant Law

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

1) The purpose of the Foundation

2) The intent of the donor of the endowment fund

3) The terms of the applicable instrument

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

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

(b) Spending Policy

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

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

(c) Investment Policy

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

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

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

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

Changes in endowment net assets for the fiscal year ended June 30, 2011:

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

(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 $1,244,912.

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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