MISSISSIPPI STATE UNIVERSITY™

CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014

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, 2014, and comparative data for the fiscal year ended June 30, 2013. 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 Shackouls Honors College; 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 20,161 students as of the Fall of 2013 and employs 4,610 employees including 1,142 full time faculty and 180 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, 2014 and 2013, and is prepared under the accrual basis of accounting. Revenues and assets are recognized when the goods

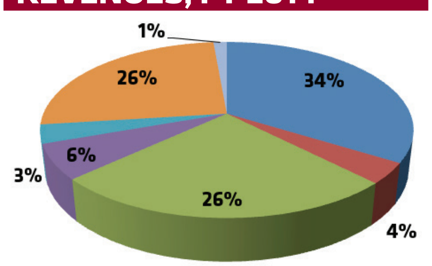
CONDENSED STATEMENT OF NET POSITION

	FY 2014	FY2013	Difference	Percentage
ASSETS:				
Current assets	$138,713,391	$134,994,650	$3,718,741	3%
Capital Assets, Net	822,354,690	740,994,049	81,360,641	11%
Other Noncurrent Assets	177,769,263	128,555,514	49,213,749	38%
Total Assets	**$1,138,837,344**	**$1,004,544,213**	**$134,293,131**	**13%**
Deferred Outflows	**$2,621,626**	**$0**	**$2,621,626**	
LIABILITIES:				
Current liabilities	$58,122,528	$50,554,625	$7,567,903	15%
Non-Current liabilities	308,158,408	243,352,800	64,805,608	27%
Total Liabilities	**$366,280,936**	**$293,907,425**	**$72,373,511**	**25%**
NET POSITION:				
Invested in Capital Assets, Net of Related Debt	$566,923,176	$529,893,823	$37,029,353	7%
Restricted:				
Nonexpendable -	17,015,911	15,104,272	1,911,639	13%
Expendable -	38,341,201	24,209,678	14,131,523	58%
Unrestricted	152,897,746	141,429,015	11,468,731	8%
Total Net Position	**$775,178,034**	**$710,636,788**	**$64,541,246**	**9%**

and services are provided, and expenses and liabilities are recognized when goods and services are received, regardless of when 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 again for fiscal year 2014 as it did for fiscal year 2013 with increases of $64.5 million and $25.7 million respectively.

OPERATING REVENUES, FY 2014



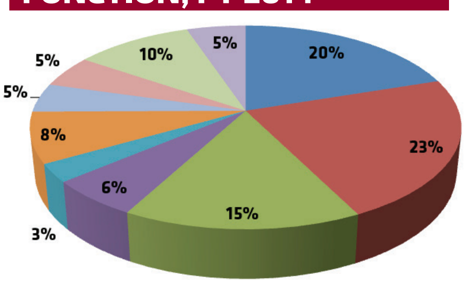
30%	Net tuition and fees	132,792,131
3%	Federal appropriations	14,844,867
34%	Federal grants and contracts	100,494,065
3%	State grants and contracts	25,172,372
4%	Nongovernmental grants and contracts	13,532,183
25%	Sales and services	100,545,845
1%	Other	5,420,817
Total Operating Revenues		**$392,802,280**

A review of total assets reveals an increase of $134.3 million for fiscal year 2014 over the prior fiscal year. A majority of the increase is due to the addition of capital assets. Another large increase was realized in restricted cash as the result of unspent funds from debt issuances at the end of the current fiscal year. A new category of Deferred Outflow as mandated by Governmental Accounting Standards Board statement no. 65 contains $2.6 million which was the result of debt refunding losses incurred in the current fiscal year. These losses will be amortized as a component of interest expense over the life of the new debt incurred and offset some of the interest savings realized as a result of the refunding effort. Total liabilities also experienced an increase of $72.4 million with a majority of the change realized in long term liabilities in the form of incurred debt. The following is a more specific look at the major categories within the Statement of Net Position and a discussion on variances within each category.

The largest components of current assets are cash and cash equivalents and accounts receivable. Cash and cash equivalents increased over the prior fiscal year due in part to a bond issue to fund a new classroom building and dining facility. Accounts receivable balances for the current year were basically unchanged from the prior fiscal year. Prepaid expenses escalated significantly over the prior fiscal year as a result of $8 million provided to the state of Mississippi's Bureau of Buildings for the construction of a parking garage and classroom complex.

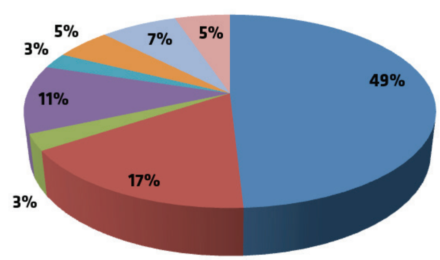
The largest components of non-current assets are restricted cash, endowment investments, other long term investments, and capital assets net of accumulated depreciation. Restricted cash and cash equivalents are classified as restricted non-current assets due to external restrictions. These assets are held by external trustees for use on specific capital projects. During fiscal year 2014 restricted cash and cash equivalents increased $31 million as the result of unspent bond proceeds from the Educational Building Corporation. Endowment investments increased as a result of the university's decision to bolster the size of the investment pool housed in the Mississippi State University Foundation. An additional $6 million from unrestricted net assets was transferred to the investment pool during fiscal year 2014. Other long term investments increased as a result of administration's decision to reposition the institution's investments out of short term investments due to an excessively low interest rate environment.

OPERATING EXPENSES BY FUNCTION, FY 2014



19%	Instruction	119,265,504
26%	Research	135,509,954
14%	Public service	91,824,318
5%	Academic support	35,754,527
3%	Student services	17,349,633
9%	Institutional support	48,344,179
5%	Operation of plant	27,478,239
5%	Student aid	30,354,392
9%	Auxiliary enterprises	61,766,285
5%	Depreciation	30,997,872
Total Operating Expenses		**$598,644,903**

OPERATING EXPENSES BY OBJECT, FY 2014



48%	Salaries and Wages	294,082,679
15%	Fringe Benefits	99,117,254
3%	Travel	16,354,244
15%	Contractual Services	68,070,241
5%	Utilities	15,574,217
5%	Scholarships and Fellowships	31,419,262
7%	Commodities	43,029,134
5%	Depreciation	30,997,872
Total Operating Expenses		**$598,644,903**

Deferred outflows of resources were recognized during fiscal year 2014 as a result of an advanced refunding of a majority of the 2005 debt issuance and current refunding of the 2004 and 2004A issuances. As mentioned earlier, this is a new category required by GASB statement 65 and implemented in fiscal year 2013 with no activities qualifying in the prior fiscal year for this classification on the statement.

The largest components of current liabilities are accounts payable and unearned revenues. The reduction in accrual for vendor payments for the current fiscal year is attributed to procurement cards. Payments for these types of purchases are not always cyclical and, therefore, can vary from period to period. Accruals for unearned revenues include tuition payments for an upcoming academic semester, athletic ticket revenue for future events, and bond premiums on debt issuances. These bond premiums accounted for the majority of the increase in unearned revenues over the previous fiscal year.

Noncurrent liabilities are defined as amounts due and payable more than twelve months from the end of the current fiscal year. The majority of the category is comprised of long term debt associated with capital projects through the issuance of bonds. For the current fiscal year the University issued $60.5 million for the stadium expansion, $44 million for a parking garage/classroom complex and a new dining facility and $69.2 million to refund existing debt issuances. Additional detail about long-term debt can be found in Note 9 of the Notes to Financial Statements.

As previously noted, net position increased approximately $64.5 million for the current fiscal year. The increase in net invested in capital assets is responsible for a majority of the change in net position and is reflective of the University's commitment to provide a modern, functional environment to support the primary missions of the institution. Similar investments in plant will continue as enrollment growth dictates. The $11.5 million increase in Unrestricted Net Position is the second largest change in net position. This increase in unrestricted net position is reflective of the goal of the University to shore up needed reserves that show evidence of financial well-being and provide flexibility for growth.

STATEMENTS 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 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 increased $21.3 million for fiscal year 2014 as compared to fiscal year 2013. A large portion of the increase is attributed to net tuition. For fiscal year 2014 tuition increased 6.5% for resident and non-resident students. Non-resident undergraduate tuition realized during the fiscal year was a category leader as compared to budget. Also effective fiscal year 2014 a $100 capital fee per academic year was assessed beginning in Fall of 2013. Operating revenues realized in state grants and contracts were also another strong performer for fiscal year 2014. Federal grants revenue improved slightly compared to fiscal year 2013 with a continuing improvement expected in the coming fiscal year.

Total operating expenses also increased $23.7 million with salaries and fringes accounting for $9.3 million of the change. The University funded a 2% merit based increase for fiscal year 2014. Also for fiscal year 2014 the employer contribution for retirement increased from 14.26% to 15.75% as mandated by the Public Employees Retirement System for all participating members. Travel expenses showed a minimal increase for the year while contractual services declined. Much of the contractual services decline can be attributed to $9.4 million of architect fees expensed in the prior fiscal year for several of the large capital projects. Commodities experienced a sharp increase in expenditures

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	FY 2014	FY2013	Difference	Percentage
Total Operating Revenues	$392,802,280	$371,514,886	$21,287,394	6%
Total Operating Expenses	598,644,903	574,985,115	23,659,788	4%
Operating Loss	**($205,842,623)**	**($203,470,229)**	**($2,372,394)**	**1%**
Total Net Nonoperating Revenues (Expenses)	222,289,325	212,688,197	9,601,128	5%
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	**16,466,702**	**9,217,968**	**7,248,734**	**79%**
Other revenues, expenses, gains or losses	48,094,544	16,479,333	31,615,211	192%
Net Increase in Net Assets	**$64,541,246**	**$25,697,301**	**$38,843,945**	**151%**
Net Position - Beginning of Year	710,636,788	684,939,487	25,697,301	4%
Net Position - End of Year	**$775,178,034**	**$710,636,788**	**$64,541,246**	**9%**

CONDENSED STATEMENT OF CASH FLOW

	FY 2014	FY2013	Difference	Percentage
Cash Provided (Used) by:				
Operating Activities	($176,509,738)	($174,296,977)	($2,212,761)	1%
Noncapital Financing Activities	226,881,817	211,647,525	15,234,292	7%
Capital and Related Financing Activities	(9,977,347)	(46,769,313)	36,791,966	-79%
Investing Activities	(4,355,096)	11,868,733	(16,223,829)	-137%
Net Increase (Decrease) in Cash and Cash Equivalents	**$36,039,636**	**$2,449,968**	**$33,589,668**	**1371%**
Cash and Cash Equivalents - Beginning of the Year	63,590,404	61,140,436	2,449,968	4%
Cash and Cash Equivalents - End of the Year	**$99,630,040**	**$63,590,404**	**$36,039,636**	**57%**

of $15.6M. This increase can be attributed to the larger mix of commodity expenses that were capitalized in fiscal year 2013 and netted out of the expense thereby showing an abnormally low net commodity expense.

Non-operating revenues net of expenses increased $10 million with the change in state appropriations accounting for most of the net increase. As the state economy continues to show improvement, this trend is expected to continue. Another notable positive increase for this category was investment income.

Other revenues, expenses, gains and losses for the current fiscal year included capital gifts for the Seal Football complex and capital appropriations for infrastructure through the State of Mississippi Bureau of Buildings.

STATEMENTS 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.

Cash flows from operating activities reveal very little change for fiscal year 2014 compared to the prior fiscal year. Increased cash realized through tuition increases and additional grant awards was used for a 2% salary increase and increased costs of goods. The activity shown in this section of the statement mirrors the accounts in the operating section of the Statement of Revenues, Expenses and Changes in Net Position.

The cash flows from noncapital financing activities experienced more of a change over fiscal year 2013 with additional cash provided though state appropriations and grants for other than capital purposes. Both areas reflect the improving financial conditions of the economy.

Cash flows from capital and related financing activities experienced the largest variance with cash provided through issuance of debt for the capital projects undertaken during the current fiscal year. $174 million of capital debt was issued through the Educational Building Corporation for a number of capital projects. $60.5 million was issued to renovate the football stadium and refund outstanding commercial paper used to temporarily fund the renovation. $44 million was issued for the classroom/parking garage complex and a new dining facility. $69.2 million was used to refund prior debt carried in the 2004, 2004A and 2005 issuances.

Cash flows from investing activities show additional use of cash to invest in longer term investments to provide better yields.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2014 and 2013, the University had $822 million and $741 million invested in capital assets, net of accumulated depreciation of $434.7 million and $409.6 million, respectively. Depreciation expense totaled $31 million and $29 million for fiscal years 2014 and 2013, respectively. Major capital improvements for the year are summarized below:

NEW CONSTRUCTION

- Seal Football Complex
- MS Veterinary R&D Lab Phase 1

MAJOR RENOVATIONS

- Harned Hall
- Gast Building

As of the end of fiscal year 2014 the University continues to invest in capital facilities as part of a long range plan to provide a modern and functional environment for its faculty, staff and students. Major projects underway at fiscal year-end include a classroom and parking garage project situated strategically in the center of campus which will provide 20 new classrooms on the upper level and a 150-space, two-story parking garage. A new dining facility with an indoor seating capacity of 480 and a 48-seat outdoor dining area along with a student lounge is also in the early construction phase. Finally, the renovations for Davis Wade Stadium's expansion and renovation are scheduled for completion in August of 2014.

ENROLLMENT

Enrollment dipped slightly in FY 2014. Total enrollment for the fall 2013 semester was 20,161 students. In the fall of 2012 semester, 20,365 students were enrolled. Mississippi residents accounted for 70% of the total enrollment in fall 2013 and for 71% of total enrollment for fall 2012. Enrollment totals are unduplicated and include all campuses of the University.

DEGREES AWARDED

A total of 4,315 degrees were awarded in 2013 2014: 3,255 undergraduate and 1060 graduate. A breakdown by college is shown in the accompanying table. Information from 2012 2013 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 exceeded estimates for fiscal years 2013 and 2014 and look strong for 2015. As a result, Mississippi State University experienced an increase in appropriations for fiscal year 2014, the first in three years, and is budgeted to receive an increase for 2015.

While student enrollment dipped slightly during fall 2013 and remained steady for fall 2014; our class of incoming freshman during fall 2013 was the biggest in school history and the University awarded a record number of degrees during the academic year. The planning for two multi million dollar residence halls, construction of a state of the art classroom building with parking and a new dining facility, and the completion of the multi million dollar expansion of the football stadium and renovation of historic Lee Hall are indications of the continued growth and improvements at the University.

DEGREES AWARDED, 2013-2014

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	323	110	433
Architecture, Art and Design	127	1	128
Arts and Sciences	1,024	253	1,277
Business (Includes Accountancy)	587	183	770
Education	651	246	897
Engineering	453	142	595
Forest Resources	69	33	102
Veterinary Medicine	21	92	113
TOTAL	**3,255**	**1,060**	**4,315**

DEGREES AWARDED, 2012-2013

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	327	90	417
Architecture, Art and Design	117	0	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**

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's leadership continues its proactive approach to address funding needs. Successful efficiency efforts and tuition increases have helped provide funding for the hiring of new faculty and merit pay raises. 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

MISSISSIPPI STATE

UNIVERSITY

ANNUAL FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2014

STATEMENT OF NET POSITION

ASSETS	June 30	
CURRENT ASSETS:	**2014**	**2013**
Cash and Cash Equivalents	$58,759,186	$53,740,141
Short Term Investments	6,147,670	15,081,434
Accounts Receivables, Net	57,258,167	58,228,866
Student Notes Receivables, Net	3,259,771	2,786,766
Inventories	2,387,369	2,312,946
Prepaid Expenses	10,901,228	2,844,497
Total Current assets	**138,713,391**	**134,994,650**
NON-CURRENT ASSETS:		
Restricted Cash and Cash Equivalents	40,870,854	9,850,263
Endowment Investments	37,367,157	27,190,835
Other Long Term Investments	87,680,498	78,875,263
Student Notes Receivable, Net	11,850,754	12,639,153
Capital Assets, Net	822,354,690	740,994,049
Total Non-Current assets	**$ 1,000,123,953**	**$ 869,549,563**
Total Assets	**$ 1,138,837,344**	**$ 1,004,544,213**
DEFERRED OUTFLOWS:	**$2,621,626**	**-**

LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities	$24,137,988	$26,047,361
Unearned Revenues	22,195,185	13,792,159
Accrued Leave Liabilities - Current Portion	1,994,659	2,479,786
Long Term Liabilities - Current Portion	9,725,000	8,125,000
Other Current Liabilities	69,696	110,319
Total Current liabilities	**58,122,528**	**50,554,625**
NON-CURRENT LIABILITIES:		
Deposits Refundable	$30,305	$35,760
Accrued Leave Liabilities	22,110,868	20,845,811
Long Term Liabilities	272,180,000	208,435,000
Other Non-Current Liabilities	13,837,235	14,036,229
Total Non-Current liabilities	**$ 308,158,408**	**$ 243,352,800**
Total Liabilities	**$366,280,936**	**$293,907,425**

NET POSITION:		
Net Invested in Capital Assets	**$566,923,176**	**$529,893,823**
Restricted for:		
Nonexpendable -		
Scholarships and Fellowships	2,756,315	2,439,742
Research	5,281,912	4,612,426
Other Purposes	8,977,684	8,052,104
Expendable -		
Scholarships and Fellowships	2,591,114	2,383,344
Research	25,720,040	17,105,147
Capital Projects	405,344	(440,595)
Debt Service	5,060,233	508,845
Loans	3,197,867	3,271,316
Other Purposes	1,366,603	1,381,621
Unrestricted	**152,897,746**	**141,429,015**
Total Net Position	**$775,178,034**	**$710,636,788**

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

OPERATING REVENUES:

	June 30	
	2014	2013
Tuition and Fees	$189,477,201	$173,605,741
Less: Scholarship Allowances	(55,661,841)	(46,923,734)
Less: Bad Debt Expenses	(1,023,229)	(908,842)
Net Tuition and Fees	$132,792,131	$125,773,165
Federal Appropriations	14,844,867	14,202,889
Federal Grants and Contracts	100,494,065	99,324,115
State Grants and Contracts	25,172,372	17,225,432
Nongovernmental Grants and Contracts	13,532,183	12,544,394
Sales and Services of Educational Departments	36,530,249	35,560,216
Auxiliary Enterprises:		
Student Housing	23,957,092	22,368,666
Food Services	2,113,532	2,031,060
Bookstore	663,882	677,772
Athletics	37,585,418	35,962,434
Other Auxiliary revenues	11,914,125	12,393,241
Less: Auxiliary Enterprise Scholarship Allowances	(12,218,453)	(10,300,332)
Interest Earned on Loans to Students	304,647	256,403
Other Operating Revenues, Net	5,116,170	3,495,431
Total Operating Revenues	**$392,802,280**	**$371,514,886**

OPERATING EXPENSES:

Salaries and Wages	$294,082,679	$289,371,925
Fringe Benefits	99,117,254	94,492,693
Travel	16,354,244	16,097,916
Contractual Services	68,070,241	75,005,369
Utilities	15,574,217	14,955,153
Scholarships and Fellowships	31,419,262	28,656,789
Commodities	43,029,134	27,432,828
Depreciation/Amortization Expense	30,997,872	28,972,442
Total Operating Expenses	**$598,644,903**	**$574,985,115**
Operating Income (Loss)	**$(205,842,623)**	**$(203,470,229)**

NONOPERATING REVENUES (EXPENSES):

State Appropriations	$170,656,762	$163,001,298
Gifts and Grants	55,248,827	53,849,355
Investment Income (Loss)	6,611,198	2,752,297
Interest Expense on Capital Asset---Related Debt	(8,436,717)	(6,282,781)
Other Nonoperating Revenues	198,995	234,679
Other Nonoperating Expenses	(1,989,740)	(866,651)
Total Net Nonoperating Revenues (Expenses)	**$222,289,325**	**$212,688,197**
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	**$16,446,702**	**$9,217,968**
Capital Grants and Gifts	26,482,220	3,002,756
State Appropriations Restricted for Capital Purposes	22,458,125	14,016,481
Other Deletions	(845,801)	(539,904)
Net Increase in Net Assets	**$64,541,246**	**$25,697,301**

NET POSITION

Net Position - Beginning of Year	$710,636,788	$684,939,487
Net Position - End of Year	**$775,178,034**	**$710,636,788**

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES:	June 30	
	2014	2013
Tuition and Fees	$136,189,154	$127,336,122
Grants and Contracts	138,365,359	130,293,211
Sales and Services of Educational Departments	37,307,258	36,050,799
Payments to Suppliers	(133,506,207)	(122,686,965)
Payments to Employees for Salaries and Benefits	(392,701,078)	(382,758,343)
Payments for Utilities	(15,574,842)	(14,955,153)
Payments for Scholarships and Fellowships	(31,414,262)	(28,659,139)
Loans Issued to Students and Employees	(3,209,078)	(2,378,712)
Collection of Loans to Students and Employees	3,708,050	3,078,769
Auxiliary Enterprise Charges:		
Student Housing	23,936,199	22,322,400
Food Services	2,004,837	2,083,760
Bookstore	663,882	677,772
Athletics	33,873,136	31,639,761
Other Auxiliary Enterprises	4,708,810	6,703,851
Interest Earned on Loans to Students	304,464	256,403
Other Receipts	18,834,580	16,698,487
Net Cash Provided (Used) by Operating Activities	**$(176,509,738)**	**$(174,296,977)**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State Appropriations	$169,540,179	$163,467,883
Gifts and Grants for Other Than Capital Purposes;	58,693,856	48,997,533
Federal Loan Program Receipts	107,372,357	106,519,780
Federal Loan Program Disbursements	(107,725,697)	(106,435,890)
Other Uses	(998,878)	(901,781)
Net Cash Provided by Noncapital Financing Activities	**$226,881,817**	**$211,647,525**

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from Capital Debt	$173,715,000	$79,000,000
Cash Paid for Capital Assets	(75,707,966)	(60,076,681)
Capital Appropriations Received	2,271,150	
Capital Grants and Contracts Received	1,265,758	3,002,756
Proceeds from Sales of Capital Assets	940,026	344,672
Principal Paid on Capital Debt and Leases	(108,370,000)	(57,860,000)
Interest Paid on Capital Debt and Leases	(9,337,788)	(8,819,110)
Other Sources	6,667,893	
Other Uses	(1,421,420)	(2,360,950)
Net Cash Used by Capital and Related Financing Activities	**$(9,977,347)**	**$(46,769,313)**

CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales and Maturities of Investments	$27,508,927	$76,924,061
Interest Received on Investments	2,692,662	2,775,911
Purchases of Investments	(34,556,685)	(67,831,239)
Net Cash Provided (Used) by Investing Activities	**$(4,355,096)**	**$11,868,733**
Net Increase (Decrease) in Cash and Cash Equivalents	$36,039,636	$2,449,968
Cash and Cash Equivalents - Beginning of the Year	**$63,590,404**	**$61,140,436**
Cash and Cash Equivalents - End of the Year	**$99,630,040**	**$63,590,404**

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

	June 30	
Operating Income (Loss)	$(205,842,623)	$(203,470,229)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation/Amortization Expense	30,997,872	28,972,442
Other		
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables, Net	(1,860,570)	(1,068,849)
Inventories	(74,423)	58,915
Prepaid Expenses	(422,253)	417,303
Other Assets	1,023,229	908,878
Increase (Decrease) in Liabilities:		
Accounts Payables and Accrued Liabilities	11,958	1,514,139
Unearned Revenues	437,002	(1,009,664)
Accrued Leave Liability	(779,930)	(619,912)
Total Adjustments:	**$29,332,885**	**$29,173,252**
Net Cash Provided (Used) by Operating Activities:	**$(176,509,738)**	**$(174,296,977)**

NON-CASH TRANSACTIONS:

1.) Construction in Progress	$20,186,975	$14,016,481
Bureau of Buildings Appropriations	(20,186,975)	(14,016,481)
2.) Buildings	25,216,463	
Gifts	(25,216,463)	
3.) Unrealized Loss on Investments	768,087	1,514,421
Investments	(768,087)	(1,514,421)
4.) Investments	3,013,471	1,533,631
Unrealized Gain on Investments	(3,013,471)	(1,533,631)

MISSISSIPPI STATE UNIVERSITY™

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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 component units of the IHL System reporting entity, are considered potential component units of the State. See note 17 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 statement 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. Unearned 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 AND EXPENSES

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 $152,897,746 at June 30, 2014, includes $118,079,997 reserved for academic programs and research, $12,383,437 reserved for capital projects, $4,747,848 reserved for repairs and maintenance, with $17,686,464 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 and has recognized deferred outflows for the first time as of June 30, 2014, due to refunding of debt. Beginning in fiscal year 2015, the University will be subject to the provisions of GASB statements No. 68 and 71. The primary objective of these statements is to improve accounting and financial reporting by state and local governments for pensions and will require the University to recognize its proportionate share of the retirement liability previously claimed in totality by the Public Employees' Retirement System (PERS). The University has been advised that comparative data for pension liability as of the end of fiscal year 2014 will not be available. As a result, a single-column presentation for fiscal year 2015 will be necessary.

NOTE 2
CASH AND INVESTMENTS

POLICIES

(A) CASH, CASH EQUIVALENTS 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, 2014 and 2013 is shown below.

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

FAIR VALUE OF INVESTMENT TYPE

Investment Type	FY 2014	FY 2013
U.S. Government Agency Obligations	$62,087,501	$56,491,139
Repurchase Agreements	-	-
U.S. Treasury Obligations	11,542,836	13,533,590
Certificates of Deposit	7,974,000	8,439,474
Corporate Bonds	1,556,161	936,977
Commercial Mortgage Backed Securities	-	-
Collateralized Mortgage Obligations	6,181,526	7,011,631
Municipal Bonds	9,860,168	10,298,066
Mutual Funds	1,730,129	3,638,584
Asset Backed Securities	4,263,374	4,605,558
Equity Securities	25,759,841	15,952,724
International Obligations	-	-
Landgrant	239,789	239,789
Total	**$131,195,325**	**$121,147,532**

to each participant based on their share of ownership of the MSIP. As of June 30, 2014 and 2013, the University owned an approximate 9.7% and 8.2% interest in the assets of the MSIP, respectively.

(A) CUSTODIAL 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, 2014 and 2013.

(B) 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, 2014 and 2013, the University had the following investments subject to interest rate risk as shown in the table below.

(C) 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, 2014 and 2013, the University had the following investments subject to credit risk in the table below. The credit risk ratings listed below are issued based upon standards set by Moody's Investors Service.

(D) 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. As of June 30, 2014 and 2013, the University had the following issuers holding investments that exceeded 5% of total investments shown on the table to the right.

CREDIT RISK

Credit Rating	FY2014	FY 2013
AA	$7,917,314	8,461,604
AA+	67,607,009	54,935,835
AAA	-	15,505,190
Rating Not Available	19,967,242	16,974,334
Total	**$95,491,565**	**$92,876,963**

CONCENTRATION OF CREDIT RISK

FY 2014:

Issuer	Fair Value	% of Total Investments
FNMA	$28,188,754	33.12%
FHLB	14,351,614	16.86%
FFCB	13,264,150	15.58%
U.S. Treasury Oblig.	11,542,836	13.56%
Municipal Bond	8,749,507	10.28%
GNMA	5,012,694	5.89%

FY 2013:

Issuer	Fair Value	% of Total Investments
FNMA	$27,630,851	32.09%
FHLB	10,735,947	12.47%
FFCB	11,886,698	13.80%
U.S. Treasury Oblig.	13,533,591	15.72%
Municipal Bond	10,298,066	11.96%
GNMA	7,011,631	8.14%

FY 2014 INTEREST RATE RISK

	Fair Investment	Maturities (in years)			
Investment Type	**Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
U.S. Government Agency Obligations	$62,087,501		$33,425,200	$8,625,488	$20,036,813
U.S. Treasury Obligations	11,542,836	3,004,750	8,538,086		
Corporate Bonds	1,556,161			1,556,161	
Collateralized Mortgage Obligations	6,181,526			1,168,832	5,012,695
Municipal Bonds	9,860,168	100,764	2,131,809	6,375,653	1,251,942
Asset Backed Securities	4,263,374			4,263,373	
Total	**$95,491,565**	**$3,105,513**	**$44,095,095**	**$21,989,507**	**$26,301,450**

FY 2013 INTEREST RATE RISK

	Fair Investment	Maturities (in years)			
Investment Type	**Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
U.S. Government Agency Obligations	$56,491,139	$1,021,820	$29,941,010	$4,457,885	$21,070,423
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	5 08,479	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**	**$28,664,649**

NOTE 3

ACCOUNTS RECEIVABLE

Accounts receivable consisted of the table below at June 30, 2014 and 2013.

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.

NOTE 4

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.

The table on the bottom of this page is a schedule of interest rates and unpaid balances as of June 30, 2014 and 2013:

NOTE 5

CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2014 and 2013 is presented as follows on page 22.

Depreciation is computed on a straight-line basis with the exception of library books, for which depreciation is computed using a composite method. The following useful life, salvage values, and capitalization thresholds are used to compute depreciation as show on the table down and to the right.

ACCOUNTS RECEIVABLE

Type of Receivable:	**2014**	**2013**
Student tuition	$22,033,765	$20,661,292
Auxiliary enterprises and other operating activities	4,598,438	4,193,001
Contributions and gifts	1,546,176	4,991,204
Federal, state, and private grants and contracts	34,309,788	33,898,355
State Appropriations	2,551,614	1,335,350
Accrued Interest	1,042,177	1,001,550
Patient Income	-	-
Total Accounts receivable	$66,081,958	$66,080,752
Less allowance for doubtful accounts	8,823,791	7,851,886
Net Accounts receivable	**$57,258,167**	**$58,228,866**

NOTES RECEIVABLE FROM STUDENTS

Fiscal Year 2014: (examples)	**Interest Rates**	**June 30, 2014**	**Current Portion**	**Non-Current Portion**
Perkins student loans	3% to 9%	$16,573,650	$3,126,597	$13,447,053
Institutional loans	0% to 9%	558,276	113,174	425,102
Total Notes receivable		$17,131,926	$3,259,771	$13,872,155
Less allowance for doubtful accounts		2,021,401		
Net Notes receivable		**$15,110,525**	**$3,259,771**	**$11,850,754**

Fiscal Year 2013: (examples)	**Interest Rates**	**June 30, 2013**	**Current Portion**	**Non-Current 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		1,914,694
Net Notes receivable		**$15,425,919**	**$2,786,766**	**$12,639,153**

CAPITAL ASSETS

	July 1, 2013	Additions	Deletions/Transfers	June 30, 2014
Nondepreciable Capital Assets:				
Land	$17,322,905	$430,303	$6,116	$17,747,092
Construction in Progress	141,992,958	67,032,383	31,594,537	177,430,804
Livestock	1,651,758	255,101	275,026	1,631,833
Total Nondepreciable Capital Assets	**$160,967,621**	**$67,717,787**	**$31,875,679**	**$196,809,729**
Depreciable Capital Assets:				
Improvements other than Buildings	$76,464,740	$2,099,593	$2	$78,564,331
Buildings	667,323,781	56,905,928	1,263,879	722,965,830
Equipment	149,617,765	14,553,094	5,754,429	158,416,430
Library Books	96,216,523	4,462,476	365,654	100,313,345
Total Depreciable Capital Assets	**$989,622,809**	**$78,021,091**	**$7,383,964**	**$1,060,259,936**
Less Accumulated Depreciation for:				
Improvements other than Buildings	$26,732,521	$3,065,588		$29,798,109
Buildings	183,754,248	12,508,893	560,089	195,703,052
Equipment	121,951,694	11,173,259	4,953,534	128,171,419
Library Books	77,157,918	4,250,131	365,654	81,042,395
Total Accumulated Depreciation	**$409,596,380**	**$30,997,871**	**$5,879,277**	**$434,714,974**
Capital Assets, Net	**$740,994,049**	**$114,741,007**	**$33,380,366**	**$822,354,690**

	July 1, 2012	Additions	Deletions/Transfers	June 30, 2013
Nondepreciable Capital Assets:				
Land	$17,317,188	$5,717		$17,322,905
Construction in Progress	90,946,987	53,891,222	2,845,251	141,992,958
Livestock	1,725,028	271,402	344,672	1,651,758
Total Nondepreciable Capital Assets	**$109,989,203**	**$54,168,341**	**$3,189,923**	**$160,967,621**
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	667,323,78135
Equipment	144,446,169	10,886,904	5,715,308	149,617,765
Library Books	92,622,229	3,984,674	390,380	96,216,523
Total Depreciable Capital Assets	**$970,854,487**	**$24,989,725**	**$6,221,403**	**$989,622,809**
Less Accumulated Depreciation for:				
Improvements other than Buildings	$23,861,424	$2,871,097		$26,732,521
Buildings	171,386,624	12,409,475	41,851	183,754,248
Equipment	117,751,652	9,449,311	5,249,269	121,951,694
Library Books	73,305,739	4,242,559	390,380	77,157,918
Total Accumulated Depreciation	**$386,305,438**	**$28,972,442**	**$5,681,500**	**$409,596,380**
Capital Assets, Net	**$694,538,251**	**$50,185,624**	**$3,729,826**	**$740,994,049**

DEPRECIATION

	Estimated Useful Lives	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	0%	0

NOTE 6

DEFERRED OUTFLOWS

	2014	2013
Deferred loss on debt refunding	$2,621,626	-
Total	**$2,621,626**	**-**

NOTE 7

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2014 and 2013 are as follows:

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

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014	2013
Payable to vendors and contractors	$12,055,138	$14,725,947
Accrued salaries, wages and employee withholdings	12,082,850	11,321,414
Total	**$24,137,988**	**$26,047,361**

NOTE 8

UNEARNED REVENUES

Unearned revenues as of June 30, 2014 and 2013 are as follows:

UNEARNED REVENUES

	2014	2013
Unearned summer school revenue	$2,376,336	$2,235,542
Unearned grants and contract revenue	248,618	442,745
Other	19,570,231	11,113,872
Total	**$22,195,185**	**$13,792,159**

NOTE 9

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, 2014, 2013 and are presented as follows on the tables below and to the right. Annual requirements to repay outstanding debt are on the table below and on page 24.

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.

LONG-TERM LIABILITIES, FY 2014

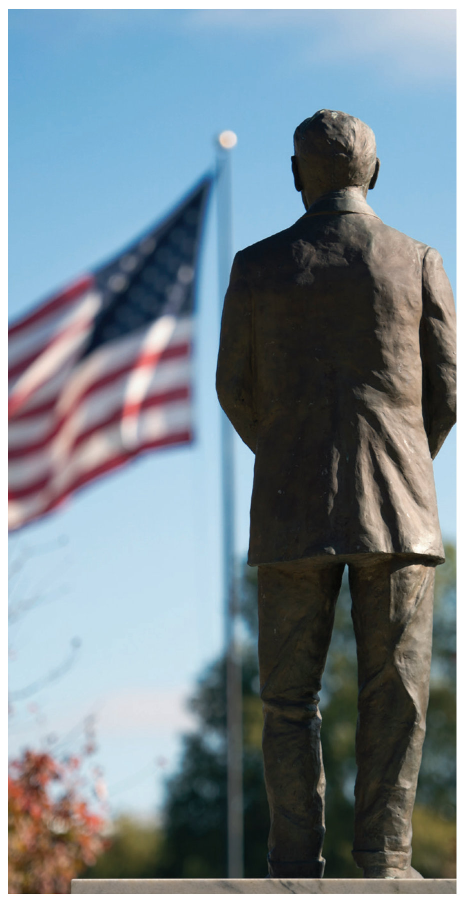
Description and Purpose	Original Issue	Annual Interest Rate	Maturity	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonded Debt								
Dormitory Revenue System	$2,250,000	3.00%	2021	$690,000		$80,000	$610,000	$80,000
Student Apartments	2,038,000	3.00%	2022	710,000		70,000	640,000	70,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2018	6,025,000			6,025,000	1,385,000
EBC04 - Revenue Bonds	17,000,000	2.00%-5.00%	2015	12,675,000		12,080,000	595,000	595,000
EBC04A - Revenue Bonds	28,790,000	2.00%-5.00%	2015	18,875,000		17,250,000	1,625,000	1,625,000
EBC05 - Revenue Bonds	58,965,000	4.00%-5.00%	2016	49,290,000		45,705,000	3,585,000	1,750,000
EBC07A - Revenue Bonds	6,110,000	4.125%-5.00%	2028	5,065,000		240,000	4,825,000	255,000
EBC09A-1 Revenue Bonds	29,615,000	2.50%-5.25%	2039	28,435,000		615,000	27,820,000	630,000
EBC09A-2 Refunding Bonds	17,105,000	2.75%-5.00%	2024	13,315,000		1,405,000	11,910,000	
EBC11 - Refunding Bonds	54,370,000	2.00%-5.00%	2042	52,480,000		1,925,000	50,555,000	1,970,000
EBC13 - Revenue Bonds	60,470,000	2.00%-5.00%	2044		60,470,000		60,470,000	490,000
EBC14A - Revenue Bonds	89,810,000	2.00%-5.00%	2044		89,810,000		89,810,000	
EBC14B - Revenue Bonds	23,435,000	.29%-4.813%	2044		23,435,000		23,435,000	875,000
Total Bonded Debt				**$ 187,560,000**	**$ 173,715,000**	**$ 79,370,000**	**$ 281,905,000**	**$ 9,725,000**
Commercial Paper				**29,000,000**		**29,000,000**	**0**	
Total Commercial Paper				**$ 29,000,000**		**$29,000,000**		**0**
Capital Leases								
Farm Equipment				0		0	0	0
Computer Equipment				0		0	0	0
Vehicles				0		0	0	0
Other				0		0	0	0
Total Capital Leases				**-**		**-**	**-**	**-**
Other Long-term Liabilities								
Accrued Leave Liabilities				$23,325,597	$779,930		$24,105,527	$1,994,659
Deposits Refundable				35,760		5 ,455	30,305	
Total Other Liabilities				**$ 23,361,357**	**$ 779,930**	**$ 5,455**	**$ 24,135,832**	**$ 1,994,659**
Federal Portion of NDSL				14,036,229		1 98,994	13,837,23	
Total				**$ 224,957,586**	**$ 174,494,930**	**$ 79,574,449**	**$ 319,878,067**	**$ 11,719,659**
Due Within One Year							**(11,719,659)**	
Total Long-term Liabilities							**$ 308,158,408**	

LONG-TERM LIABILITIES, FY 2013

Fiscal Year 2013: Description and Purpose	Original Issue	Annual Interest Rate	Maturity	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One 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%	2039	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	
Total Commercial Paper					**$29,000,000**		**$29,000,000**	
Capital Leases								
Various Equipment				$3,103		$3,103	0	0
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 Liabilities				**$37,016,854**	**$619,911**	**$239,179**	**$37,397,586**	**$2,479,786**
				$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**	

OUTSTANDING DEBT AMORTIZATION SCHEDULE

Fiscal Year	Bonded Debt	Interest	Total
2015	$9,725,000	$11,148,825	$20,873,825
2016	9,725,000	12,005,332	21,730,332
2017	10,390,000	11,662,137	22,052,137
2018	8,755,000	11,355,819	20,110,819
2019	9,145,000	11,038,299	20,183,299
2020-2024	51,120,000	49,300,751	100,420,751
2025-2029	47,305,000	37,996,526	85,301,526
2030-2034	45,970,000	27,246,827	73,216,827
2035-2039	49,390,000	15,813,711	65,203,711
2040-2044	40,380,000	4,727,574	45,107,574
Totals	**$281,905,000**	**$192,295,800**	**$474,200,801**



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 4.60% 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 Palmeiro 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 in February 2001 (Series 2001). Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with the final maturity in August 2041. The University defeased $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.

Series 2013 – MSUEBC issued bonds totaling $60,470,000 in October 2013 (Series 2013) for (i) refunding of commercial paper and (ii) renovating Davis Wade Stadium. Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with final maturity in August 2043. The University refunded 45,000,000 in commercial paper with the balance of the proceeds ($15,470,000) funding the renovation of Davis Wade Stadium.

Series 2014A – MSUEBC issued bonds totaling $89,810,000 in May 2014 (Series 2014A) for (i) refunding of MSUEBC bonds issued in January 2004 (Series 2004), bonds issued in November 2004 (Series 2004A), and bonds issued in November 2005 (Series 2005) and (ii) construction of a new classroom building/parking garage. Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with final maturity in August 2043. The University defeased $71,245,000 of the outstanding EBC-Revenue Bonds (Series 2004, 2004A and 2005). Net proceeds of the refunding were deposited into irrevocable trusts for each of the refunded issues to provide all future debt service of the refunded debt. Accordingly, for financial reporting purposes, the defeased bonds and related trust accounts are not included in the financial statements. As a result of the refunding, the University reduced its debt service by $8,309,325 over the next 21 years and obtained an economic gain of $6,406,286.

Series 2014B – MSUEBC issued bonds totaling $23,435,000 in May 2014 (Series 2014B) for construction of a new classroom building/parking garage and a new fresh foods facility. Outstanding coupons bear interest at rates ranging from .29% to 4.813% with final maturity in August 2043.

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 but was converted into long-term debt by the MSUEBC 2013 Bond Issue. The University's commercial paper program is currently dormant, with no balance outstanding; however, the program could be reactivated at any time should the University deem it necessary.

NOTE 10
OPERATING LEASES

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

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, 2014 and 2013 was $2,695,651 and $2,497,077, respectively. Beginning with fiscal year 2017, an operating lease with Cooley Center, LLC will be in effect for the lease of approximately 36,000 square feet in the Cooley Building. The initial term is for 15 years with 4 optional terms of 5 years and a final optional term of 6 years for a total potential term of 41 years including all optional terms.

OPERATING LEASES

	2014	2013
2014		$2,497,077
2015	$2,695,651	2,497,077
2016	2,695,651	2,497,077
2017	3,542,731	2,497,077
2018	3,539,443	2,497,077
2019	3,539,443	
Total Minimum Payments Required	**$16,012,919**	**$12,485,385**

NOTE 11
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, 2014 and 2013.

NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Fiscal Year 2014:

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	$83,980,195	$28,785,159	$1,489,689	$3,367,691	$158,900		$1,483,870		$119,265,504
Research	72,593,790	26,051,326	4,155,361	19,869,897	2,656,453		10,183,128		135,509,955
Public Service	51,540,995	17,576,321	4,519,535	12,728,632	797,091		4,661,744		91,824,318
Academic Support	20,347,407	6,075,024	605,302	5,412,840	182,082		3,131,872		35,754,527
Student Services	10,144,117	3,317,719	533,785	2,582,371	116,384		655,257		17,349,633
Institutional Support	19,571,466	3,794,728	311,172	6,284,465	121,432		18,260,917		48,344,180
Operation of Plant	12,885,446	4,396,888	52,821		8,513,223		1,629,860		27,478,238
Student Aid	1,027,832	3,212,386	971	138,753	2,963,663	22,943,147	67,639		30,354,391
Auxiliary Enterprises	21,991,431	5,907,703	4,685,608	17,685,592	64,989	8,476,115	2,954,847		61,766,285
Depreciation Expense								30,997,872	30,997,872
Total Operating Expenses	**$294,082,679**	**$99,117,254**	**$16,354,244**	**$68,070,241**	**$15,574,217**	**$31,419,262**	**$43,029,134**	**$30,997,872**	**$598,644,903**

Fiscal Year 2013:

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	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 Operating Expenses	**$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**

CONSTRUCTION COMMITMENTS AND FINANCING

Fiscal Year 2014:

	Total Costs to Complete	Funded by Federal Sources	State Sources	Institutional Funds	Other
105-329 Pre-Plan Lee Hall Renovation	$206,377		$206,377		
105-332 IT Pre-Plan Lee Hall Renovation	479		479		
105-341 Hand Lab Safety Upgrades	112,853		112,853		
105-343 Lee Hall Renovations	20,661,171		20,661,171		
105-345 Classroom Bldg with Parking	41,472,749		11,834,841	29,637,908	
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	
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	
Bull Ring Restoration Project	115,000				115,000
Harned Teaching Lab Renovation	375,550			375,550	
Robert L. Jones Circle Extension	1,260,314			1,260,314	
Roberts Building Renovation	1,691,040			1,691,040	
Facilities Mgt Shop Building	2,000,000			2,000,000	
Radio Tower Upgrade	1,755,063			536,751	1,218,312
New Residence Hall North	56,600,000			56,600,000	
MDOT Blackjack Fence Project	360,000	288,000		72,000	
Horsepark Expansion	199,262			199,262	
Industrial Education Building	486,538		486,538		
Chadwick Lake Walking Track	600,000			100,000	500,000
Main Campus Lighting Retrofit	6,500,000			6,500,000	
113-110 Pre-plan Wise Center Renovation	338,678		338,678		
113-111 Communications MSVet Lab	1,548,844		1,548,844		
113-115 Lloyd-Ricks Renovation	11,520,261	2,942,035	8,578,226		
113-122 IT Lloyd-Ricks Renovation	462,694	302,694	160,000		
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	2,199,029		2,199,029		
Wetlands Project	810,000			150,000	660,000
Total	**$365,182,808**	**$11,432,729**	**$74,236,742**	**$277,020,024**	**$2,493,312**

Fiscal Year 2013:

	Total Costs to Complete	Funded by Federal Sources	State Sources	Institutional Funds	Other
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		
105-346 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	**$290,635,649**	**$11,144,963**	**$91,802,594**	**$186,420,699**	**1,267,393**

NOTE 12
CONSTRUCTION COMMITMENTS AND FINANCING

The University has contracted for various construction projects as of June 30, 2014. Estimated costs to complete the various projects and the sources of anticipated funding are presented to the table on page 27.

NOTE 13
PENSION PLAN
(A) 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.

(B) 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.

(C) 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 15.75% and 14.26% of annual covered payroll at June 30, 2014 and 2013, respectively. The contribution requirements 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, 2014 and 2013 was $29,944,845 and $26,782,199, 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, 2014 and 2013 was $11,590,077 and $10,098,676, respectively. Such contribution equaled the required contribution.

NOTE 14
DONOR RESTRICTED ENDOWMENTS

The net appreciation on investments of donor restricted endowments that is available for appropriation for expenditure as of June 30, 2014 and 2013 was $115,523 and $50,963, 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 15
FEDERAL LOAN PROGRAM DISBURSEMENTS

The University distributed $107,725,697 and $106,435,890 for the years ended June 30, 2014 and 2013,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 16
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 $1,372,021 and $1,528,819 for the fiscal years ended June 30, 2014 and 2013, 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 $249,987 and $226,895 for the fiscal years ended June 30, 2014 and 2013, 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 $1,275.706 and $1,037,024 for the fiscal years ended June 30, 2014 and 2013, respectively.

NOTE 17
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 right.

CONDENSED COMBINING INFORMATION

ASSETS	2014	2013
Total Current Assets	-	-
Capital Assets, net	-	-
Other Noncurrent Assets	$280,655,000	$215,160,000
Total Noncurrent Assets	280,655,000	215,160,000
Total Assets	280,655,000	215,160,000
LIABILITIES		
Total Current Liabilities	9,575,000	7,975,000
Total Noncurrent Liabilities	271,080,000	207,185,000
Total Liabilities	**280,655,000**	**215,160,000**
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	(9,394,093)	(8,819,472)
Other Nonoperating Revenues	9,394,093	8,819,472
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 financing 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

MISSISSIPPI STATE
UNIVERSITY™

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

JUNE 30, 2014 AND 2013
(WITH INDEPENDENT AUDITORS' REPORT THERON)

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

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, 2014 and 2013, 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, 2014 and 2013, 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

Jackson, Mississippi
October 30, 2014

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2014 and 2013

Assets		**2014**	**2013**
Cash	$	2,079,027	1,942,202
Restricted cash		5,044,019	4,697,221
Accrued interest, other receivables and prepaid assets		177,921	2,448,333
Receivable from MSU Alumni Foundation		11,411	31,616
Receivable from MSU Alumni Association		261,573	76,020
Note receivable (note 4)		32,269	94,035
Pledges receivable, net (note 3)		29,985,477	20,515,278
Investments (notes 2 and 7)		431,095,474	366,926,041
Present value of amounts due from externally managed trusts		41,317,126	38,487,513
Land, buildings, and equipment (note 5)		9,809,390	10,329,525
Total assets	$	519,813,687	445,547,784
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	1,674,568	1,222,631
Agency payable		5,044,019	4,697,221
Obligation under capital leases (note 8)		—	28,750
Liabilities under split interest agreements		4,144,163	4,433,883
Payable to Mississippi State University		175,379	95,189
Total liabilities		11,038,129	10,477,674
Net assets:			
Unrestricted:			
Net assets controlled by the Foundation		42,659,191	39,273,797
Net assets related to noncontrolling interests		57,104,998	45,953,315
Total unrestricted net assets		99,764,189	85,227,112
Temporarily restricted (note 6)		100,573,717	63,070,573
Permanently restricted (note 6)		308,437,652	286,772,425
Total net assets		508,775,558	435,070,110
Commitments (notes 7 and 8)			
Total liabilities and net assets	$	519,813,687	445,547,784

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support:				
Contributions	$ 5,665,561	15,910,707	16,869,629	38,445,897
Net investment income (note 2)	18,541,977	45,281,426	347,882	64,171,285
Change in value of split interest agreements	—	167,466	4,447,716	4,615,182
Change in restrictions by donors	—	—	—	—
Other	4,600,496	243,546	—	4,844,042
Net assets released from restrictions	24,100,001	(24,100,001)	—	—
Total revenues and support	52,908,035	37,503,144	21,665,227	112,076,406
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	23,343,857	—	—	23,343,857
Contributions and support for Bulldog Club	3,980,737	—	—	3,980,737
Contributions and support for MSU Alumni Association	505,069	—	—	505,069
Total program services	27,829,663	—	—	27,829,663
Supporting services:				
General and administrative	3,524,125	—	—	3,524,125
Fund raising	3,571,797	—	—	3,571,797
Total supporting services	7,095,922	—	—	7,095,922
Total expenditures	34,925,585	—	—	34,925,585
Change in net assets	17,982,450	37,503,144	21,665,227	77,150,821
Change in net assets related to noncontrolling interests	(14,597,056)	—	—	(14,597,056
Change in net assets controlled by Foundation	$ 3,385,394	37,503,144	21,665,227	62,553,765

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 Statements of Changes in Net Assets

Years ended June 30, 2014 and 2013

		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, 2012	$	23,269,373	42,749,038	66,018,411	45,941,266	266,490,743	378,450,42
Change in net assets from statement of activities		16,004,424	4,882,539	20,886,963	17,129,307	20,281,682	58,297,95
Payments to noncontrolling interests		—	(1,678,262)	(1,678,262)	—	—	(1,678,26
Change in total net assets		16,004,424	3,204,277	19,208,701	17,129,307	20,281,682	56,619,69
Net assets as of June 30, 2013		39,273,797	45,953,315	85,227,112	63,070,573	286,772,425	435,070,11
Change in net assets from statement of activities		3,385,394	14,597,056	17,982,450	37,503,144	21,665,227	77,150,82
Payments to noncontrolling interests		—	(3,445,373)	(3,445,373)	—	—	(3,445,37
Change in total net assets		3,385,394	11,151,683	14,537,077	37,503,144	21,665,227	73,705,44
Net assets as of June 30, 2014	$	42,659,191	57,104,998	99,764,189	100,573,717	308,437,652	508,775,55

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	77,150,821	58,297,952
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		777,448	804,077
Realized and unrealized gains on investments, net		(56,198,472)	(25,893,174)
Change in value of internally managed split interest agreements		107,205	408,822
Fair value of donated assets		(5,925,000)	(15,039,309)
Change in accrued interest, other receivables and prepaid assets		2,270,412	(1,161,339)
Change in pledges receivable, net		(9,470,199)	(1,981,374)
Change in externally managed trusts		(2,829,613)	(4,132,835)
Change in accounts payable and accrued liabilities		451,937	(407,088)
Change in payable to Mississippi State University		80,190	9,139
Change in receivable from MSU Alumni Foundation		20,205	(26,499)
Change in receivable from MSU Alumni Association		(185,553)	1,802
Permanently restricted contributions		(8,605,334)	(14,000,335)
Net cash used in operating activities		(2,355,953)	(3,120,161)
Cash flows from investing activities:			
Purchases of land, buildings and equipment		(257,313)	(763,188)
Purchases of investments		(182,886,748)	(170,045,385)
Proceeds from sales and maturities of investments		180,840,787	162,335,265
Payments on note receivable		61,766	58,233
Net cash used in investing activities		(2,241,508)	(8,415,075)
Cash flows from financing activities:			
Principal payments on note payable		—	(188,478)
Permanently restricted contributions		8,605,334	14,000,335
New liabilities under split interest agreements		242,371	564,825
Payments to split interest agreement beneficiaries		(639,296)	(604,771)
Principal payments on capital lease obligation		(28,750)	(2,042,785)
Payments to noncontrolling interests		(3,445,373)	(1,678,262)
Net cash provided by financing activities		4,734,286	10,050,864
Net increase (decrease) in cash		136,825	(1,484,372)
Cash at beginning of year		1,942,202	3,426,574
Cash at end of year	$	2,079,027	1,942,202
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	2,520	73,911

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 Mississippi State University Alumni Association, Mississippi State University Alumni Foundation, Inc., and The Bulldog Club, Inc.

(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 9(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.

(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, 2014 and 2013, the Foundation's consolidated financial statements include $57,104,998 and $45,953,315, respectively, for their noncontrolling share within investments and unrestricted net assets related to noncontrolling interests. The Foundation recorded $14,597,056 and $4,882,539 of gains associated with these investments for fiscal 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013 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, 2014 and 2013 was $337,588 and $1,586,239, 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, 2014 and 2013, 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) Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

(m) Subsequent Events

The Foundation evaluated all events or transactions that occurred after June 30, 2014, through October 30, 2014, 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, 2014 consolidated financial statements.

(2) Investments

Investments are summarized as follows as of June 30, 2014 and 2013:

		2014	2013
Short-term investments	$	22,527,781	1,173,950
Fixed income securities		101,421,623	81,074,368
Equity securities		160,364,992	171,490,597
Hedged funds		63,186,484	58,189,671
Private equity and venture capital funds		8,993,394	6,588,665
Natural resources		41,670,111	21,114,668
Properties held for investment		31,188,074	25,533,510
Cash surrender value of life insurance		1,743,015	1,760,612
	$	431,095,474	366,926,041

Total investments include a portion of an investment vehicle controlled by the Foundation (note 1(g)) that totaled $57,104,998 and $45,953,315 as of June 30, 2014 and 2013, 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, 2014 and 2013 with an approximate fair value of $6,685,000 and $6,440,000, respectively.

The following schedule summarizes net investment income in the consolidated statements of activities for the years ended June 30, 2014 and 2013:

		2014	2013
Dividends and interest (net of expenses of $726,884 and $495,766, respectively)	$	7,972,813	8,261,500
Net realized and unrealized gains		56,198,472	25,893,174
	$	64,171,285	34,154,674

(3) Pledges Receivable

Pledges receivable, net, are summarized as follows at June 30, 2014 and 2013:

		2014	2013
Unconditional promises expected to be collected in:			
Less than one year	$	9,897,207	9,418,443
One year to five years		17,408,819	10,098,539
Over five years		4,720,167	2,321,833
		32,026,193	21,838,815
Less unamortized discount (rates ranging from 1% to 5%)		(1,424,031)	(802,417)
		30,602,162	21,036,398
Less allowance for uncollectible pledges		(616,685)	(521,120)
	$	29,985,477	20,515,278

(4) Note Receivable

At June 30, 2014 and 2013, the Foundation had a note receivable from a related party totaling $32,269 and $94,035, respectively. The note receivable has an interest rate of 6% and was paid in full as scheduled in August 2014.

(5) Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows at June 30, 2014 and 2013:

		2014	2013
Land and buildings	$	12,109,056	11,987,491
Furniture, fixtures, and equipment		8,429,071	8,363,961
		20,538,127	20,351,452
Less accumulated depreciation		(10,728,737)	(10,021,927)
	$	9,809,390	10,329,525

(6) Net Assets

Temporarily restricted and permanently restricted net assets at June 30, 2014 and 2013 were available for the following purposes:

	2014		2013	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Specified college programs	$ 35,298,112	104,092,186	25,127,855	95,831,735
Student financial aid	38,512,608	125,069,303	24,610,548	116,876,438
Research	3,383,991	16,561,099	1,872,540	16,506,068
Faculty and staff support	10,640,970	49,573,050	5,400,078	47,914,506
Facilities	7,183,964	6,975,463	2,764,124	6,965,463
Other	5,554,072	6,166,551	3,295,428	2,678,215
Total	$ 100,573,717	308,437,652	63,070,573	286,772,425

(7) Fair Value Measurements

The following tables summarize the Foundation’s assets by major category in the fair value hierarchy as of June 30, 2014 and 2013:

	2014					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days’ notice
Short-term investments	$ 22,527,781	—	—	22,527,781	Daily	1
Fixed income:						
Fixed income securities	123,828	8,452,921	—	8,576,749	Daily	1
Fixed income – mutual funds	92,844,874	—	—	92,844,874	Daily	1
Total fixed income	92,968,702	8,452,921	—	101,421,623		
Equities:						
Domestic large cap/mid cap	374,310	37,842,493	—	38,216,803	Daily	1–3
Domestic small cap	27,404,462	—	—	27,404,462	Daily	1
Non-U.S. equity	94,743,727	—	—	94,743,727	Daily/Monthly	1–15
Total equities	122,522,499	37,842,493	—	160,364,992		
Hedged funds	—	—	63,186,484	63,186,484	(1)	(1)
Private equity and venture capital funds	—	—	8,993,394	8,993,394	Illiquid (2)	—
Natural resources	—	—	41,670,111	41,670,111	(3)	(3)
Properties held for investment	—	—	31,188,074	31,188,074	Illiquid (4)	—
Cash surrender value of life insurance	—	1,743,015	—	1,743,015	(5)	(5)
Total investments	$ 238,018,982	48,038,429	145,038,063	431,095,474		
Present value of amounts due from externally managed trusts	$ —	—	41,317,126	41,317,126		
Liabilities under split interest agreements	—	—	4,144,163	4,144,163		

	2013					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Short-term investments	$ 1,173,950	—	—	1,173,950	Daily	1
Fixed income:						
Fixed income securities	193,154	8,264,292	—	8,457,446	Daily	1
Fixed income – mutual funds	72,616,922	—	—	72,616,922	Daily	1
Total fixed income	72,810,076	8,264,292	—	81,074,368		
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	66,110,278	1,598,971	—	67,709,249	Daily/monthly	1 – 15
Total equities	116,237,535	55,253,062	—	171,490,597		
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)
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		

(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, 2014 and 2013, 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 $26,000,000 and $19,000,000 at June 30, 2014 and 2013, 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 three natural resource investments. Two of which have terms ending in 2019 and 2022; the third has no lockup period. Both investments with lockup periods are subject to one or more one to two-year extensions. Additionally, one of the investments has a master limited partnership that 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, 2014 and 2013 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, 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
Acquisitions	—	4,080,084	14,781,860	5,925,000	24,786,944
Dispositions	(83,417)	(2,213,704)	(486,885)	(213,084)	(2,997,090)
Net realized and unrealized gains (losses)	5,080,230	538,349	6,260,468	(57,352)	11,821,695
Fair value at June 30, 2014	$ 63,186,484	8,993,394	41,670,111	31,188,074	145,038,063

For the years ended June 30, 2014 and 2013, the changes in present value of amounts due from externally managed trusts classified as Level 3 are as follows:

	2014	2013
Balance, beginning of year	$ 38,487,513	34,354,678
Contributions	69,573	1,385,223
Terminations	(1,827,865)	(250,000)
Change in valuation	4,587,905	2,997,612
Balance, end of year	$ 41,317,126	38,487,513

For the years ended June 30, 2014 and 2013, the changes in liabilities under split interest agreements classified as Level 3 are as follows:

	2014	2013
Balance, beginning of year	$ 4,433,883	4,065,007
Change in valuation	107,205	408,822
Additions	306,032	818,707
Annuity payments	(639,296)	(604,771)
Terminations	(63,661)	(253,882)
Balance, end of year	$ 4,144,163	4,433,883

(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.

(8) Leases

On June 21, 2013, the Foundation purchased an airplane previously held under a capital lease which was originally 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.

The Foundation also had a lease agreement for the use of equipment that expired in October 2013.

(9) Endowment

The Foundation's endowment consists of more than 1,200 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 the Uniform Prudent Management of Institutional Funds Act of 2006 (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.

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 operations of the Foundation.

(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, real estate, 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, 2014 and 2013:

		2014			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(175,064)	61,010,423	249,420,706	310,256,065
Board-designated endowment funds		21,550,474	—	—	21,550,474
Total funds	$	21,375,410	61,010,423	249,420,706	331,806,539

		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

Changes in endowment net assets for the fiscal years ended June 30, 2014 and 2013:

	2014			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, beginning of year	$ 22,749,137	29,425,866	235,005,290	287,180,293
Investment return:				
Investment income	789,332	1,930,202	—	2,719,534
Net appreciation (realized and unrealized)	1,137,661	42,111,547	347,882	43,597,090
Total investment return	1,926,993	44,041,749	347,882	46,316,624
Contributions	—	—	12,907,398	12,907,398
Appropriation of endowment assets for expenditure	(3,305,116)	(12,457,192)	—	(15,762,308)
Other	4,396	—	1,160,136	1,164,532
Endowment net assets, end of year	$ 21,375,410	61,010,423	249,420,706	331,806,539

	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

(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 $175,064 and $435,486 as of June 30, 2014 and 2013, 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.

MISSISSIPPI STATE UNIVERSITY™

Office of Controller and Treasurer | Records and Reporting
Division of Finance and Administration
Mississippi State University

WWW.MSSTATE.EDU

Mississippi State University is an equal opportunity institution.