MISSISSIPPI STATE UNIVERSITY™

CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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. This MD&A presents financial information for the fiscal years ended June 30, 2013, and comparative data for the fiscal year ended June 30, 2012. The accompanying financial statements, notes and this discussion are the responsibility of management.

OVERVIEW OF THE INSTITUTION

Mississippi State University (the University) is designated as a Doctorate granting university with very high research activity by the Carnegie Foundation for the Advancement of Teaching. The University began as The Agricultural and Mechanical College of the State of Mississippi, one of the national Land Grant Colleges established after Congress had passed the Morrill Act in 1862. It was created by the Mississippi Legislature on February 28, 1878, to fulfill the mission of offering training in "agriculture, horticulture and the mechanical arts… without excluding other scientific and classical studies, including military tactics". In 1887 Congress passed the Hatch Act, which provided for the establishment of the Agricultural Experiment Station in 1888. Two other pieces of federal legislation provided funds for extending the mission of the College: in 1914, the Smith Lever Act called for "instruction in practical agriculture and home economics to persons not attendant or resident," thus creating the state wide effort which led to Extension offices in every county of the State; and, in 1917, the Smith Hughes Act which provided for the training of teachers in vocational education.

The University now comprises the following academic units: the College of Agriculture and Life Sciences including the School of Human Sciences; the College of Architecture, Art and Design; the College of Arts and Sciences; the College of Business, including the Adkerson School of Accountancy; the College of Education; the Bagley College of Engineering, including the Swalm School of Chemical Engineering; the College of Forest Resources; the Office of the Graduate School; and the College of Veterinary Medicine. In addition, the Mississippi Agricultural and Forestry Experiment Station, operating 16 branch stations throughout the State of Mississippi, conducts research in a variety of areas and assists in the University's teaching and service functions. Finally, the Mississippi State University Extension Service offers programs and services to the people of the State of Mississippi through campus and county offices and personnel.

Mississippi State University operates an off campus degree granting center in Meridian where both undergraduate and graduate programs are offered and a program center at the Stennis Space Center. In cooperation with the U.S. Army Engineer Waterways Experiment Station, the College of Engineering offers the Master of Science degree to qualified students in Vicksburg.

Mississippi State University offers more than 180 degrees, which includes 14 master's degrees in 59 programs, an educational specialist degree in 8 programs, and doctoral degrees in 35 programs. The University had an enrollment of 20,365 students as of the Fall of 2012 and employs 4,613 employees including 1,151 full time faculty and 195 part time faculty.

STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the University at the end of the fiscal year. This statement reflects the assets, liabilities and net position of the University as of the fiscal years ended June 30, 2013 and 2012, and is prepared under the accrual basis of accounting. Revenues and assets are recognized when the goods and services are provided, and expenses and liabilities are recognized when goods and services are received, regardless of when

CONDENSED STATEMENT OF NET POSITION

	FY 2013	FY 2012	Difference	Percentage
ASSETS:				
Current assets	$134,994,650	$114,745,264	$20,249,386	0.18%
Capital Assets, Net	740,994,049	694,538,251	46,455,798	0.07%
Other Noncurrent Assets	128,555,514	149,278,871	(20,723,357)	(0.14)%
Total Assets	**$1,004,544,213**	**$958,562,386**	**$45,981,827**	**0.05%**
LIABILITIES:				
Current liabilities	$50,554,625	$51,559,586	(1,004,961)	(0.02)%
Non-Current liabilities	243,352,800	222,063,313	21,289,487	0.10%
Total Liabilities	**$293,907,425**	**$273,622,899**	**$20,284,526**	**0.07%**
NET POSITION:				
Invested in Capital Assets, Net of Related Debt	$529,893,823	$510,723,283	$19,170,540	0.04%
Restricted:				
Nonexpendable -	15,104,272	14,223,987	870,285	0.06%
Expendable -	24,209,678	24,562,186	(352,508)	(0.01)%
Unrestricted	141,429,015	135,420,031	6,008,984	0.04%
Total Net Position	**$710,636,788**	**$684,939,487**	**$25,697,301**	**0.04%**

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	FY 2013	FY 2012	Difference	Percentage
Total Operating Revenues	$371,514,886	$384,692,124	($13,177,238)	(0.03)%
Total Operating Expenses	574,985,115	592,878,298	(17,893,183)	(0.03)%
Operating Loss	**($203,470,229)**	**($208,186,174)**	**$4,715,945**	**(0.02)%**
Total Net Nonoperating Revenues (Expenses)	212,688,197	207,161,080	5,527,117	(0.03%)
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	**9,217,968**	**(1,025,094)**	**10,243,062**	**(9.99)%**
Other revenues, expenses, gains or losses	16,479,333	11,272,076	5,207,257	0.46%
Net Increase in Net Assets	**$25,697,301**	**$10,246,982**	**$15,450,319**	**1.51%**
Net Position - Beginning of Year	684,939,487	674,692,505	10,246,982	0.02%
Net Position - End of Year	**$710,636,788**	**$684,939,487**	**$25,697,301**	**0.04%**

cash is exchanged. It is also important to note both assets and liabilities are presented as current and noncurrent. 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 position is further broken down into three categories: (1) net invested in capital assets, which represents the historical cost of property and equipment reduced by the balance of related debt outstanding and depreciation expense charged over the years; (2) the restricted component of net position which relates to assets with constraints imposed by third parties; (3) and the unrestricted component of net position that can be used at the discretion of University administration within the bounds of state law. Additionally, assets within the restricted component 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 purposes.

The University's financial position strengthened during fiscal year 2013 with total assets increasing by almost $46 million to $1,004,544,213. This marked the first time in the University's history that total assets topped the $1 billion mark. The increase was due almost entirely to additions to and renovation of capital assets. In order to accommodate enrollment growth and adhere to the University's mission of providing the best overall college experience possible to its students, the University made significant investments into new dormitories and renovating its football stadium. These projects are reflected in the almost $54 million dollar increase in the construction in progress balance.

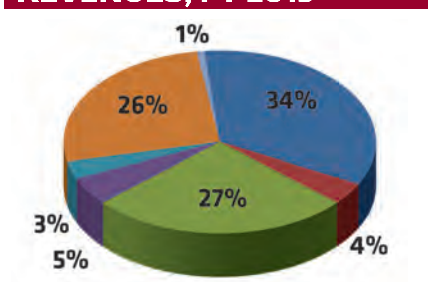
During fiscal year 2013, the University began utilizing a commercial paper program that was approved by the Board of Trustees of the Institutions of Higher Learning in February 2012. Commercial paper was used as an interim financing vehicle to fund the football stadium expansion. The $29 million commercial paper balance can be observed in the increase in long-term liabilities on the Statement of Net Position. The University anticipates converting its commercial paper related to the stadium expansion into long-term bonds in fiscal year 2014.

Fluctuations in cash and investments were generally also due to on-going capital projects. Some long-term investments were liquidated in an effort to fund projects internally rather than issue debt. The decrease in restricted cash is reflective of the use of $9 million of bond proceeds for dormitory construction and the addition of almost $3 million in restricted cash related to commercial paper.

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

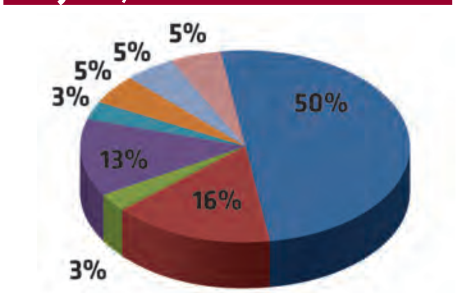
The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and the expenses incurred during the year, regardless of when cash

OPERATING REVENUES, FY 2013



34%	Net tuition and fees	125,773,165
4%	Federal appropriations	14,202,889
27%	Federal grants and contracts	99,324,114
5%	State grants and contracts	17,225,432
3%	Nongovernmental grants and contracts	12,544,394
26%	Sales and services	98,693,057
1%	Other	3,751,834
	Total Operating Revenues	**371,514,886**

OPERATING EXPENSES BY OBJECT, FY 2013



50%	Salaries and Wages	289,371,925
16%	Fringe Benefits	94,492,693
3%	Travel	16,097,916
13%	Contractual Services	75,005,369
3%	Utilities	14,955,153
5%	Scholarships and Fellowships	28,656,789
5%	Commodities	27,432,828
5%	Depreciation	28,972,442
	Total Operating Expenses	**574,985,115**

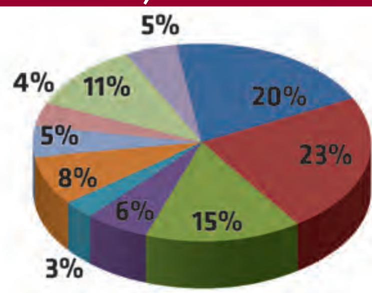
is received or disbursed. Activities in this statement are presented as either operating or nonoperating. Operating revenues are recorded in exchange for providing goods and services. Operating expenses are incurred as a result of normal operations of the University but also include depreciation on capital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

Total operating revenues decreased by $13,177,238 in fiscal year 2013 as compared to fiscal year 2012. Net tuition revenue increased by $9,685,801 due to a 7.9% increase in the tuition rate. However, these gains were offset by a decrease in federal grants of $30,899,711. This sharp decrease was due mainly to a decrease in grants from the Departments of Defense, Commerce and Agriculture. Of significance, three large grants from the Department of Defense totaling almost $14 million ended early in fiscal year 2013.

Total operating expenses showed a decrease overall in fiscal year 2013. Salaries and fringes increased due to an overall pay increase of 2% and a rise in the employer rate for contributions to retirement. The employer retirement rate surged from 12.93% to 14.26%. Other operating expenses decreased significantly due to the University's focus on investing more of its funds in capital assets, which has the effect of delaying expenses until they are recognized in the form of depreciation over the life of the asset.

The pie chart below reveals 58% of operating expenditures support the core mission of instruction, research and public service. More detail about total expenditures by functional classification is provided in note 10 of the notes to financial statements.

OPERATING EXPENSES BY FUNCTION, FY 2013



20% Instruction	115,013,357
23% Research	133,523,005
15% Public service	87,890,686
6% Academic support	32,481,844
3% Student services	17,035,518
8% Institutional support	46,471,278
5% Operation of plant	26,673,122
4% Student aid	25,481,050
11% Auxiliary enterprises	61,442,813
5% Depreciation	28,972,442
Total Operating Expenses	**574,985,115**

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, noncapital 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 use of cash and cash equivalents to purchase investments. Cash flows from noncapital financing activities are those not covered in other sections.

Net cash for fiscal year 2013 showed a minimal increase compared to fiscal years 2012. The condensed Statements of Cash Flows is provided to illustrate the change in cash sources and uses between the two fiscal years.

The University used less cash for operations in fiscal year 2013 due to its emphasis on using resources for capital improvements. An increase in cash generated from tuition and fees of $6.3 million was offset by the significant decrease in federal grants of $27.2 million. Net cash provided by noncapital financing activities remained virtually the same. State appropriations increased slightly while gifts and grants to the University increased slightly. Almost $20 million more in cash was used for capital financial activities, reflecting several major construction projects that were on-going. In fiscal year 2012, a change in investment strategy whereby $19.5 million in surplus cash was invested yielded an unusually high number for cash used for investing activities. Cash provided by investing activities in fiscal year 2013 of

CONDENSED STATEMENT OF CASH FLOWS

	FY 2013	FY 2012	Difference	Percentage
Cash Provided (Used) by:				
Operating Activities	($174,296,977)	($179,691,665)	$5,394,688	(0.03)%
Noncapital Financing Activities	211,647,525	213,735,467	(2,087,942)	(0.01)%
Capital and Related Financing Activities	(46,769,313)	(28,920,581)	(17,848,732)	0.62%
Investing Activities	11,868,733	(20,085,916)	31,954,649	(1.59)%
Net Increase (Decrease) in Cash and Cash Equivalents	**$2,449,968**	**($14,962,695)**	**$17,412,663**	**(1.16)%**
Cash and Cash Equivalents - Beginning of the Year	61,140,436	76,103,131	(14,962,695)	(0.20)%
Cash and Cash Equivalents - End of the Year	**$63,590,404**	**$61,140,436**	**$2,449,968**	**0.04%**

$11 million is reflective of a more usual fiscal year, though some investments were called or matured and remained in cash form due to lack of profitable investment opportunities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2013 and 2012, the University had $741 million and $694.5 million invested in capital assets, net of accumulated depreciation of $409.6 million and $386.3 million, respectively. Depreciation expense totaled $29.0 million and $28.6 million for fiscal years 2013 and 2012, respectively. Major capital improvements for the year are summarized below:

NEW CONSTRUCTION

- Oak Hall
- Magnolia Hall

MAJOR RENOVATIONS

- Davis Wade Stadium
- Lee Hall

The University added $29 million in new debt through Educational Building Corporation commercial paper. These funds were applied to the renovation of Davis Wade Stadium and will be converted into bonds in fiscal year 2014.

ENROLLMENT

Enrollment dipped slightly in FY 2013. Total enrollment for the fall 2012 semester was 20,365 students. In the fall of 2011 semester, 20,424 students were enrolled. Mississippi residents accounted for 71% of the total enrollment in fall 2012 and for 72% of total enrollment for fall 2011. Enrollment totals are unduplicated and include all campuses of the University.

DEGREES AWARDED

A total of 4,258 degrees were awarded in 2012-2013: 3,292 undergraduate and 966 graduate. A breakdown by college is shown in the accompanying table. Information from 2011-2012 is included for comparison.

FINANCIAL SUMMARY AND OUTLOOK

After three years of economic uncertainty and appropriation cuts, the forecast for Mississippi is for slowly improving economic growth. State revenue collections for 2013 exceeded estimates by over $295 million. As a result, Mississippi State University experienced an increase in appropriations for the first time in three years for fiscal year 2014.

While student enrollment remained level during fall 2012; for the first time ever, the University awarded more than 4,200 degrees during the academic year. The planning for a multi million dollar state of the art classroom building with parking, the ongoing multi million dollar expansion of the football stadium, and the near completion of a multi million dollar renovation of historic Lee Hall are indications of the continued growth and improvements at the University.

As anticipated, FY 2013 also presented numerous challenges and opportunities as the University experienced its third consecutive year of appropriation cuts. Mississippi State's leadership continued its proactive approach to address funding needs. Successful efficiency efforts and a tuition increase helped provided funding for the hiring of new faculty and merit pay raises for a third year in a row.

While the current economic outlook for Mississippi's future is favorable, the University will continue to face uncertainty surrounding the timing and pace 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. Mississippi State University remains committed to a long-term financial plan that will sustain the university and allow it to continue to provide world-class teaching, service and research for the State of Mississippi and beyond.

Don A. Zant
Vice President for Budget and Planning

DEGREES AWARDED, 2012-2013

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	327	90	417
Architecture, Art and Design	117		117
Arts and Sciences	1,017	226	1,243
Business (Includes Accountancy)	580	223	803
Education	686	235	921
Engineering	399	133	532
Forest Resources	68	37	105
Veterinary Medicine	98	22	120
TOTAL	**3,292**	**966**	**4,258**

DEGREES AWARDED, 2011-2012

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	259	104	363
Architecture, Art and Design	138	2	140
Arts and Sciences	939	287	1,226
Business (Includes Accountancy)	546	219	765
Education	595	230	825
Engineering	398	146	544
Forest Resources	36	36	72
Veterinary Medicine	88	19	107
TOTAL	**2,999**	**1,043**	**4,042**

MISSISSIPPI STATE UNIVERSITY™

ANNUAL FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2013

STATEMENT OF NET POSITION

ASSETS

CURRENT ASSETS:	June 30 2013	2012
Cash and Cash Equivalents	$53,740,141	$45,121,912
Short Term Investments	15,081,434	9,123,422
Accounts Receivables, Net	58,228,866	52,895,245
Student Notes Receivables, Net	2,786,766	2,312,363
Inventories	2,312,946	2,371,861
Prepaid Expenses	2,844,497	2,920,461
Total Current assets	**$134,994,650**	**$114,745,264**

NON-CURRENT ASSETS:	2013	2012
Restricted Cash and Cash Equivalents	$9,850,263	$16,018,524
Endowment Investments	27,190,835	25,800,950
Other Long Term Investments	78,875,263	93,407,945
Student Notes Receivable, Net	12,639,153	14,051,452
Capital Assets, Net	740,994,049	694,538,251
Total Non-Current assets	**$869,549,563**	**$843,817,122**
Total Assets	**$1,004,544,213**	**$958,562,386**

LIABILITIES

CURRENT LIABILITIES:	June 30 2013	2012
Accounts Payable and Accrued Liabilities	$26,047,361	$25,671,069
Unearned Revenues	13,792,159	15,323,459
Accrued Leave Liabilities - Current Portion	2,479,786	2,513,541
Long Term Liabilities - Current Portion	8,125,000	7,860,000
Other Current Liabilities	110,319	191,517
Total Current liabilities	**$50,554,625**	**$51,559,586**

NON-CURRENT LIABILITIES:	2013	2012
Deposits Refundable	$35,760	$40,260
Accrued Leave Liabilities	20,845,811	20,192,145
Long Term Liabilities	208,435,000	187,560,000
Other Non-Current Liabilities	14,036,229	14,270,908
Total Non-Current liabilities	**$243,352,800**	**$222,063,313**
Total Liabilities	**$293,907,425**	**$273,622,899**

NET POSITION:

	June 30 2013	2012
Net Invested in Capital Assets	**$529,893,823**	**$510,723,283**
Restricted for:		
Nonexpendable -		
Scholarships and Fellowships	2,439,742	2,284,822
Research	4,612,426	4,339,871
Other Purposes	8,052,104	7,609,294
Expendable -		
Scholarships and Fellowships	2,383,344	2,605,008
Research	17,105,147	16,666,012
Capital Projects	(440,595)	35,509
Debt Service	508,845	570,248
Loans	3,271,316	3,414,880
Other Purposes	1,381,621	1,270,529
Unrestricted	**$141,429,015**	**$135,420,031**
Total Net Position	**$710,636,788**	**$684,939,487**

Accompanying notes are an intergral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

OPERATING REVENUES:

	June 30 2013	June 30 2012
Tuition and Fees	$173,605,741	$159,934,654
Less: Scholarship Allowances	(46,923,734)	(43,037,781)
Less: Bad Debt Expenses	(908,842)	(809,509)
Net Tuition and Fees	$125,773,165	$116,087,364
Federal Appropriations	14,202,889	11,023,528
Federal Grants and Contracts	99,324,115	130,223,826
State Grants and Contracts	17,225,432	12,526,357
Nongovernmental Grants and Contracts	12,544,394	17,169,122
Sales and Services of Educational Departments	35,560,216	33,795,675
Auxiliary Enterprises:		
Student Housing	22,368,666	19,033,646
Food Services	2,031,060	1,959,814
Bookstore	677,772	701,935
Athletics	35,962,434	36,530,930
Other Auxiliary revenues	12,393,241	11,919,263
Less: Auxiliary Enterprise Scholarship Allowances	(10,300,332)	(9,447,318)
Interest Earned on Loans to Students	256,403	224,566
Other Operating Revenues, Net	3,495,431	2,943,416
Total Operating Revenues	**$371,514,886**	**$384,692,124**

OPERATING EXPENSES:

	June 30 2013	June 30 2012
Salaries and Wages	$289,371,925	$282,571,239
Fringe Benefits	94,492,693	87,383,818
Travel	16,097,916	15,839,678
Contractual Services	75,005,369	88,459,908
Utilities	14,955,153	14,222,559
Scholarships and Fellowships	28,656,789	31,545,953
Commodities	27,432,828	44,242,920
Depreciation/Amortization Expense	28,972,442	28,612,223
Total Operating Expenses	**$574,985,115**	**$592,878,298**
Operating Income (Loss)	**($203,470,229)**	**($208,186,174)**

NONOPERATING REVENUES (EXPENSES):

	June 30 2013	June 30 2012
State Appropriations	$163,001,298	$163,687,667
Gifts and Grants	53,849,355	50,006,351
Investment Income (Loss)	2,752,297	1,193,662
Interest Expense on Capital Asset---Related Debt	(6,282,781)	(7,322,870)
Other Nonoperating Revenues	234,679	184
Other Nonoperating Expenses	(866,651)	(403,914)
Total Net Nonoperating Revenues (Expenses)	**$212,688,197**	**$207,161,080**

	2013	2012
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	**9,217,968**	**(1,025,094)**
Capital Grants and Gifts	3,002,756	3,699,226
State Appropriations Restricted for Capital Purposes	14,016,481	9,477,665
Other Deletions	(539,904)	(1,904,815)
Net Increase in Net Assets	**$25,697,301**	**$10,246,982**
Net Position - Beginning of Year	$684,939,487	$674,692,505
Net Position - End of Year	**$710,636,788**	**$684,939,487**

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES:

	June 30 2013	June 30 2012
Tuition and Fees	$127,336,122	$120,990,162
Grants and Contracts	130,293,211	158,497,121
Sales and Services of Educational Departments	36,050,799	34,183,199
Payments to Suppliers	(122,686,965)	(155,093,595)
Payments to Employees for Salaries and Benefits	(382,758,343)	(372,641,407)
Payments for Utilities	(14,955,153)	(14,222,559)
Payments for Scholarships and Fellowships	(28,659,139)	(31,548,202)
Loans Issued to Students and Employees	(2,378,712)	(2,700,289)
Collection of Loans to Students and Employees	3,078,769	3,526,465
Auxiliary Enterprise Charges:		
Student Housing	22,322,400	19,067,869
Food Services	2,083,760	1,914,113
Bookstore	677,772	701,935
Athletics	31,639,761	32,044,575
Other Auxiliary Enterprises	6,703,851	7,438,362
Interest Earned on Loans to Students	256,403	224,566
Other Receipts	16,698,487	17,926,020
Net Cash Provided (Used) by Operating Activities	**($174,296,977)**	**($179,691,665)**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

	June 30 2013	June 30 2012
State Appropriations	$163,467,883	$163,135,048
Gifts and Grants for Other Than Capital Purposes;	48,997,533	50,002,772
Federal Loan Program Receipts	106,519,780	110,317,754
Federal Loan Program Disbursements	(106,435,890)	(109,270,222)
Other Sources		56,401
Other Uses	(901,781)	(506,286)
Net Cash Provided by Noncapital Financing Activities	**$211,647,525**	**$213,735,467**

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

	June 30 2013	June 30 2012
Proceeds from Capital Debt	$79,000,000	$54,370,000
Cash Paid for Capital Assets	(60,076,681)	(60,553,539)
Capital Grants and Contracts Received	3,002,756	412,027
Proceeds from Sales of Capital Assets	344,672	514,417
Principal Paid on Capital Debt and Leases	(57,860,000)	(15,739,131)
Interest Paid on Capital Debt and Leases	(8,819,110)	(6,588,810)
Other Sources		1,550,702
Other Uses	(2,360,950)	(2,886,247)
Net Cash Used by Capital and Related Financing Activities	**($46,769,313)**	**($28,920,581)**

CASH FLOWS FROM INVESTING ACTIVITIES:

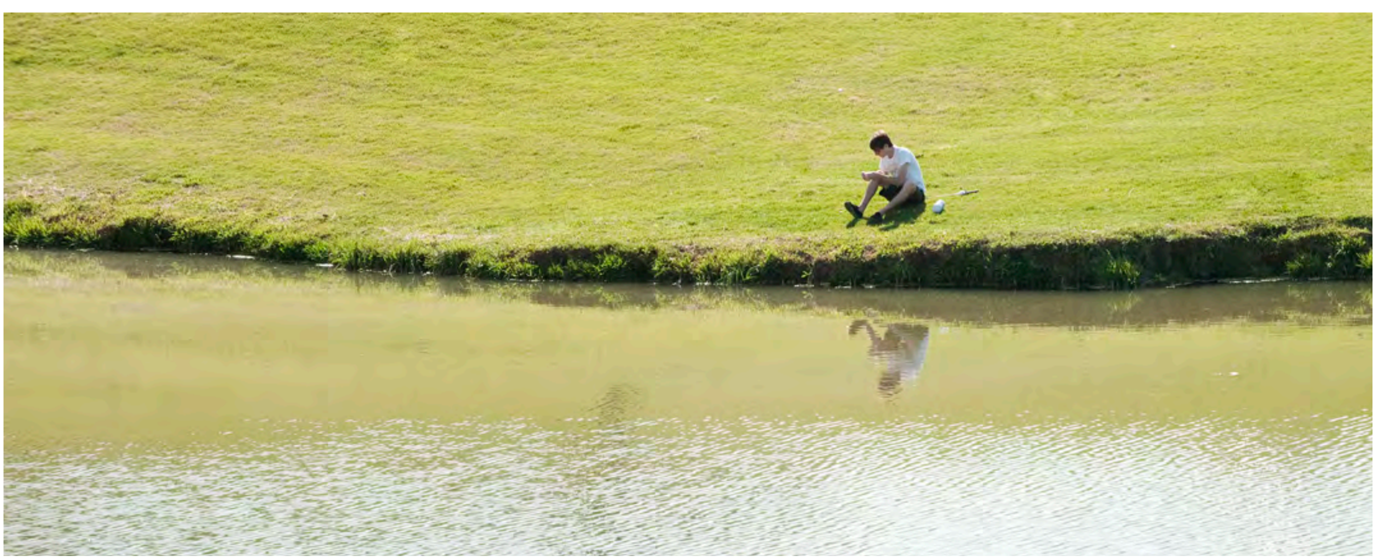
	June 30 2013	June 30 2012
Proceeds from Sales and Maturities of Investments	$76,924,061	$123,394,063
Interest Received on Investments	2,775,911	4,034,962
Purchases of Investments	(67,831,239)	(147,514,941)
Net Cash Provided (Used) by Investing Activities	$11,868,733	($20,085,916)
Net Increase (Decrease) in Cash and Cash Equivalents	$2,449,968	($14,962,695
Cash and Cash Equivalents - Beginning of the Year	$61,140,436	$76,103,131
Cash and Cash Equivalents - End of the Year	**$63,590,404**	**$61,140,436**

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

	June 30 2013	June 30 2012
Operating Income (Loss)	($203,470,229)	($208,186,174)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation/Amortization Expense	28,972,442	28,612,223
Other		
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables, Net	(1,068,849)	1,264,910
Inventories	58,915	53,753
Prepaid Expenses	417,303	62,493
Other Assets	908,878	809,509
Increase (Decrease) in Liabilities:		
Accounts Payables and Accrued Liabilities	1,514,139	2,130,060
Unearned Revenues	(1,009,664)	(2,993,136)
Accrued Leave Liability	(619,912)	(1,445,303)
Total Adjustments:	**$29,173,252**	**$28,494,509**
Net Cash Provided (Used) by Operating Activities:	**($174,296,977)**	**($179,691,665)**

NON-CASH TRANSACTIONS:

	June 30 2013	June 30 2012
(examples)		
1.) Construction in Progress	$14,016,481	$9,477,665
Bureau of Buildings Appropriations	(14,016,481)	(9,477,665)
2.) Buildings		1,400,000
Gifts		(1,400,000)
3.) Unrealized Loss on Investments	1,514,421	3,797,737
Investments	(1,514,421)	(3,797,737)
4.) Investments	1,533,631	3,312,297
Unrealized Gain on Investments	(1,533,631)	(3,312,297)
5.) Land		408,333
Buildings		81,667
Land		(485)
Legal Fees		(2,316)
Proceeds from Asset Exchange		(184)
Gain on Asset Exchange		(487,015)



MISSISSIPPI STATE UNIVERSITY™

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Mississippi State University (the 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 contribution in research, discovery, and application; and to the State of Mississippi (the State) and its people in every region, a variety of expert services.

REPORTING ENTITY

The Mississippi Constitution was amended in 1943 to create a separate legal entity and establish a Board of Trustees of State Institutions of Higher Learning (Board). This constitutional Board provides management and control of Mississippi's system of universities. The University is a member (department) of the State of Mississippi Institutions of Higher Learning (IHL System).

Through its member universities, the IHL System serves the state, national and international communities by providing its students with academic instruction, by conducting research and other activities that advance fundamental knowledge and by disseminating knowledge to the people of the State and throughout the world.

The current twelve Board members of the IHL System were appointed by the Governor and approved by the Senate for twelve year terms as follows: one from each of the seven congressional districts, one from each of the three Supreme Court Districts, and two appointed from the state at large. The Mississippi Constitution was amended in 2003 to change the length of terms and appointment districts for Board members. New appointments will occur from three current Supreme Court districts for terms of nine years. The amendment provides for these new appointments and tenures to be gradually implemented. Full implementation occurred in 2012.

The University's financial statements include the accounts of the Mississippi State University Educational Building Corporation, an educational building corporation and a nonprofit corporation incorporated in the State of Mississippi established 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 GASB Statement Nos. 14 and 61, 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.

Legally separate, tax exempt organizations whose activities primarily support members of the IHL System, which are a component units of the IHL System reporting entity, are considered potential component units of the State. See note 16 for additional information.

BASIS OF PRESENTATION

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the GASB. The University's financial statements follow the "business type activities" reporting model which provides a comprehensive one look at the University's 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 expenses are recorded when an obligation has been incurred.

Grant and contract revenues, which are received or receivable from external sources, are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements. State appropriations are recognized as nonoperating revenues when eligibility requirements are satisfied.

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the University follows all applicable GASB pronouncements. Previously, the University applied all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflicted with or contradicted GASB pronouncements. However, GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements codified those pre-GASB pronouncements and made it possible for Universities to find all authoritative guidance within the GASB pronouncement framework.

USE OF ESTIMATES

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

The University's investments are invested in various types of investment securities 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 University's financial statements.

CASH EQUIVALENTS

The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(SHORT TERM INVESTMENTS

Short term investments are investments that are not cash equivalents but mature within the next fiscal year.

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's grants and contracts. Accounts receivable are recorded net of an allowance for doubtful accounts.

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 expected to be paid during the next fiscal year are presented on the statements of net position 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 noncurrent assets on the Statements of Net Position.

INVENTORIES

Inventories consist of central supply inventories and storeroom inventories. These inventories are generally valued at the lower of cost or market, on the first in, first out (FIFO) basis.

PREPAID EXPENSES

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

RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the statement of net position.

ENDOWMENT INVESTMENTS

Endowment investments are generally subject to the restrictions of donor gift instruments. They include donor-restricted endowments, which are funds received from a donor with the restrictions that only the income is to be utilized, and funds functioning as endowments, which are funds established by the governing board to function similar to an endowment fund but may be expended at any time at the discretion of the governing board.

INVESTMENTS

Substantially all investments are reported at fair value. Unrealized gains (losses) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net position.

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair value at the date of donation. For movable property, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. 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 expenditure categories. See note 5 for additional details concerning useful lives and salvage values. The University uses the composite method for library book depreciation if the books are considered to have a useful life of greater than one year. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose if material.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

COMPENSATED ABSENCES/ACCRUED LEAVE

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 18 hours per month for fifteen years of service and above. There is no requirement that annual leave be taken, and there is no maximum accumulation. At termination, employees are paid 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 fifteen years of service; and 16 hours per month for fifteen years of service and above. There is no limit on the accumulation of major medical leave. At retirement, employees are paid up to 240 hours of accumulated major medical leave.

UNEARNED REVENUES

Unearned 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

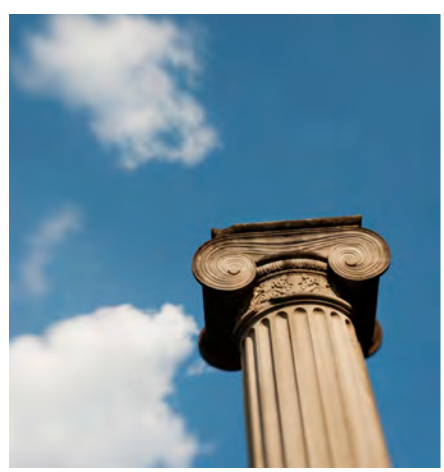
Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable and capital lease obligations; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable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

INCOME TAXES

As a state institution of higher learning, the income of the University is generally exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code; however, income generated from activities unrelated to the University's exempt purpose is subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B).

CLASSIFICATION OF REVENUES AND EXPENDITURES

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:



OPERATING REVENUES AND EXPENSES

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances and bad debt expense, (2) sales and services of educational departments and auxiliary enterprises (net of scholarship discounts and allowances), (3) Federal, state and local grants and contracts (non Title IV financial aid) and Federal appropriations, if any, and (4) interest on institutional student loans and other 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, commodities (supplies) and contractual services; (4) professional fees; and (5) depreciation expenses related to certain capital assets.

Nonoperating revenues have the characteristics of nonexchange transactions. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including state appropriation for operations and capital uses, federal grants for financial aid, gifts, investment income, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Examples of nonoperating 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 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.

Auxiliary enterprises include residence halls, food services, bookstore, convenience store, laundry and faculty and staff housing. 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 scholarship allowances, which reduce operating 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 POSITION

The University adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position in fiscal year 2013, and, as a result, began reporting equity balances (previously referred to as "Net Assets") as "Net Position." Net position represents the difference between all other elements in a statement of financial position and is displayed in three components-net investment in capital assets; restricted (distinguishing between major categories of restrictions); and unrestricted.

Net Invested in Capital Assets reflects the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such debt is excluded from the calculation of Net Invested in Capital Assets.

Restricted, nonexpendable net position consists of endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted, expendable net position includes resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. When both restricted and unrestricted resources are available for use, it is generally the University's policy to utilize restricted resources first and then unrestricted resources as needed.

Unrestricted net position represents resources derived from student tuition and fees, state appropriations, sales and services of educational activities, unrestricted gifts and grants and auxiliary enterprises. While unrestricted net assets may be designated for specific purposes by action of management or the Board, they are available for use at the discretion of the governing board, to meet current expenses for any purpose. Substantially all unrestricted net assets are designated by the Board for academic and research programs and initiatives, and capital programs.

The unrestricted net position balance of $141,429,015 at June 30, 2013 includes $124,568,671 reserved for academic programs and research, $1,584,418 reserved for capital projects, $5,731,705 reserved for repairs and maintenance, with $9,544,221 remaining for other purposes.

RECENTLY ISSUED ACCOUNTING STANDARDS

Effective with the fiscal year ended June 30, 2013, the University adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and early adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. These statements introduce and define those elements as a consumption or acquisition of net assets by the University applicable to a future reporting period. The standards also incorporate deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and rename that measure as net position, rather than net assets. In accordance with the standards, the University has modified the presentation of the Statement of Net Position. An analysis of the University's operations did not yield any transactions that qualify to be classified as deferred inflows or deferred outflows as prescribed by GASB Statement No 65.

NOTE 2

CASH AND INVESTMENTS POLICIES:

(A) CASH AND SHORT TERM INVESTMENTS

Investment policies as set forth by the IHL System 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. Investment policy at the University is governed by state statute (Section 27 105 33, MS Code Ann. 1972) and the Uniform Prudent Management of Institutional Funds Act of 2006, which was adopted by the State, effective July 1, 2012.

The collateral for public entities' deposits in financial institutions is 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 the 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 Deposit Insurance Corporation.

(B) INVESTMENTS

Investment policies as set forth by Board policy as authorized by Section 37 101 15, Mississippi Code Annotated (1972), authorize the University to invest in equity securities, bonds, and other securities. Investments are reported at fair value.

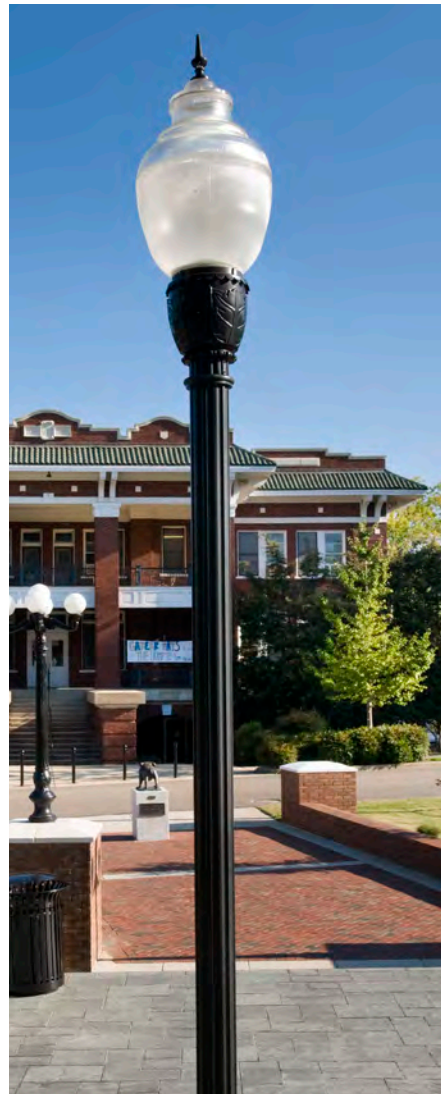
A summary of cash and investments as of June 30, 2013 and 2012 is displayed in the chart to the right.

MISSISSIPPI STATE INVESTMENT POOL

The Mississippi State University 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. As of June 30, 2013 and 2012, the University owned an approximate 8.2% and 8.6% interest in the assets of the MSIP, respectively.

CREDIT RISK

Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered with securities held by the counterparty's trust department or agent, but not held in the government's name. The University had no investments exposed to custodial credit risk at June 30, 2013 and 2012.



NOTE 2: FAIR VALUE INVESTMENT TYPES

Investment Type	2013	2012
U.S. government agency obligations	$56,491,139	$65,581,582
U.S. treasury obligations	13,533,590	12,051,150
Certificates of deposit	8,439,474	8,370,345
Corporate Bonds	936,977	1,170,167
Collateralized mortgage obligations	7,011,631	8,942,261
Municipal bonds	10,298,066	10,498,765
Mutual Funds	3,638,584	
Asset backed securities	4,605,558	2,336,144
Equity securities	15,952,724	19,142,114
Land grant principal	239,789	239,789
Total	**$121,147,532**	**$128,332,317**

INTEREST RATE RISK

Interest rate risk is defined as the risk a government may face should interest rate variances adversely affect the fair value of investments. The University does not presently have a formal policy that addresses interest rate risk.

As of June 30, 2013 and 2012, the University had the following investments subject to interest rate risk:

NOTE 2: INTEREST RATE RISK

2013

		Years to maturity			
Investment Type	**Fair value**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
U.S. government agency obligations	$56,491,139	$1,021,820	$29,941,010	$4,457,885	$21,070,424
U.S. treasury obligations	13,533,591	8,517,030	5,016,560		
Corporate Bonds	936,977			936,977	
Collateralized mortgage obligations	7,011,631			678,360	6,333,271
Municipal bonds	10,298,067	1,012,490	508,479	7,516,142	1,260,955
Asset backed securities	4,605,558			4,605,558	
Total	**$92,876,963**	**$10,551,340**	**$35,466,049**	**$18,194,922**	**$28,664,650**

2012

		Years to maturity			
Investment Type	**Fair value**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
U.S. government agency obligations	$65,581,583	–	$35,492,540	$2,383,008	$27,706,035
U.S. treasury obligations	12,051,150	$4,009,350	8,041,800	–	–
Corporate Bonds	1,170,167			1,170,167	
Collateralized mortgage obligations	8,942,261	–	–	891,638	8,050,623
Municipal bonds	10,498,765	1,503,145	1,583,115	6,338,145	1,074,360
Asset backed securities	2,336,145	–	–	2,336,145	–
Total	$100,580,071	$5,512,495	$45,117,455	$13,119,103	$36,831,018

CREDIT RISK

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal investment policy that addresses credit risk.

As of June 30, 2013 and 2012, the University held investments subject to credit risk.

The credit risk ratings listed in the table to the right are issued based upon standards set by Moody's Investors Service.

NOTE 2: CREDIT RISK

	2013	2012
Credit rating:		
AAA	$12,505,190	$14,778,350
AA	63,397,439	58,400,589
Rating not available	16,974,334	27,401,132
Total	**$92,876,963**	**$100,580,071**

NOTE 2 : CONCENTRATION OF CREDIT RISK

Issuer	Fair value	Percentage
2013		
Federal National Mortgage Association	$27,630,851	32.09%
Federal Home Loan Bank notes	10,735,947	12.47%
Federal Farm Credit Bank	11,886,698	13.80%
U.S. Treasury Obligations	13,533,591	15.72%
Municipal Bonds	10,298,066	11.96%
Government National Mortgage Association	7,011,631	8.14%
Total	**$81,096,784**	
2012		
Issuer	**Fair value**	**Percentage**
Federal National Mortgage Association	$24,452,824	25.66%
Federal Home Loan Bank notes	14,298,373	15.00%
Federal Farm Credit Bank	12,942,577	13.58%
U.S. Treasury Obligations	12,051,150	12.65%
Municipal Bonds	10,498,765	11.02%
Government National Mortgage Association	8,942,261	9.38%
Freddie Mac	7,023,170	7.37%
Federal Home Loan Mortgage Corporation	5,082,230	5.33%
Total	**$95,291,350**	

CONCENTRATION OF CREDIT RISK

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 University does not presently have a formal policy that addresses concentration of credit risk.

To the right is a listing of all the University's issuers holding investments that exceeded 5% of total investments as of June 30, 2013 and 2012.

NOTE 3: ACCOUNTS RECIEVABLE

Type of Receivable	2013	2012
Student tuition	$20,661,292	$17,869,665
Auxiliary enterprises and other operating activities	4,193,001	3,643,247
State appropriation	1,335,350	1,939,084
Contributions and gifts	4,991,204	122,089
Federal, State, and private grants and contracts	33,898,355	35,295,313
Accrued interest	1,001,550	1,025,358
Total accounts receivable	$66,080,752	$59,894,756
Less bad debt provision	7,851,886	6,999,511
Net Accounts receivable	**$58,228,866**	**$52,895,245**

ACCOUNTS RECEIVABLE

For June 30, 2013 and 2012 is displayed on the right.

As a component unit of the State of Mississippi, the IHL System is precluded by statute from discharging amounts owed. Accordingly, gross accounts receivables and the allowance for doubtful accounts include amounts considered to be 100% uncollectible and fully reserved in prior years.

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 University.

Interest rates and unpaid balances as of June 30, 2013 and 2012 are listed on the table to the right.

NOTE 4: NOTES RECEIVABLE FROM STUDENTS

Fiscal Year 2013 (examples)	Interest Rates	June 30	Current Portion	Noncurrent Portion
Perkins student loans	3% to 9%	$17,018,612	$2,500,000	$14,518,612
Institutional loans	0% to 9%	322,001	286,766	35,235
Total notes receivable		**$17,340,613**	**$2,786,766**	**$14,553,847**
Less allowance for doubtful accounts		(1,914,694)	0	(1,914,694)
Net notes receivable		**$15,425,919**	**$2,786,766**	**$12,639,153**

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

NOTE 5: DEPRECIATION

Capital Assets	Estimated useful life	Salvage Value	Capitalization Threshold
Buildings	40 Years	20%	$50,000
Improvements other than buildings	20 Years	20%	25,000
Equipment	3 – 15 Years	1 – 10%	5,000
Library books	10 Years	–	–

CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2013 and 2012 is presented in the table on page 23.

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

NOTE 6: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Payable to vendors and contractors	$14,725,947	$14,947,154
Accrued salaries, wages, and employee withholdings	11,321,414	10,723,915
Total	**$26,047,361**	**$25,671,069**

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2013 and 2012 are presented in this table.

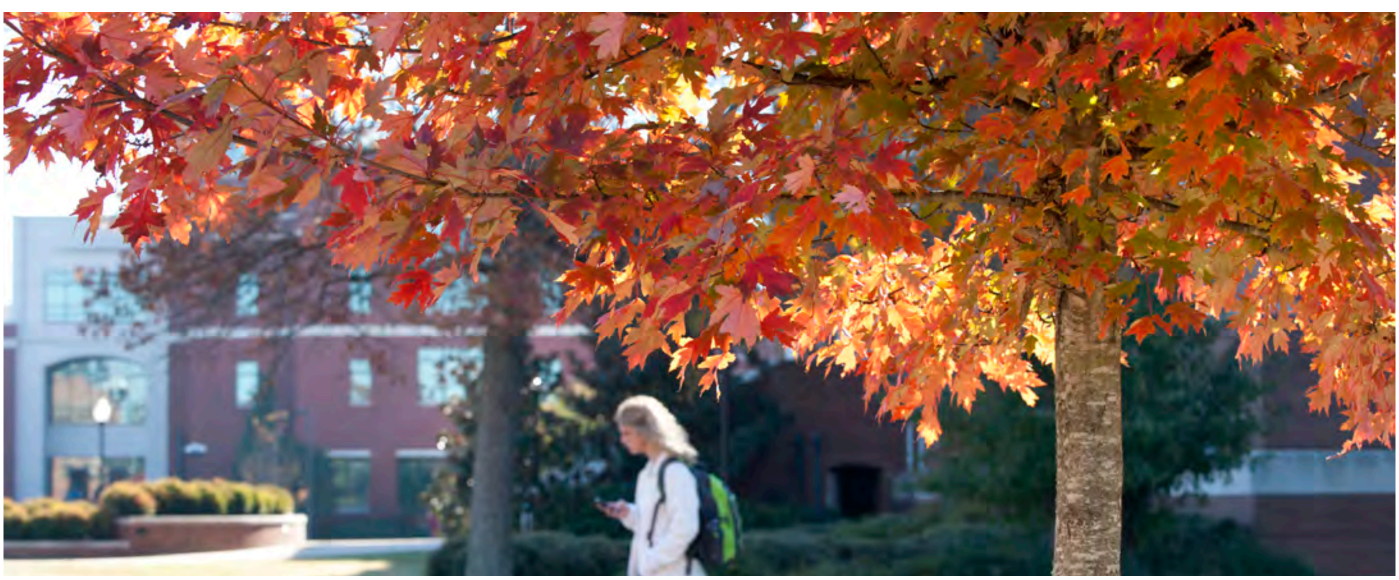
All amounts are considered current and expected to be settled within one year.

NOTE 7: UNEARNED REVENUES

	2013	2012
Unearned summer school revenue	$2,235,542	$2,729,060
Unearned grants and contract revenue	442,745	790,603
Other, principally athletic activities	11,113,872	11,803,796
Total	**$13,792,159**	**$15,323,459**

UNEARNED REVENUES

Unearned revenues as of June 30, 2013 and 2012 are displayed in the table on the left.



NOTE 5 - CAPITAL ASSETS

	Balance June 30, 2012	Additions	Deletions/ Transfers	Balance June 30, 2013
Nondepreciable assets:				
Land	$17,317,188	$5,717	–	$17,322,905
Construction in progress	90,946,984	53,891,222	$2,845,251	141,992,955
Livestock	1,725,028	271,402	344,672	1,651,758
Total nondepreciable capital assets	**$109,989,200**	**$54,168,341**	**$3,189,923**	**$160,967,618**
Depreciable capital assets:				
Improvements other than buildings	$71,351,314	$5,113,426		$76,464,740
Buildings	662,434,775	5,004,721	$115,715	667,323,781
Equipment	144,446,170	10,886,904	5,715,308	149,617,766
Library books	92,622,230	3,984,674	390,380	96,216,524
Total depreciable assets	**$970,854,489**	**$24,989,725**	**$6,221,403**	**$989,622,811**
Total capital assets	**$1,080,843,689**	**$79,158,066**	**$9,411,326**	**$1,150,590,429**
Less accumulated depreciation:				
Improvements other than buildings	23,861,424	2,871,097	–	26,732,521
Buildings	171,386,623	12,409,475	41,851	183,754,247
Equipment	117,751,651	9,449,311	5,249,269	121,951,693
Library books	73,305,740	4,242,559	390,380	77,157,919
Total accumulated depreciation	**$386,305,438**	**$28,972,442**	**$5,681,500**	**$409,596,380**
Net capital assets	**$694,538,251**	**$50,185,624**	**$3,729,826**	**740,994,049**

**As of June 30, 2013 capital assets did not include any assets under capital lease.

	Balance June 30, 2011	Additions	Deletions/ Transfers	Balance June 30, 2012
Nondepreciable assets:				
Land	13,399,340	3,918,333	485	17,317,188
Construction in progress	70,332,152	48,265,462	27,650,630	90,946,984
Livestock	1,526,330	225,732	27,034	1,725,028
Total nondepreciable capital assets	**$85,257,822**	**$52,409,527**	**$27,678,149**	**$109,989,200**
Depreciable capital assets:				
Improvements other than buildings	67,453,578	3,897,736	–	71,351,314
Buildings	636,041,935	29,532,549	3,139,709	662,434,775
Equipment	138,467,394	10,379,838	4,401,062	144,446,170
Library books	88,260,244	4,667,695	305,709	92,622,230
Total depreciable assets	**930,223,151**	**48,477,818**	**7,846,480**	**970,854,489**
Total capital assets	**1,015,480,973**	**100,887,345**	**35,524,629**	**1,080,843,689**
Less Accumulated Depreciation for				
Improvements other than buildings	21,150,288	2,711,136	–	23,861,424
Buildings	160,589,595	12,324,187	1,527,159	171,386,623
Equipment	112,107,362	9,348,060	3,703,771	117,751,651
Library books	69,382,609	4,228,840	305,709	73,305,740
Total accumulated depreciation	**363,229,854**	**28,612,223**	**5,536,639**	**386,305,438**
Net capital assets	**652,251,119**	**72,275,122**	**29,987,990**	**694,538,251**

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

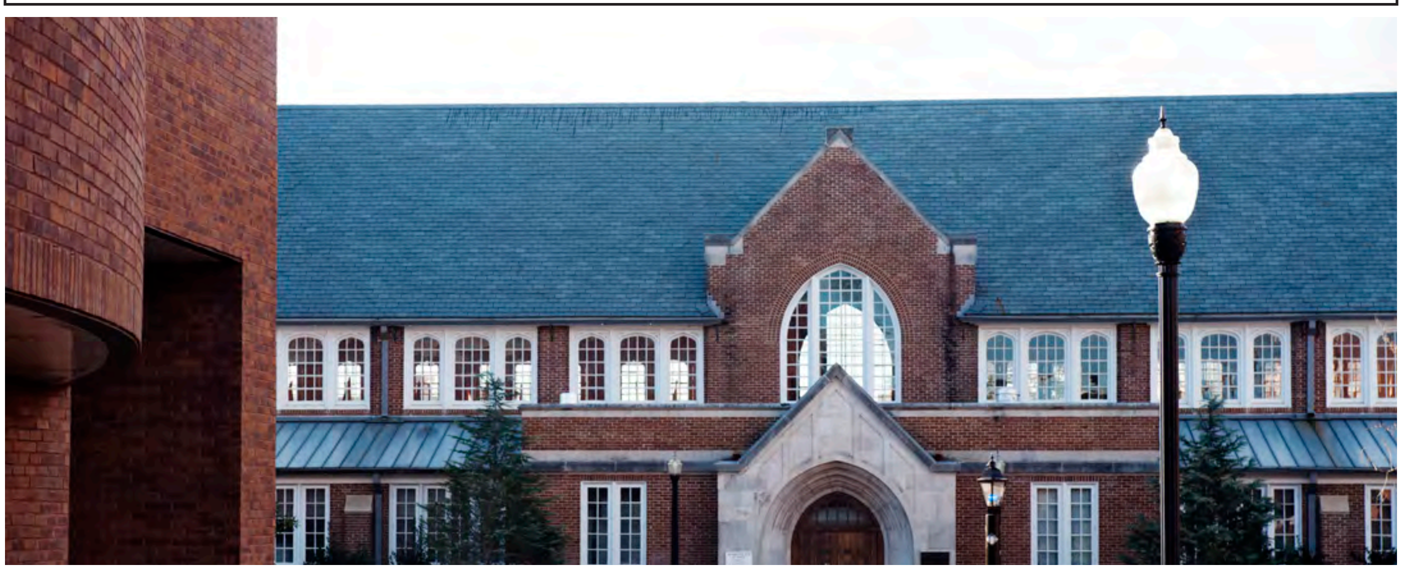
LONG TERM LIABILITIES

Long term liabilities of the University which consist of bonds payable, capital lease obligations, and certain other liabilities that are expected to be liquidated at least one year from June 30, 2013 and 2012, are presented as follows:

NOTE 8 : LONG TERM LIABILITIES

FISCAL YEAR 2013

	Original issue	Accrued interest rate	Maturity (fiscal year)	Beginning balance	Additions	Deletions	Ending Balance	Due within 1 year
Bonded debt:								
Dormitory bonds	2,250,000	3.00%	2021	$760,000		$70,000	$690,000	$80,000
Student apartments	2,038,000	3.00%	2022	780,000		70,000	710,000	70,000
EBC(1998) – Revenue bonds	31,865,000	3.75% – 5.25%	2018	6,025,000			6,025,000	
EBC (2004) – Revenue bonds	17,000,000	3.50% – 4.60%	2029	13,230,000		555,000	12,675,000	575,000
EBC (2004A) – Revenue bonds	28,790,000	2.00% – 5.00%	2030	20,340,000		1,465,000	18,875,000	1,540,000
EBC (2005) – Revenue bonds	58,965,000	5.00%	2036	50,890,000		1,600,000	49,290,000	1,675,000
EBC (2007A)– Revenue bonds	6,110,000	4.125% - 5.00%	2028	5,295,000		230,000	5,065,000	240,000
EBC (2009A-1) – Revenue bonds	29,615,000	2.75% – 5.25%	2029	29,035,000		600,000	28,435,000	615,000
EBC (2009A-2)– Revenue bonds	17,105,000	3.00% – 4.50%	2024	14,695,000		1,380,000	13,315,000	1,405,000
EBC (2011) – Revenue bonds	54,370,000	2.00% – 5.00%	2042	54,370,000		1,890,000	52,480,000	1,925,000
Total bonded debt				**$195,420,000**	**–**	**$7,860,000**	**$187,560,000**	**$8,125,000**
Commercial Paper				–	29,000,000		29,000,000	
Capital leases:								
Various equipment				–			–	
Other long-term liabilities								
Accrued leave liabilities				22,705,686	619,911		23,325,597	2,479,786
Deposits refundable				40,260		4,500	35,760	
Other				14,270,908		234,679	14,036,229	
Total other long-term liabilities				**37,016,854**	**619,911**	**239,179**	**37,397,586**	**2,479,786**
Total				232,436,854	29,619,911	8,099,179	253,957,586	10,604,786
Due within one year							**(10,604,786)**	
Total Long-Term Liabilities							**$243,352,800**	



NOTE 8 : LONG TERM LIABILITIES

FISCAL YEAR 2012

	Original issue	Accrued interest rate	Maturity (fiscal year)	Beginning balance	Additions	Deletions	Ending Balance	Due within 1 year
Bonded debt:								
Dormitory bonds	2,250,000	3.00%	2021	$830,000	–	$70,000	$760,000	$70,000
Student apartments	2,038,000	3.00%	2022	845,000	–	65,000	780,000	70,000
EBC(1998) – Revenue bonds	31,865,000	3.75% – 5.25%	2018	6,025,000	–	–	6,025,000	–
EBC (2001) – Revenue bonds	16,920,000	4.00% – 5.50%	2027	9,905,000	–	9,905,000	–	–
EBC (2004) – Revenue bonds	17,000,000	3.50% – 4.60%	2029	13,770,000	–	540,000	13,230,000	555,000
EBC (2004A) – Revenue bonds	28,790,000	2.00% – 5.00%	2030	21,750,000	–	1,410,000	20,340,000	1,465,000
EBC (2005) – Revenue bonds	58,965,000	5.00%	2036	52,430,000	–	1,540,000	50,890,000	1,600,000
EBC (2007A)– Revenue bonds	6,110,000	4.125% - 5.00%	2028	5,515,000	–	220,000	5,295,000	230,000
EBC (2009A-1) – Revenue bonds	29,615,000	2.75% – 5.25%	2029	29,615,000	–	580,000	29,035,000	600,000
EBC (2009A-2)– Revenue bonds	17,105,000	3.00% – 4.50%	2024	16,025,000	–	1,330,000	14,695,000	1,380,000
EBC (2011) – Revenue bonds	54,370,000	2.00% – 5.00%	2042	–	$54,370,000	–	54,370,000	1,890,000
Total bonded debt				**$156,710,000**	**$54,370,000**	**$15,660,000**	**$195,420,000**	**$7,860,000**
Capital leases:								
Various equipment				79,131	–	79,131	–	–
Other long-term liabilities								
Accrued leave liabilities				21,260,383	1,445,303	–	22,705,686	2,513,541
Deposits refundable				67,125	–	26,865	40,260	–
Other				14,758,613	–	487,705	14,270,908	–
Total other long-term liabilities				**$36,086,121**	**$1,445,303**	**$514,570**	**$37,016,854**	**$2,513,541**
Total				**192,875,252**	**55,815,303**	**16,253,701**	**232,436,854**	**10,373,541**
Due within one year							**(10,373,541)**	
Total Long-Term Liabilities							**$222,063,313**	

NOTE 8: OUTSTANDING DEBT AMORTIZATION SCHEDULE

	Bonded debt	Interest	Total
Fiscal year:			
2014	$8,125,000	$8,546,359	$16,671,359
2015	8,360,000	8,218,669	16,578,669
2016	8,560,000	7,843,084	16,403,084
2017	8,955,000	7,443,696	16,398,696
2018	7,380,000	7,075,584	14,455,584
2019 – 2023	42,150,000	30,206,896	72,356,896
2024 – 2028	38,630,000	20,540,226	59,170,226
2029 – 2033	27,485,000	12,782,555	40,267,555
2034 – 2038	25,560,000	6,080,741	31,640,741
2039 – 2043	12,355,000	1,127,506	13,482,506
Total	**$187,560,000**	**$109,865,316**	**$297,425,316**

BONDS PAYABLE

The University has issued bonds to construct, renovate, and improve various campus facilities. As noted in the summary of significant accounting policies, the University established the Mississippi State University Educational Building Corporation (MSUEBC). This nonprofit Mississippi corporation was established in accordance with Section 37-101-61 of the Mississippi Code Annotated, 1972, for the purpose of acquiring, constructing, renovating, improving, and equipping University facilities. In accordance with GASB Statement Nos. 14 and 61, MSUEBC is considered a blended component unit of the university and is included in the general purpose financial statements.

1981, Series C – United States Housing and Urban Development, Dormitory Renovation Loan – MSU issued bonds totaling $2,250,000 in June, 1981 (Series 1981C) for the renovation of residence halls on the main campus of MSU. Outstanding coupons bear interest at a rate of 3.00% with the final maturity in December, 2020

1981 Student Housing Revenue Bond of 1981 – MSU issued bonds totaling $2,038,000 in December, 1981 (Series 1981) for the constructing of married student apartments and housing for graduate students on the main campus of MSU. Outstanding coupons bear interest at a rate of 3.00% with a final maturity in December, 2021

Series 1998 – MSUEBC issued bonds totaling $31,865,000 in August, 1998 (Series 1998) for the construction, repairs, renovations, equipping and improvements to student housing as well as other buildings on and off campus. $16,535,000 of outstanding coupons were called and redeemed on May 5, 2009.

Series 2004 –MSUEBC issued bonds totaling $17,000,000 in January, 2004 (Series 2004) for the construction of energy production, management, and storage facilities to enable Mississippi State University to take full advantage of lower cost variable price interruptible (VPI) electrical power rates offered by TVA and the City of Starkville, MS. Outstanding coupons bear interest at rates ranging from 3.50% to 4.600% with final maturity in August, 2028.

Series 2004-A – MSUEBC issued bonds totaling $28,790,000 in November, 2004 (Series 2004-A) for (i) the construction of Roy H. Ruby Hall ("Ruby Hall") for student housing and (ii) the refunding of MSUEBC bonds issued in November, 1993 (Series 1993), MSUEBC bonds issued in June, 1995 (Series 1995), and the partial refund of MSUEBC bonds issued in December, 1996 (Series 1996). All remaining Series 1996 bonds matured in August, 2007.

Series 2005 – MSUEBC issued bonds totaling $58,965,000 in November, 2005 (Series 2005) for construction of new student housing facilities, the Palmiero Center, the building to house the Barnes & Noble Bookstore, the MSU Welcome Center and additional infrastructure. Outstanding coupons bear interest rates of 5.00% with final maturity in August, 2035.

Series 2007A – MSUEBC issued bonds totaling $6,110,000 in July, 2007 (Series 2007A) for the (i) construction, rehabilitation, renovation, improving, repairing, equipping and installing Colvard Student Union on the main campus of MSU, (ii) provide for capitalized interest in connection with the project and (iii) pay the cost of issuing the bonds. Outstanding coupons bear interest at rates ranging from 4.125% to 5.00% with final maturity in August, 2027.

Series 2009A-1 – MSUEBC issued bonds totaling $29,615,000 in May, 2009 (Series 2009A-1) for (i) constructing, furnishing and equipping a new residence hall on the main campus of MSU, (ii) demolishing an abandoned residence hall, (iii) providing capitalized interest in connection with the project, and (iv) paying the costs of issuing the Bonds. Outstanding coupons bear interest at rates ranging from 2.75% to 5.25% with the final maturity in August, 2038.

Series 2009A-2 – MSUEBC issued bonds totaling $17,105,000 in May, 2009 (Series 2009A-2) for refunding of a portion of the MSUEBC bonds issued August, 1998 (Series 1998). Outstanding coupons bear interest at rates ranging from 3.00% to 4.50% with the final maturity in August, 2023.

Series 2011 – MSUEBC issued bonds totaling $54,370,000 in July, 2011 (Series 2011) for (i) constructing, furnishing and equipping new residence halls on the main campus of MSU, and (ii) refunding of MSUEBC bonds issued on February, 2001 (Series 2001). Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with the final maturity in August, 2041.

On July 28, 2011, the University issued $54,370,000 in Educational Building Corporation revenue and refunding bonds, Series 2011, with interest rates ranging from 2.00% to 5.00%. The University utilized a portion of these proceeds to defease $8,940,000 of the outstanding EBC Revenue Bonds, Series 2001. The balance of the proceeds ($45,990,000) funded the construction of two new student housing facilities. As a result of the refunding, the University reduced its debt service requirement by $1,352,050 over the next 15 years and obtained an economic gain of $954,015. The bonds are scheduled to be retired in full in August 2041.

COMMERCIAL PAPER

In February 2012, the Board of Trustees of State Institutions of Higher Learning authorized the MSU Educational Building Corporation to establish an extendible commercial paper program that allows the institution to issue up to a maximum aggregate principal amount of $50 million in the form of commercial paper. The commercial paper program was utilized in fiscal year 2013 as an interim financing vehicle for the renovation of Davis Wade Stadium. The commercial paper was classified as a noncurrent liability in the accompanying 2013 financial statements as the University had the intent and ability to convert the commercial paper into a long-term financing vehicle subsequent to year end.

NOTE 9 OPERATING LEASES

Leased property under operating leases is composed of office rent, land, computer software, and equipment. A schedule by year of the future minimum rental payments required under those non-cancelable leases is presented to the right

The total rental expense for all operating leases, except those with terms of one month or less that were renewed, for the fiscal years ended June 30, 2013 and 2012 was $2,497,077 and $2,596,232, respectively.

NOTE 9 : OPERATING LEASES

	2013	2012
2013		$2,596,232
2014	2,497,077	2,596,232
2015	2,497,077	2,596,232
2016	2,497,077	2,596,232
2017	2,497,077	2,596,232
2018	2,497,077	
2019		
Total Minimum Payments Required	**$12,485,385**	**$12,981,158**

NOTE 10 NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The table below lists the operating expenses of the University by functional classification for the fiscal years ended June 30, 2013 and 2012:

NOTE 10: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

2013

Functional classification	Salaries and wages	Fringe benefits	Travel	Contractual services	Utilities	Scholarships and fellowships	Commodities	Depreciation	Total
Instruction	$82,414,928	$27,005,952	$1,553,414	$2,789,883	$95,427		$1,153,753		$115,013,357
Research	73,238,417	25,629,078	4,210,134	20,313,435	2,484,610		7,647,331		133,523,005
Public service	50,260,219	16,576,530	4,538,779	12,789,458	714,539		3,011,161		87,890,686
Academic support	19,346,257	5,598,741	561,718	4,808,803	163,390		2,002,935		32,481,844
Student services	10,075,666	3,158,238	534,480	2,595,831	117,958		553,345		17,035,518
Institutional support	18,574,995	3,524,757	306,516	14,661,914	268,826		9,134,270		46,471,278
Operation of plant	12,828,634	4,246,765	44,860		8,321,205		1,231,658		26,673,122
Student aid	1,058,555	3,166,336	4,654	268,880		$20,946,379	36,246		25,481,050
Auxiliary enterprises	21,574,254	5,586,296	4,343,361	16,777,165	2,789,198	7,710,410	2,662,129		61,442,813
Depreciation expense								$28,972,442	28,972,442
Total	**$289,371,925**	**$94,492,693**	**$16,097,916**	**$75,005,369**	**$14,955,153**	**$28,656,789**	**$27,432,828**	**$28,972,442**	**$574,985,115**

2012

Functional classification	Salaries and wages	Fringe benefits	Travel	Contractual services	Utilities	Scholarships and fellowships	Commodities	Depreciation	Total
Instruction	$78,339,941	$24,325,736	$1,506,535	$4,564,198	$49,748	–	$1,969,439	–	$110,755,597
Research	76,290,277	25,031,051	4,567,267	34,179,227	2,447,755	–	12,347,847	–	154,863,424
Public service	47,370,237	14,985,298	4,323,944	15,075,266	730,162	–	3,598,451	–	86,083,358
Academic support	18,234,636	4,982,783	542,797	3,816,482	144,156	–	3,230,792	–	30,951,646
Student services	9,603,334	2,861,789	472,726	2,361,950	117,660	–	764,830	–	16,182,289
Institutional support	18,872,928	3,072,137	313,366	14,262,480	9,900	–	16,053,013	–	52,583,824
Operation of plant	12,777,816	4,022,542	56,398	–	8,186,470	–	2,642,236	–	27,685,462
Student aid	942,667	3,159,491	7,387	217,174	–	$23,825,410	95,414	–	28,247,543
Auxiliary enterprises	20,139,403	4,942,991	4,049,258	13,983,131	2,536,708	7,720,543	3,540,898	–	56,912,932
Depreciation expense	–	–	–	–	–	–	–	$28,612,223	28,612,223
Total	**$282,571,239**	**$87,383,818**	**$15,839,678**	**$88,459,908**	**$14,222,559**	**$31,545,953**	**$44,242,920**	**$28,612,223**	**$592,878,298**

NOTE 11 CONSTRUCTION COMMITMENTS AND FINANCING

The University has contracted for various construction projects as of June 30, 2013. Estimated costs to complete the various projects and the sources of anticipated funding are provided below:

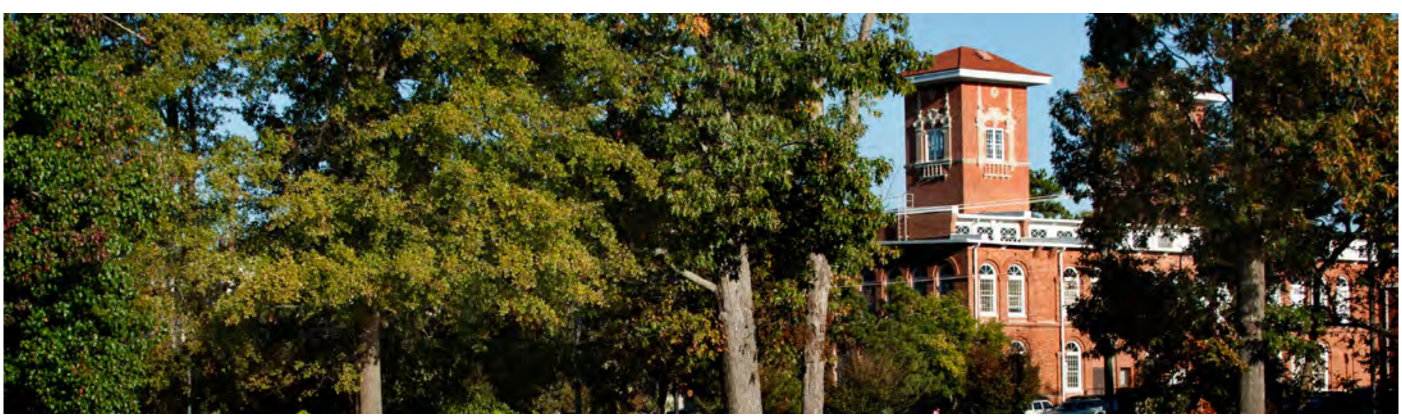
NOTE 11: CONSTRUCTION COMMITMENTS AND FINANCING

	Total Costs to Complete	Funded by Federal Sources	State Sources	Institutional Funds	Other
Fiscal Year 2013:					
105-310 Harned Hall Renovation - Phase I	$ 15,148,088		$ 15,148,088		
105-329 Pre-Plan Lee Hall Renovation	206,377		206,377		
105-330 IT - Harned Hall Renovation	231,187		231,187		
105-332 IT Pre-Plan Lee Hall Renovation	479		479		
105-341 Hand Lab Safety Upgrades	707,782		707,782		
105-343 Lee Hall Renovations	20,689,983		20,689,983		
105-345 Classroom Bldg with Parking	37,143,175		11,646,104	$ 25,497,071	
105-346 Energy Opt. - Phase I	204,711		204,711		
South Campus Entrance (MDOT)	5,000,000	$ 5,000,000			
North Campus Entrance - Research Park	2,500,000	2,500,000			
Fence Project (MDOT)	500,000	400,000		100,000	
Gast Building Renovation	1,588,500			1,588,500	
EBC 2011 Residential Housing	45,800,128			45,800,128	
EBC 2011 Parking Garage	37,509,471		12,012,400	25,497,071	
EBC 2012 Aiken Village	14,000,000			14,000,000	
EBC 2012 Add & Reno Davis Wade	80,000,000			80,000,000	
Fresh Food Co Facility	12,500,000			12,500,000	
Meridian Lighting Retrofit	185,000			185,000	
Bull Ring Restoration Project	107,393				$ 107,393
Chadwick Lake Walking Track	600,000			100,000	500,000
Main Campus Lighting Retrofit	6,500,000			6,500,000	
113-099 MS Veterinary Diagnostic Lab (Phase I)	12,612,440		12,612,440		
113-110 Pre-plan Wise Center Renovation	338,678		338,678		
113-111 Communications MS Vet Lab	1,548,844		1,548,844		
113-115 Lloyd-Ricks Renovation	14,489,341	2,942,035	11,547,306		
113-122 IT Lloyd-Ricks Renovation	765,622	302,928	462,694		
113-130 Wise Center Necropsy Renovation	12,118,489		12,118,489		
113-134 Wise Center Classroom Addition	3,774,107		3,774,107		
113-136 Preplan Meat Processing Bldg	199,029		199,029		
Wetlands Project	810,000			150,000	660,000
Total	**$327,778,824**	**$11,144,963**	**$103,448,698**	**$211,917,770**	**$1,267,393**

The construction projects the University contracted as of June 30, 2012 are presented below for comparison.

NOTE 11: CONSTRUCTION COMMITMENTS AND FINANCING

	Total Costs to Complete	Funded by Federal Sources	State Sources	Institutional Funds	Other
Fiscal Year 2012:					
105-310 Harned Hall Renovation - Phase I	$16,812,422		$ 16,812,422		
105-330 IT - Harned Hall Renovation	231,187		231,187		
105-329 Pre-Plan Lee Hall Renovation	206,377		206,377		
105-332 IT Pre-Plan Lee Hall Renovation	479		479		
105-343 Lee Hall Renovations	20,700,000		20,700,000		
105-345 Classroom Bldg with Parking	37,509,471		12,012,400	$ 25,497,071	
105-346 Energy Opt. - Phase I	204,711		204,711		
South Campus Entrance (MDOT)	5,000,000	$ 5,000,000			
North Campus Entrance - Research Park	2,500,000	2,500,000			
Fence Project (MDOT)	500,000	400,000		100,000	
Spencer Track Resurfacing	3,200,000			3,200,000	
SERC Pilot Skill Facility	1,000,000	1,000,000			
Fraternity Parking Lot	291,000			291,000	
The Station Building Renovation	950,000			950,000	
Golf Course Practice Facility	650,000				$ 650,000
EBC 2011 Residential Housing	45,800,128			45,800,128	
Renovate Building for Art Department	256,289			256,289	
Gast Building Renovation	225,000			225,000	
113-099 MS Veterinary Diagnostic Lab (Phase I)	12,619,528		12,619,528		
113-110 Pre-plan Wise Center Renovation	338,678		338,678		
113-111 Communications MS Vet Lab	1,548,844		1,548,844		
113-115 Lloyd-Ricks Renovation	14,489,342	2,942,035	11,547,306		
113-122 IT Lloyd-Ricks Renovation	765,621	302,928	462,694		
113-130 Wise Center Necropsy Renovation	12,618,489		12,618,489		
113-134 Wise Center Classroom Addition	1,700,000		1,700,000		
Wetlands Project	810,000			150,000	660,000
Total	**$180,927,566**	**$12,144,963**	**$91,003,115**	**$76,469,488**	**$1,310,000**



NOTE 12 PENSION PLAN

PLAN DESCRIPTION

The IHL System participates in both the Public Employees' Retirement System of Mississippi (PERS), a cost sharing multiple employer defined benefit pension plan and the Optional Retirement Plan (ORP), a multiple employer defined contribution plan established in 1990. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201 1005 or by calling (601) 359 3589 or 1 800 444 PERS.

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 IHL System after July 1, 2007. A member who entered the PERS Plan 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.

FUNDING POLICY

PERS members are required to contribute 9% of their annual salary and the University is required to contribute at an actuarially determined rate. The actuarially determined rate was 14.26% and 12.93% of annual covered payroll at June 30, 2013 and 2012, respectively. The contribution requirement of PERS members are established and may be amended only by the State of Mississippi Legislature. The University's contribution to PERS for the years ended June 30, 2013 and 2012 was $26,782,199 and $22,772,258, respectively. Such contribution equaled the required contribution.

The membership of the ORP is composed of teachers and administrators of the IHL System appointed or employed on or after July 1, 1990, who elect to participate in ORP and reject membership in PERS. The University's contribution to ORP for the years ended June 30, 2013 and 2012 was $10,098,676 and $8,403,486, respectively. Such contribution equaled the required contribution.

NOTE 13 DONOR RESTRICTED ENDOWMENTS

The net appreciation on investments of donor restricted endowments that is available for appropriation for expenditure as of June 30, 2013 and 2012 was $973,399 and $13,975 respectively. These amounts are included in the accompanying statements of net position in "restricted – expendable for other purposes" and "restricted – expendable for scholarships and fellowships".

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 market value.

NOTE 14 FEDERAL LOAN PROGRAM DISBURSEMENTS

The University distributed $106,435,890 and $109,270,222 for the years ended June 30, 2013 and 2012, respectively, for student loans through the U.S. Department of Education lending programs. These distributions and their related funding sources are included as cash flows from capital and noncapital financing activities in the statements of cash flows.

NOTE 15 WORKERS' COMPENSATION, UNEMPLOYMENT, AND TORT LIABILITY FUNDS

Several types of risk are inherent in the operation of an institution of higher learning. There are several methods in which the institution can mitigate the risks. One of these methods is the pooling of resources among the institutions. The University and the other member institutions have pooled their resources to establish professional and general liability trust funds. Funds have been established for Workers' Compensation, Unemployment, and Tort Liability.

The Workers' Compensation Program provides a mechanism for the institutions to fund and budget for the costs of providing worker compensation benefits to eligible employees. The program does not pay benefits directly to employees. Funds are set aside in trust, and a third party administrator is utilized to distribute the benefits to eligible employees. Payments by the University to the Workers' Compensation Fund totaled approximately $1,528,819 and $1,404,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

The Unemployment Trust Fund operates in the same manner as the Workers' Compensation Program. The Fund does not pay benefits directly to former employees. The Unemployment Fund reimburses the Mississippi Employment Security Commission for benefits that the Commission pays directly to former employees. Payments by the University to the Unemployment Trust Fund totaled approximately $227,000 and $256,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

The Tort Liability Fund was established in accordance with Section 11 46 of Mississippi State Law. The Mississippi Tort Claims Board has authorized the Board of Trustees of State Institutions of Higher Learning (IHL Board) to establish a fund in order to self insure certain portions of its liability under the Mississippi Tort Claims Act. Effective July 1, 1993, Mississippi statute permitted tort claims to be filed against public institutions. A maximum liability limit of $500,000 per occurrence is currently permissible. The IHL Board has authorized the Tort Liability Fund to acquire an educator's legal liability policy with a deductible of $1,000,000. Further, the IHL Board has designated that $1,000,000 be reserved from the IHL Tort Liability Fund Net Assets to be used towards any future payment of this insurance deductible. The IHL Tort Liability claims pool also purchases insurance premiums for fleet automobile policies and blanket public officials bond annually. The share of the annual payments to the Tort Liability Fund and the various insurance premiums paid by the University totaled approximately $1,037,000 and $675,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

NOTE 16 : AFFILIATED ORGANIZATIONS

	2013	2012
ASSETS		
Total Current Assets		
Capital Assets, net		
Other Noncurrent Assets	$215,160,000	$193,880,000
Total Noncurrent Assets	$215,160,000	$193,880,000
Total Assets	$215,160,000	$193,880,000
LIABILITIES		
Total Current Liabilities	$7,975,000	$7,720,000
Total Noncurrent Liabilities	$ 207,185,000	$186,160,000
Total Liabilities	$215,160,000	$193,880,000
NET ASSETS		
Invested in Capital Assets, net of related debt -		
Total Restricted		
Total Unrestriceted		
Total Net Assets -		
OPERATING REVENUES		
Total Operating Revenues		
OPERATING EXPENSES		
Total Depreciation/Amortization		
Total Other Operating Expenses		
Total Operating Expenses		
Operating Income (Loss)		
NONOPERATING REVENUE (EXPENSES)		
Investment income, net of investment expenses		
Interest expense on capital assets-related debt	$(8,819,472)	$(8,358,079)
Other Nonoperating Revenues	8,819,472	8,358,079
Other Nonoperating (Expenses)		
Total net nonoperating revenues (expenses)		
Change in Net Assets		
Beginning Net Assets	0	0
Ending Net Assets	$0	$0
CASH FLOWS		
Operating activities	0	0
Noncapital financing activities	0	0
Capital and related finanacing activities	0	0
Investing activities	0	0
Total Net increase (decrease) in cash and cash equivalents	$0	$0
Beginning Cash and Cash Equivalents	0	0
Ending Cash and Cash Equivalents	$0	$0

NOTE 16 AFFILIATED ORGANIZATIONS

The University has seven affiliated organizations that were evaluated in accordance with GASB Statement No. 61, The Financial Reporting Entity: Omnibus, which the University adopted on July 1, 2012. These organizations were formed exclusively for the benefit of the University and serve to promote, encourage, and assist with educational, scientific, literary, research, athletic, facility improvement, and service activities of the University and its affiliates. These organizations include the Mississippi State University Educational Building Corporation, Mississippi State University Foundation, Inc., Mississippi State University Alumni Foundation, Inc., Mississippi State University Research Technology Corporation, The Bulldog Club, Inc., The Bulldog Foundation, Inc., and Mississippi State University Alumni Association. These affiliated entities are audited separately and, with the exception of the Mississippi State University Foundation and Mississippi State University Educational Building Corporation, have not been included in these financial statements. Therefore, the financial statements include the operations of the University, the Mississippi State University Foundation and the Educational Building Corporation. The Mississippi State University Foundation financial statements are presented discreetly following the University's financial statements. In accordance with paragraph 54a of GASB Statement No. 61, the Educational Building Corporation is reported as a blended component unit. Required condensed combining information is presented to the left.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

JUNE 30, 2013 AND 2012
(WITH INDEPENDENT AUDITORS' REPORT THERIN)

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

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2013 and 2012

(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 financial statements of Mississippi State University Foundation, Inc. (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mississippi State University Foundation, Inc. as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2013 and 2012

Assets		**2013**	**2012**
Cash	$	1,942,202	3,426,574
Restricted cash		4,697,221	4,456,975
Accrued interest, other receivables and prepaid assets		2,448,333	1,286,994
Receivable from MSU Alumni Foundation		31,616	5,117
Receivable from MSU Alumni Association		76,020	77,822
Note receivable (note 4)		94,035	152,268
Pledges receivable, net (note 3)		20,515,278	18,533,904
Investments (notes 2 and 8)		366,926,041	318,283,438
Present value of amounts due from externally managed trusts		38,487,513	34,354,678
Land, buildings, and equipment (note 5)		10,329,525	10,370,414
Total assets	$	445,547,784	390,948,184
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	1,222,631	1,629,719
Agency payable		4,697,221	4,456,975
Obligation under capital leases (note 9)		28,750	2,071,535
Liabilities under split interest agreements		4,433,883	4,065,007
Payable to Mississippi State University		95,189	86,050
Note payable (note 6)		—	188,478
Total liabilities		10,477,674	12,497,764
Net assets:			
Unrestricted:			
Net assets controlled by the Foundation		39,273,797	23,269,373
Net assets related to noncontrolling interests		45,953,315	42,749,038
Total unrestricted net assets		85,227,112	66,018,411
Temporarily restricted (note 7)		63,070,573	45,941,266
Permanently restricted (note 7)		286,772,425	266,490,743
Total net assets		435,070,110	378,450,420
Commitments (notes 8 and 9)			
Total liabilities and net assets	$	445,547,784	390,948,184

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2013

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support:					
Contributions	$	18,582,454	10,776,211	17,754,210	47,112,875
Net investment income (loss) (note 2)		8,910,418	25,550,365	(306,109)	34,154,674
Change in value of split interest agreements		—	252,050	2,821,084	3,073,134
Other		4,858,749	88,450	—	4,947,199
Change in restrictions by donors		—	(12,497)	12,497	—
Net assets released from restrictions		19,525,272	(19,525,272)	—	—
Total revenues and support		51,876,893	17,129,307	20,281,682	89,287,882
Expenditures:					
Program services:					
Contributions and support for Mississippi State University		22,879,764	—	—	22,879,764
Contributions and support for Bulldog Club		767,803	—	—	767,803
Contributions and support for MSU Alumni Association		561,094	—	—	561,094
Total program services		24,208,661	—	—	24,208,661
Supporting services:					
General and administrative		3,487,020	—	—	3,487,020
Fund raising		3,294,249	—	—	3,294,249
Total supporting services		6,781,269	—	—	6,781,269
Total expenditures		30,989,930	—	—	30,989,930
Change in net assets		20,886,963	17,129,307	20,281,682	58,297,952
Change in net assets related to noncontrolling interests		(4,882,539)	—	—	(4,882,539)
Change in net assets controlled by Foundation	$	16,004,424	17,129,307	20,281,682	53,415,413

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2012

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

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2013 and 2012

		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, 2011	$	24,827,789	45,200,866	70,028,655	57,647,303	255,386,117	383,062,075
Change in net assets from statement of activities		(1,558,416)	(1,032,305)	(2,590,721)	(11,706,037)	11,104,626	(3,192,132
Payments to noncontrolling interests		—	(1,419,523)	(1,419,523)	—	—	(1,419,523
Change in total net assets		(1,558,416)	(2,451,828)	(4,010,244)	(11,706,037)	11,104,626	(4,611,655
Net assets as of June 30, 2012		23,269,373	42,749,038	66,018,411	45,941,266	266,490,743	378,450,420
Change in net assets from statement of activities		16,004,424	4,882,539	20,886,963	17,129,307	20,281,682	58,297,952
Payments to noncontrolling interests		—	(1,678,262)	(1,678,262)	—	—	(1,678,262
Change in total net assets		16,004,424	3,204,277	19,208,701	17,129,307	20,281,682	56,619,690
Net assets as of June 30, 2013	$	39,273,797	45,953,315	85,227,112	63,070,573	286,772,425	435,070,110

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	58,297,952	(3,192,132)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		804,077	830,651
Realized and unrealized (gains) losses on investments, net		(25,893,174)	8,850,405
Change in value of internally managed split interest agreements		408,822	105,912
Fair value of donated assets		(15,039,309)	—
Change in accrued interest, other receivables and prepaid assets		(1,161,339)	(473,481)
Change in pledges receivable, net		(1,981,374)	(65,232)
Change in externally managed trusts		(4,132,835)	(11,544)
Change in accounts payable and accrued liabilities		(407,088)	(239,973)
Change in payable to Mississippi State University		9,139	90,048
Change in receivable from MSU Alumni Foundation		(26,499)	82,535
Change in receivable from MSU Alumni Association		1,802	60,096
Permanently restricted contributions		(14,000,335)	(8,721,754)
Net cash used in operating activities		(3,120,161)	(2,684,469)
Cash flows from investing activities:			
Purchases of land, buildings and equipment		(763,188)	(62,824)
Purchases of investments		(170,045,385)	(158,584,531)
Proceeds from sales and maturities of investments		162,335,265	155,538,860
Payments on note receivable		58,233	54,903
Net cash used in investing activities		(8,415,075)	(3,053,592)
Cash flows from financing activities:			
Principal payments on note payable		(188,478)	(13,757)
Permanently restricted contributions		14,000,335	8,721,754
New liabilities under split interest agreements		564,825	614,164
Payments to split interest agreement beneficiaries		(604,771)	(423,769)
Principal payments on capital lease obligation		(2,042,785)	(382,707)
Payments to noncontrolling interests		(1,678,262)	(1,419,523)
Net cash provided by financing activities		10,050,864	7,096,162
Net (decrease) increase in cash		(1,484,372)	1,358,101
Cash at beginning of year		3,426,574	2,068,473
Cash at end of year	$	1,942,202	3,426,574
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	73,911	74,403

See accompanying notes to consolidated financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

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

(b) Basis of Accounting

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

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

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

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

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

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

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; and

– as increases or decreases in temporarily restricted net assets in all other cases and released from restriction when appropriated for expenditure, except as described in Note 10(d) for endowment funds whereby the fair value of the fund is less than the historical cost value.

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

(d) Restricted Cash

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

(e) Land, Buildings, and Equipment

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

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

(Continued)

(f) Fair Value Measurements

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, 2013 and 2012, the Foundation's consolidated financial statements include $45,953,315 and $42,749,038, respectively, for their noncontrolling share within investments and unrestricted net assets related to noncontrolling interests. The Foundation recorded $4,882,539 of gains and $1,032,305 of losses associated with these investments for fiscal 2013 and 2012, respectively, which is reported in net investment income (loss).

Allocation of Investment Strategies

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

Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the Foundation and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds registered with the U.S. Securities and Exchange Commission 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, 2013 and 2012, 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 who utilize the cost, sales comparison, and income capitalization approaches to estimate the fair value of the investments. The Foundation considers recent comparables, among other things, to adjust for any changes in fair value between the most recent appraisal date and year-end.

(h) Pledges

All unconditional promises to give are recorded at their estimated realizable value on a discounted basis using rates commensurate with the risks involved. 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, 2013 and 2012 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 net assets 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.

Present value of amounts due from externally managed trusts and liabilities under split interest agreements are classified as Level 3 measurements.

Contribution revenue attributable to split interest agreements for the fiscal years ended June 30, 2013 and 2012 was $1,586,239 and $505,955, respectively.

(j) Income Taxes

The Foundation is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes has been made. As of June 30, 2013 and 2012, 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

The Foundation evaluated all events or transactions that occurred after June 30, 2013, through November 4, 2013, the date the consolidated financial statements were available to be issued. During this period, there were no material subsequent events that required accounting or disclosure recognition in the Foundation's June 30, 2013 consolidated financial statements.

(m) Recent Accounting Pronouncements

The Foundation follows the provisions of FASB ASC Subtopic 958-205 for *Classification of Donor-Restricted Endowment Funds Subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA)* (Subtopic 958-205). Subtopic 958-205 provided guidance about the net asset classification of donor-restricted endowment funds for a not-for-profit organization and expanded disclosures about endowment funds (both donor-restricted and board-designated endowment funds), regardless of whether an organization was subject to UPMIFA. The State of Mississippi has enacted UPMIFA effective July 1, 2012. The Foundation did not experience a material impact to the consolidated financial statements as a result of the enactment.

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*. The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. A nonpublic entity is required to apply the ASU prospectively for annual periods beginning after December 15, 2011. The Foundation's adoption of ASU 2011-04 during fiscal 2013 did not have a material impact on its consolidated financial statements.

(2) Investments

Investments are summarized as follows as of June 30, 2013 and 2012:

	2013	2012
Fixed income securities	$ 98,470,824	70,457,688
Equity securities	154,094,141	142,202,640
Hedged funds	58,189,671	66,049,643
Private equity and venture capital funds	6,588,665	5,082,762
Natural resources	21,114,668	18,537,182
Short-term investments	1,173,950	2,492,845
Properties held for investment	25,533,510	11,726,801
Cash surrender value of life insurance	1,760,612	1,733,877
	$ 366,926,041	318,283,438

Total investments include a portion of an investment vehicle controlled by the Foundation (note 1(g)) that totaled $45,953,315 and $42,749,038 as of June 30, 2013 and 2012, respectively. These investments represent the amounts related to noncontrolling interests included within the accompanying consolidated financial statements.

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, 2013 and 2012 with an approximate fair value of $6,440,000 and $6,490,000, respectively.

The following schedule summarizes net investment income (loss) in the consolidated statements of activities for the years ended June 30, 2013 and 2012:

		2013	2012
Dividends and interest (net of expenses of $495,766 and $697,465, respectively)	$	8,261,500	6,997,944
Net realized and unrealized gains (losses)		25,893,174	(8,850,405)
	$	34,154,674	(1,852,461)

(3) Pledges Receivable

Pledges receivable, net, are summarized as follows at June 30, 2013 and 2012:

		2013	2012
Unconditional promises expected to be collected in:			
Less than one year	$	9,418,443	8,723,075
One year to five years		10,098,539	11,048,818
Over five years		2,321,833	543,647
		21,838,815	20,315,540
Less unamortized discount (rates ranging from 1% to 5%)		(802,417)	(990,190)
		21,036,398	19,325,350
Less allowance for uncollectible pledges		(521,120)	(791,446)
	$	20,515,278	18,533,904

(4) Note Receivable

At June 30, 2013 and 2012, the Foundation had a note receivable from a related party totaling $94,035 and $152,268, respectively. The note receivable requires semi-annual payments of $33,238 and has an interest rate of 6% and a maturity date of August 2014.

(5) Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows at June 30, 2013 and 2012:

		2013	2012
Land and buildings	$	11,987,491	11,987,491
Furniture, fixtures, and equipment		8,363,961	7,618,257
		20,351,452	19,605,748
Less accumulated depreciation		(10,021,927)	(9,235,334)
	$	10,329,525	10,370,414

(6) Note Payable

At June 30, 2012, the Foundation had a non-interest bearing unsecured note payable to a private foundation in the amount of $188,478. Principal was payable as repayments was received from students. No amounts were outstanding under this note at June 30, 2013.

(7) Net Assets

Temporarily restricted and permanently restricted net assets at June 30, 2013 and 2012 were available for the following purposes:

		2013		2012	
		Net assets		Net assets	
		Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Specified college programs	$	25,127,855	95,831,735	18,405,927	88,283,111
Student financial aid		24,610,548	116,876,438	15,958,459	107,605,266
Research		1,872,540	16,506,068	1,291,175	16,506,068
Faculty and staff support		5,400,078	47,914,506	3,660,535	44,637,780
Facilities		2,764,124	6,965,463	3,104,078	6,955,463
Other		3,295,428	2,678,215	3,521,092	2,503,055
Total	$	63,070,573	286,772,425	45,941,266	266,490,743

(8) Fair Value Measurements

The following tables summarize the Foundation's assets by major category in the fair value hierarchy as of June 30, 2013 and 2012:

	2013					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or Liquidation**	**Days' Notice**
Fixed income:						
Fixed income securities	$ 193,154	8,264,292	—	8,457,446	Daily	1
Fixed income - mutual funds	90,013,378	—	—	90,013,378	Daily	1
Total fixed income	90,206,532	8,264,292	—	98,470,824		
Equities:						
Domestic large cap/mid cap	369,800	53,654,091	—	54,023,891	Daily	1 – 3
Domestic small cap	49,757,457	—	—	49,757,457	Daily	1
Non-U.S. equity	48,713,822	1,598,971	—	50,312,793	Daily/monthly	1 – 15
Total equities	98,841,079	55,253,062	—	154,094,141		
Hedged funds	—	—	58,189,671	58,189,671	(1)	(1)
Private equity and venture capital funds	—	—	6,588,665	6,588,665	Illiquid (2)	—
Natural resources	—	—	21,114,668	21,114,668	(3)	(3)
Short-term investments	1,173,950	—	—	1,173,950	Daily	1
Properties held for investment	—	—	25,533,510	25,533,510	Illiquid (4)	—
Cash surrender value of life insurance	—	1,760,612	—	1,760,612	(5)	(5)
Total investments	$ 190,221,561	65,277,966	111,426,514	366,926,041		
Present value of amounts due from externally managed trusts	$ —	—	38,487,513	38,487,513		
Liabilities under split interest agreements	—	—	4,433,883	4,433,883		

	2012					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or Liquidation**	**Days' Notice**
Fixed income:						
Fixed income securities	$ 212,916	8,089,142	—	8,302,058	Daily	1
Fixed income - mutual funds	62,155,630	—	—	62,155,630	Daily	1
Total fixed income	62,368,546	8,089,142	—	70,457,688		
Equities:						
Domestic large cap/mid cap	422,075	54,654,428	—	55,076,503	Daily	1 – 3
Domestic small cap	33,379,308	—	—	33,379,308	Daily	1
Non-U.S. equity	35,180,842	12,642,226	—	47,823,068	Daily/monthly	1 – 15
Real estate investment trusts	5,923,761	—	—	5,923,761	Daily	1
Total equities	74,905,986	67,296,654	—	142,202,640		
Hedged funds	—	—	66,049,643	66,049,643	(1)	(1)
Private equity and venture capital funds	—	—	5,082,762	5,082,762	Illiquid (2)	—
Natural resources	—	—	18,537,182	18,537,182	(3)	(3)
Short-term investments	2,492,845	—	—	2,492,845	Daily	1
Properties held for investment	—	—	11,726,801	11,726,801	Illiquid (4)	—
Cash surrender value of life insurance	—	1,733,877	—	1,733,877	(5)	(5)
Total investments	$ 139,767,377	77,119,673	101,396,388	318,283,438		
Present value of amounts due from externally managed trusts	$ —	—	34,354,678	34,354,678		
Liabilities under split interest agreements	—	—	4,065,007	4,065,007		

(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, 2013 and 2012, the Foundation had no alternative investment funds for which an otherwise redeemable investment was not redeemable.

(2) These funds have 10-year terms or 12-year terms, with extensions of 1 to 4 years, and are expected to liquidate prior to fund closing; future commitments to these funds approximate $19,000,000 and $10,600,000 at June 30, 2013 and 2012, respectively. Private equity and venture capital investments are generally made through limited partnerships. Under the terms of such agreements, the MSIP may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Foundation cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain.

(3) MSIP invests in two natural resource investments with terms ending in 2019 and 2022; both investments are subject to one or more one to two-year extensions. Additionally, 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 an insurance policy is cancelled.

The following table presents the Foundation's activities for the years ended June 30, 2013 and 2012 for investments classified in Level 3:

	Hedged funds	Private equity and venture capital funds	Natural resources	Properties held for investment	Total
Fair value at June 30, 2011	$ 64,247,790	4,309,013	16,521,777	14,723,873	99,802,453
Acquisitions	2,000,000	1,633,187	11,600,256	185,604	15,419,047
Dispositions	(132,315)	(1,431,903)	(9,814,729)	(3,899,680)	(15,278,627)
Net realized and unrealized gains (losses)	(65,832)	572,465	229,878	717,004	1,453,515
Fair value at June 30, 2012	66,049,643	5,082,762	18,537,182	11,726,801	101,396,388
Acquisitions	—	2,760,405	438,861	15,039,309	18,238,575
Dispositions	(10,154,601)	(2,003,065)	(321,710)	(519,797)	(12,999,173)
Net realized and unrealized gains (losses)	2,294,629	748,563	2,460,335	(712,803)	4,790,724
Fair value at June 30, 2013	$ 58,189,671	6,588,665	21,114,668	25,533,510	111,426,514

For the years ended June 30, 2013 and 2012, the changes in present value of amounts due from externally managed trusts classified as Level 3 are as follows:

	2013	2012
Balance, beginning of year	$ 34,354,678	34,343,134
Contributions	1,385,223	250,000
Terminations	(250,000)	—
Change in valuation	2,997,612	(238,456)
Balance, end of year	$ 38,487,513	34,354,678

For the years ended June 30, 2013 and 2012, the changes in liabilities under split interest agreements classified as Level 3 are as follows:

	2013	2012
Balance, beginning of year	$ 4,065,007	3,768,700
Change in valuation	408,822	105,912
Additions	818,707	619,045
Annuity payments	(604,771)	(423,769)
Terminations	(253,882)	(4,881)
Balance, end of year	$ 4,433,883	4,065,007

(a) Contributions Receivable

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

(b) Other Receivables and Payables

The carrying amounts of receivable from MSU Alumni Foundation, receivable from MSU Alumni Association, note receivable, other receivables, accounts payable and accrued liabilities, and payable to Mississippi State University approximate fair value because of the short-term maturity of these instruments.

(9) Leases

The Foundation has entered into a lease agreement that expires October 2013 for the use of equipment. Future minimum lease payments under the capital lease obligations are as follows:

Total future minimum lease payments (due in fiscal 2014)	$	31,270
Amount representing interest		(2,520)
Present value of net minimum lease payments	$	28,750

The equipment recorded under the capital lease agreement is included in property and equipment at an original cost of $230,000 with accumulated depreciation of $201,250 and $172,500 as of June 30, 2013 and 2012, respectively.

On June 21, 2013, the Foundation purchased an airplane previously held under a capital lease which was set to expire in August 2014. The purchase price of the airplane was $2,388,888 and was in excess of the remaining balance due on the capital lease of $1,675,852 as of the purchase date. The excess purchase price was applied to the cost of the asset which is held within property and equipment on the consolidated statements of financial position.

(10) Endowment

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

(a) Interpretations of Relevant Law

The Board has interpreted the State of Mississippi Code of 1972 §79-11-701 through §79-11-719 cited as UPMIFA 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 UPMIFA, 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 UPMIFA. 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.

Where the Board designates unrestricted funds to function as endowments, they are classified as unrestricted net assets.

(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 1.50% administrative fee. This fee covers administrative costs related to the operations of the MSIP, and 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 5.50% 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, 2013 and 2012:

	2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (435,486)	29,425,866	235,005,290	263,995,670
Board-designated endowment funds	23,184,623	—	—	23,184,623
Total funds	$ 22,749,137	29,425,866	235,005,290	287,180,293

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (2,520,229)	16,352,458	218,894,891	232,727,120
Board-designated endowment funds	12,111,819	—	—	12,111,819
Total funds	$ 9,591,590	16,352,458	218,894,891	244,838,939

Changes in endowment net assets for the fiscal years ended June 30, 2013 and 2012:

		2013		
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 9,591,590	16,352,458	218,894,891	244,838,939
Investment return:				
Investment income	862,653	2,904,040	—	3,766,693
Net appreciation (depreciation) (realized and unrealized)	2,660,777	21,466,534	(306,109)	23,821,202
Total investment return	3,523,430	24,370,574	(306,109)	27,587,895
Contributions	10,500,000	—	16,404,011	26,904,011
Appropriation of endowment assets for expenditure	(1,189,753)	(11,297,166)	—	(12,486,919)
Other changes:				
Other transfers	323,870	—	—	323,870
Change in restrictions by donor	—	—	12,497	12,497
Endowment net assets, end of year	$ 22,749,137	29,425,866	235,005,290	287,180,293

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, beginning of year	$ 11,677,839	27,700,700	209,183,996	248,562,535
Investment return:				
Investment income	525,810	2,318,687	—	2,844,497
Net appreciation (depreciation) (realized and unrealized)	(1,971,384)	(4,588,885)	790,874	(5,769,395)
Total investment return	(1,445,574)	(2,270,198)	790,874	(2,924,898)
Contributions	—	—	8,722,461	8,722,461
Appropriation of endowment assets for expenditure	(766,484)	(9,078,044)	—	(9,844,528)
Other changes:				
Other transfers	125,809	—	—	125,809
Change in restrictions by donor	—	—	197,560	197,560
Endowment net assets, end of year	$ 9,591,590	16,352,458	218,894,891	244,838,939

(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 $435,486 and $2,520,229 as of June 30, 2013 and 2012, respectively.

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

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