MISSISSIPPI STATE UNIVERSITY

CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

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 year ended June 30, 2018, and comparative data for the fiscal year ended June 30, 2017, to aid in the analysis of the financial performance for the institution. Financial Statements are presented in a single-column format, with fiscal year 2018 information only, due to the adoption of Governmental Accounting Standards Board Pronouncement 75 related to other post-employment benefits, making comparative statements misleading in some respects. Those financial statements, the accompanying notes and this discussion are the responsibility of management.

OVERVIEW OF THE INSTITUTION

Mississippi State University (the "University") is designated as a doctoral university with the highest level of research by the Carnegie Commission on Higher Education. 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 12 branch stations/units and 4 research and extension centers 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 15 master's degrees in 58 programs, an educational specialist degree, doctoral degrees in 35 programs, and 6 certificates. The University had an enrollment of 21,883 students as of the fall of 2017 and employs 5,019 employees including 1,210 full time faculty and 174 part time faculty.

CONDENSED STATEMENT OF NET POSITION

	FY 2018	FY 2017	Difference	Percentage
ASSETS AND DEFERRED OUTFLOWS:				
Current Assets	$228,925,446	$202,590,459	$26,334,987	13%
Capital assets, net	1,046,865,652	991,550,517	55,315,135	6%
Other Noncurrent Assets	141,826,924	169,489,722	(27,662,798)	-16%
Total Assets	**$1,417,618,022**	**$1,363,630,698**	**$53,987,324**	**4%**
Deferred Outflows	**$65,432,928**	**$131,930,149**	**($66,497,221)**	**-50%**
LIABILITIES AND DEFERRED INFLOWS:				
Current liabilities	54,719,289	52,185,266	2,534,023	5%
Non-Current liabilities	932,706,450	989,084,446	(56,377,996)	-6%
Total Liabilities	**$987,425,739**	**$1,041,269,712**	**($53,843,973)**	**-5%**
Deferred Inflows of Resources	**$13,266,058**	**$1,529,728**	**$11,736,330**	**767%**
NET POSITION:				
Invested in Capital Assets, Net of Related Debt	$709,630,070	$671,845,050	$37,785,020	6%
Restricted:				
Nonexpendable -	14,449,144	14,572,283	(123,139)	-1%
Expendable -	38,188,229	32,331,126	5,857,103	18%
Unrestricted	(279,908,290)	(265,987,052)	(13,921,238)	5%
Total Net Position	**$482,359,153**	**$452,761,407**	**$29,597,746**	**7%**

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, deferred outflows, liabilities, deferred inflows and net position of the University as of the fiscal year ended June 30, 2018, and is prepared under the accrual basis of accounting. Revenues and assets are recognized when the goods and services are provided, and expenses and liabilities are recognized when goods and services are received, regardless of when 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 net position increased by $29.6 million in fiscal year 2018. The gain was mostly due to additions to capital assets along with a reduction in the net pension liability.

Total assets grew by almost $54 million, reflecting the net addition of $55 million in capital assets. Those additions included the continued renovation of our beloved Dudy Noble Field, along with other significant projects which will be detailed in the Capital Assets and Debt Administration section of this document. Current assets increased by $26.3 million due to an influx of unrestricted cash from the Southeastern Conference near fiscal year end. Nevertheless, due to the decrease of $27.7 million in restricted cash as a result of spent bond proceeds, the net of the two was negligible.

Deferred outflows of Resources experienced a sharp decline due in large part to the decrease in the deferred outflow recognized for the difference between the projected and actual earnings on pension assets.

Total liabilities declined in fiscal year 2018. The change is generally reflective of a $51.1 million decrease in the University's net pension liability. The liability for Other Post-Employment Benefits, which was newly required to be recognized for fiscal year 2018 due to Governmental Accounting Standards Board Pronouncement No. 75, was retroactively recognized for fiscal 2017, but experienced little change as of the end of fiscal year 2018. The liability for accrued leave decreased as a result of a change in the calculation. All other liability balances remained stable.

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

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

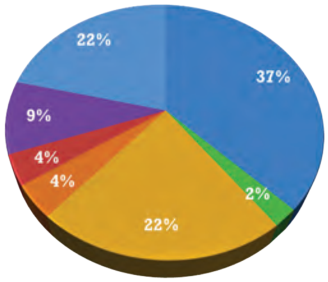
Operating revenues increased $27.8 million (around 6 percent) in fiscal year 2018 fueled in part by a 7 percent increase in tuition and a small enrollment increase. Auxiliary revenue grew by $6.2 million, reflecting a 7 percent growth in Athletics revenue along with a 4 percent growth in Student Housing revenue. Grants and Contracts contributed with a small upturn; however, federal appropriations and other operating revenues dipped slightly.

Total operating expenses showed a very slight uptick in fiscal year 2018. Despite the small increase in the total, many operating

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

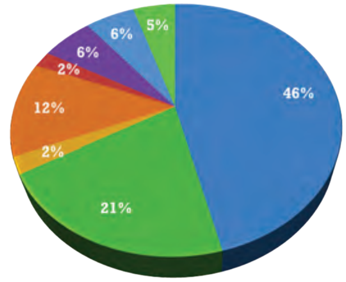
	FY 2018	FY 2017	Difference	Percentage
Total Operating Revenues	$489,245,610	$461,467,649	$27,777,961	6%
Total Operating expenses	709,225,861	708,296,814	929,047	0%
Operating Loss	**($219,980,251)**	**($246,829,165)**	**$26,848,914**	**-11%**
Total Net Nonoperating Revenues	231,744,605	234,994,260	(3,249,655)	-1%
Income (loss) Before other Revenues, Expenses, Gains and Losses	**$11,764,354**	**$(11,834,905)**	**$23,599,259**	**-199%**
Other revenues, expenses, gains and losses	17,833,392	31,322,935	(13,489,543)	-43%
Change in Net Position	**$29,597,746**	**$19,488,030**	**$10,109,716**	**52%**
Net Position - Beginning of Year	452,761,407	433,273,377	19,488,030	4%
Net Position - End of Year	**$482,359,153**	**$452,761,407**	**$29,597,746**	**7%**

OPERATING REVENUES, FY 2018



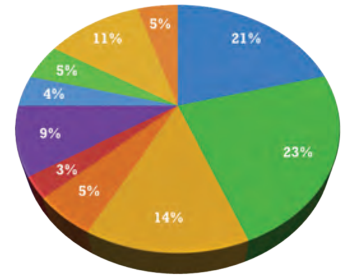
37% Net tuition and fees	$181,716,971
2% Federal appropriations	11,424,012
22% Federal grants and contracts	107,142,439
4% State grants and contracts	19,930,330
4% Nongovernmental grants and contracts	18,581,229
9% Sales and services	44,741,823
22% Other	105,708,806
Total Operating Revenues	**$489,245,610**

OPERATING EXPENSES BY OBJECT, FY 2018



46% Salaries and Wages	$325,876,184
21% Fringe Benefits	147,368,187
2% Travel	15,461,109
12% Contractual Services	89,127,853
2% Utilities	14,798,862
6% Scholarships & Fellowships	41,516,054
6% Commodities	40,468,504
5% Depreciation	34,609,108
Total Operating Expenses	**$709,225,861**

OPERATING EXPENSES BY FUNCTION, FY 2018



21% Instruction	$149,101,377
23% Research	159,535,127
14% Public service	99,288,257
5% Academic support	38,353,487
3% Student services	20,238,930
9% Institutional support	63,970,678
4% Operation of plant	28,920,807
5% Student aid	33,896,840
11% Auxiliary enterprises	81,311,249
5% Depreciation	34,609,108
Total Operating Expenses	**$709,225,861**

expenses were down. Salaries and Fringe Benefits both showed modest declines due in part to the change in methodology for the calculation of accrued leave. Fringe Benefits further benefitted from a $7.8 million (18 percent) decline in pension expense recognized. Travel expenses were also down by $1.7 (10 percent) and commodities reflected a downturn of more than $8.4 million (17 percent). Nevertheless, a sizable increase in contractual services ($15.3 million) along with a small increase in depreciation expense ($1.5 million) netted an overall rise in operating expenses.

Non-operating and other revenues decreased overall largely due to a 4% downturn in state appropriations, which equated to $7.4 million. A $4.4 million upturn in Gifts and Grants revenue helped to somewhat offset the appropriations shortfall. Investment income remained virtually the same as fiscal year 2017. Other non-operating expenses showed negligible activity. Non-operating expenses are essentially comprised of interest expense, which declined slightly, mostly due to amortization of several large premiums which offset the interest payments.

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.

Net cash used for operating activities declined substantially overall, around 18%, in fiscal year 2018. Significant contributors to the decrease were an increase in collections of tuition and fees of over $16.9 million, along with a rise of $6.4 million in cash inflows for Grants and Contracts and $3.3 million for Sales and Services of Educational Departments. Cash received for Athletics also climbed $3.5 million. Though most operating inflows recorded upswings, they were somewhat offset by a fairly substantial increase in spending for Scholarships and Fellowships of $4.1 million, which was 11% higher than fiscal year 2017.

Cash provided by financing activities remained essentially comparable to fiscal year 2017. Collections of State Appropriations were down $5.3 million compared to the previous year, but the shortfall was offset by an upturn of $4.4 million in Gifts and Grants for Other than Capital Purposes.

Cash used by cash used by capital and related financing activities show a marked increase due to over $23.3 million more spent to acquire capital assets. Adding to these outflows substantially was the refunding of two bonds issues, which resulted in $49 million more in principal paid than in the previous year. The resulting cash received for new bond issues totaled $92,075,000, but that was an increase of only $28.8 million over fiscal year 2017. Cash received for capital grants and contracts was down more than $8.1 million, and no capital appropriations were received in fiscal year 2018 after $2.6 had been allotted in fiscal year 2017.

Cash received from investing activities remained stable. $3.6 million more was earned through interest, but those gains were negated by purchase and sale activities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2018 and 2017, the University had $1.0 billion and $991.6 million invested in capital assets, net of accumulated depreciation of $536.9 million and $510.5 million, respectively. Depreciation expense totaled $34.6 million and $33.1 million for fiscal years 2018 and 2017, respectively.

THE FOLLOWING NEW CONSTRUCTION PROJECTS WERE COMPLETED IN FISCAL YEAR 2018:

- Dogwood Hall (new dormitory)
- Deavenport Hall (new dormitory)
- NSPARC Data Center

MAJOR RENOVATIONS WERE COMPLETED FOR:

- Wise Center Necropsy
- Wise Center Classroom Addition

Two new dormitories (Dogwood and Deavenport) were completed in fiscal year 2018. Dogwood Hall is capable of housing 350 students while Deavenport Hall has a capacity of 300 students. These new buildings, located on the north side of campus, offer MSU students housing that is among the most state-of-the-art in the nation. The new National Strategic Planning and Analysis Data Center is also an impressive addition to the MSU campus. The Center will be able to store more than 400 terabytes of data which can utilized by NSPARC, along with multiple government agencies and organizations, in data science to improve quality of life in Mississippi and throughout the world.

A new necropsy area and classroom for Center for Veterinary Medicine constituted two major upgrades to the Wise Center in fiscal year 2018.

Construction is on-going on several major projects, including a new South Campus Entrance, the Meats Science Laboratory and an expansion to Mitchell Memorial Library. Major renovations continue for Dudy Noble Field (baseball stadium) and the YMCA Building. Construction is just beginning on a new Engineering and Science Complex.

The University entered into a bond issue of $92.1 million in fiscal year 2018, which was utilized to refund EBC Revenue Bonds, Series 2011 and Series 2013.

ENROLLMENT

Total enrollment for the fall 2017 semester was 21,883 students, which was a slight upturn of 261 students over the fall of 2016

CONDENSED STATEMENT OF CASH FLOWS

	FY 2018	FY 2017	Difference	Variance
Cash Provided (used) by:				
Operating Activities	($143,166,771)	($173,991,125)	$30,824,354	-18%
Noncapital Financing Activities	236,829,209	237,151,114	(321,905)	0%
Capital and Related Financing Activities	(85,496,025)	(28,247,397)	(57,248,628)	203%
Investing Activities	3,492,679	3,326,618	166,061	5%
Net change in cash and cash equivalents	**11,659,092**	**38,239,210**	**(26,580,118)**	**-70%**
Cash and Cash Equivalents - beginning of year	146,569,659	108,330,449	38,239,210	35%
Cash and Cash Equivalents - end of year	**$158,228,751**	**$146,569,659**	**$11,659,092**	**8%**

semester when 21,622 students were enrolled. This reflected a smaller enrollment surge than the 3% increase in enrollment during the previous year. Mississippi residents accounted for 64% of the total enrollment in fall 2017 and for 66% of total enrollment for fall 2016. Enrollment totals are unduplicated and include all campuses of the University.

DEGREES AWARDED

A total of 4,757 degrees were awarded in 2017-2018: 3,726 undergraduate and 1,031 graduate. A breakdown by college is shown in the accompanying table. Information from 2016-2017 is included for comparison.

FINANCIAL SUMMARY AND OUTLOOK

Mississippi State University experienced a strong financial position in FY 2018 and substantial enrollment growth for the last several years including fall 2018. For the fourth year in a row, enrollment increased resulting in a record 22,201 students during fall 2018. The completion of the multi-million-dollar expansion of the Mitchell Memorial Library and multi-million-dollar renovation of the historic YMCA Building combined with the ongoing construction of a new multi-million-dollar parking garage and new multi-million-dollar Engineering and Science Complex are indications of continued growth and improvements at MSU.

After three years of economic uncertainty and appropriation cuts, state revenues exceeded estimates during FY 2018 and FY 2019 is, at present, forecast to experience modest growth. As a result, Mississippi State University experienced a modest increase in state appropriations for fiscal year 2019.

MSU will continue to face funding obstacles in the future due to the continued uncertainty surrounding the timing and speed of economic recovery. However, the leadership's focus and flexibility combined with the dedication of the University's employees have positioned the University to weather any potential storms. These efforts continue to be supported by rising enrollment and 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, research and service for the State of Mississippi and beyond.

Don A. Zant
Vice President and CFO for Division of Finance

DEGREES AWARDED, 2017-2018

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	420	127	547
Architecture, Art and Design	100		100
Arts and Sciences	1,128	194	1,322
Business (Includes Accountancy)	663	165	828
Education	601	238	839
Engineering	667	165	832
Forest Resources	63	40	103
Veterinary Medicine	25	102	127
Academic Affairs	59		59
Total	**3,726**	**1,031**	**4,757**

DEGREES AWARDED, 2016-2017

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	420	98	518
Architecture, Art and Design	87	-	87
Arts and Sciences	1,122	218	1,340
Business (Includes Accountancy)	617	156	773
Education	615	242	857
Engineering	551	179	730
Forest Resources	87	35	122
Veterinary Medicine	19	95	114
Total	**3,518**	**1,023**	**4,541**

MISSISSIPPI STATE UNIVERSITY™

ANNUAL FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

STATEMENT OF NET POSITION

ASSETS	June 30
CURRENT ASSETS:	**2018**
Cash and cash equivalents	$153,971,472
Short term investments	10,048,672
Accounts receivables, net	53,707,472
Student notes receivables, net	3,563,712
Inventories	2,727,099
Prepaid expenses	4,907,019
Total Current Assets	**$228,925,446**
NON-CURRENT ASSETS:	
Restricted cash and cash equivalents	$4,257,279
Endowment investments	38,164,501
Other long term investments	83,241,342
Student notes receivable, net	16,163,802
Capital Assets, Net	1,046,865,652
Total Non-Current Assets	**$1,188,692,576**
Total Assets	**$1,417,618,022**
DEFERRED OUTFLOWS:	
Difference between expected and actual experience	$ 7,551,937
Changes in proportionate share	(1,316,767)
Contributions subsequent to the measurement date	31,045,339
Changes in assumptions	11,683,186
Resources due to refunding	15,179,816
Implicit Rate Subsidy	1,289,417
Total Deferred Outflows of Resources	**$65,432,928**
Total Assets and Deferred Outflows of Resources	**$1,483,050,950**
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$26,680,765
Unearned revenues	14,595,223
Accrued leave liabilities-current portion	3,014,672
Long term liabilities-current portion	10,375,000
Other current liabilities	53,629
Total Current liabilities	**$54,719,289**
NON-CURRENT LIABILITIES:	
Deposits refundable	$54,702
Accrued leave liabilities	19,879,506
Long term liabilities	343,554,316
Net pension liability	525,651,937
OPEB liability	30,245,677
Other non-current liabilities	13,320,312
Total Non-Current liabilities	**$932,706,450**
Total Liabilities	**$987,425,739**
DEFERRED INFLOWS OF RESOURCES:	
Difference between projected and actual earnings on pension plan	$6,748,979
Change in assumptions	895,703
Difference in expected and actual experience	3,835,527
Change in assumptions	1,785,849
Total Deferred Inflows of Resources	**$13,266,058**
Total Liabilities and Deferred Inflows of Resources	**$1,000,691,797**
NET POSITION	
Net Invested in Capital Assets	**$709,630,070**
Restricted for:	
Nonexpendable -	
Scholarships and Fellowships	2,255,988
Research	4,427,865
Other Purposes	7,765,291
Expendable -	
Scholarships and Fellowships	3,313,995
Research	22,042,624
Capital Projects	887,076
Debt Service	1,225,094
Loans	9,394,537
Other Purposes	1,324,903
Unrestricted	(279,908,290)
Total Net Position	**$482,359,153**

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

OPERATING REVENUES

	June 30 2018
Tuition and fees:	$278,616,992
Less scholarship allowances	(93,804,508)
Less bad debt expense	(3,095,513)
Net tuition and fees	181,716,971
Federal appropriations	11,424,012
Federal grants and contracts	107,142,439
State grants and contracts	19,930,330
Nongovernmental grants and contracts	18,581,229
Sales and services of educational departments	44,741,823
Auxiliary enterprises:	
Student housing	31,481,905
Food services	3,025,207
Bookstore	752,778
Athletics	62,692,994
Other auxiliary revenues	12,820,875
Less auxiliary enterprise scholarship allowances	(9,951,124)
Interest earned on loans to students	214,323
Other operating revenues, net	4,671,848
Total Operating Revenues	**$489,245,610**

OPERATING EXPENSES

Salaries and wages	$325,876,184
Fringe benefits	147,368,187
Travel	15,461,109
Contractual services	89,127,853
Utilities	14,798,862
Scholarships and fellowships	41,516,054
Commodities	40,468,504
Depreciation	34,609,108
Total Operating Expenses	**$709,225,861**
Operating Income (Loss)	**$(219,980,251)**

NONOPERATING REVENUES (EXPENSES)

State appropriations	$168,714,693
Gifts and grants	67,303,804
Investment income	4,079,114
Interest expense on capital asset-related debt	(6,803,125)
Other nonoperating revenues	245,815
Other nonoperating expenses	(1,795,696)
Total Net Nonoperating Revenues (Expenses)	**$231,744,605**
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	**$11,764,354**

Other revenues, expenses, gains and losses:	
Capital Grants and Gifts	$3,905,050
State Appropriations Restricted for Capital Purposes	14,659,876
Other Deletions	(731,534)
Net Increase in Net Assets	**$29,597,746**

NET POSITION

Net Position - Beginning of Year, as adjusted (note)	$ 483,334,797
Effect of adoption of GASB 75	(30,573,390)
Net position - beginning of the year restated	452,761,407
Net Position - End of Year	**$482,359,153**

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES:	June 30
	2018
Tuition and Fees	$182,327,502
Grants and Contracts	154,270,092
Sales and Services of Educational Departments	45,249,211
Payments to Suppliers	(145,746,396)
Payments to Employees for Salaries and Benefits	(438,913,802)
Payments for Utilities	(14,897,225)
Payments for Scholarships and Fellowships	(41,519,919)
Loans Issued to Students and Employees	(3,108,180)
Collection of Loans to Students and Employees	3,179,361
Auxiliary Enterprise Charges:	
Student Housing	30,810,606
Food Services	2,907,080
Bookstore	752,778
Athletics	62,917,854
Other Auxiliary Enterprises	3,630,029
Other Receipts	14,974,238
Other Payments	
Net Cash (Used) by Operating Activities	**$(143,166,771)**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State Appropriations	$170,048,474
Gifts and Grants for Other Than Capital Purposes;	67,300,656
Federal Loan Program Receipts	130,166,080
Federal Loan Program Disbursements	(129,828,073)
Other Sources	-
Other Uses	(857,928)
Net Cash Provided by Noncapital Financing Activities	**$236,829,209**

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Proceeds from Capital Debt	$92,075,000
Cash Paid for Capital Assets	(68,761,580)
Capital Grants and Contracts Received	2,605,050
Proceeds from Sales of Capital Assets	225,630
Principal Paid on Capital Debt and Leases	(96,110,000)
Interest Paid on Capital Debt and Leases	(12,277,404)
Other Source	3,034,864
Other Uses	(6,287,585)
Net Cash Used by Capital and Related Financing Activities	**$(85,496,025)**

CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from Sales and Maturities of Investments	$25,491,622
Interest Received on Investments	8,439,492
Purchases of Investments	(30,438,435)
Net Cash Provided (Used) by Investing Activities	**$3,492,679**
Net Increase (Decrease) in Cash and Cash Equivalents	11,659,092
Cash and Cash Equivalents - Beginning of the Year	**$146,569,659**
Cash and Cash Equivalents - End of the Year	**$158,228,751**

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

June 30	2018
Operating Income (Loss)	$(219,980,251)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation expense	34,609,108
Bad debt expense	3,095,513
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Receivables, Net	3,910,555
Inventories	(352,751)
Prepaid Expenses	76,204,329
Increase (Decrease) in Liabilities:	
Accounts Payables and Accrued Liabilities	(49,089,435)
Unearned Revenue	11,066,473
Accrued Leave Liabilitiy	(2,630,312)
Total Adjustments:	**$76,813,480**
Net Cash Provided (Used) by Operating Activities:	**$(143,166,771)**
Reconciliation of Cash and Cash Equivalents:	
CurrentAssets - Cash and Cash Equivalents	153,971,472
Noncurrent Assets - Restricted Cash and Cash Equivalents	4,257,279
Cash and Eash Equivalents - End of Year:	**$158,228,751**

NON-CASH TRANSACTIONS:

1) Unrealized Gain/(Loss) on Fair Value of Investments	$(658,196)
2) Bureau of Buildings and Grounds Construction-in-Progress	14,659,876
3) Provision for Bad Debts	(3,095,513)
4) Donation of Capital Assets	1,300,000

MISSISSIPPI STATE UNIVERSITY™

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1:
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(A) 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.

(B) 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.

(C) BASIS OF ACCOUNTING

The financial statements of the University have been prepared in accordance with GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended by GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities. The University is reporting as a special-purpose government engaged in business-type activities. In accordance with business-type activity reporting, the University presents management's discussion and analysis, statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows and notes to the financial statements. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant transactions among departments, campuses, and auxiliary units of the University have been eliminated.

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 non-operating revenues when eligibility requirements are satisfied.

NEW ACCOUNTING STANDARDS

Net Position	
June 30, 3017, as previously repored	$483,334,797
Effect of adoption of GASB 75	(30,573,390)
June 30, 2017, as restated	**$452,761,407**

(D) NEW ACCOUNTING STANDARDS

On June 30, 2017, the University adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement requires cost-sharing entities providing postemployment benefits other than pensions (OPEB) to their employees to recognize their proportionate share of the total OPEB liability (TOL), which is measured as the TOL less the amount of the OPEB's plan fiduciary net position. The statement also requires a determination of an OPEB expense (OE), including amounts for service cost, interest on the TOL, employee contributions, administrative expenses, other cash flows during the year, recognition of increases/decreases in the TOL due to changes in the benefit structure, actual versus expected experience, actuarial changes, and recognition of investment gains and losses. The actual experience and assumption changes impacts are recognized over the average expected remaining service life of the plan membership as of the beginning of the measurement period, while the investment gains/losses are recognized equally over the five years. The unrecognized portions of each year's experience, assumption changes and investment gains/losses are used to develop deferred inflows and outflows of resources, which also must be included on the statement of net position. Prior to adopting this Statement, the IHL System reported OPEB expense based on cash contributions to the State and School Employees' Life and Health Insurance Plan (plan administrator). In addition to the reporting changes described above, implementation of the Statement resulted in the adjustment of fiscal year 2017 beginning unrestricted net position, reducing it by $30,573,390.

The University elected to implement GASB 75 on June 30, 2017 because it was not practical to implement at the beginning of fiscal year 2017 due to lack of available information to prepare comparative financial statements related to the implementation. As a result, net OPEB liability is recorded at the beginning of fiscal year 2018.

The schedule on page 16 summarizes the impact on beginning net position.

(E) 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.

(F) CASH EQUIVALENTS

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

(G) SHORT-TERM INVESTMENTS

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

(H) 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.

(I) 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.

(J) 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.

(K) PREPAID EXPENSES

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

(L) 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.

(M) 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.

(N) OTHER LONG-TERM 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.

(O) INVESTMENT VALUATION

GASB Statement No. 72 enhances comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. The standard establishes a hierarchy of inputs used to measure fair value that prioritizes the inputs into three categories –

Level 1, Level 2 and Level 3 inputs – considering the relative reliability of the inputs. 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 (unadjusted) prices in active markets for identical financial assets or liabilities that the IHL System 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 financial asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the financial asset or liability.

The level in the fair value hierarchy in which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment risk.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified as Level 2 of the fair value hierarchy are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. There are no investments classified in Level 3.

(P) 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 6 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.

(Q) DEFERRED INFLOWS AND OUTFLOWS

The University has deferred inflows of resources. The deferred inflows of resources are an acquisition of net assets by the University that is applicable to a future reporting period and include pension and OPEB related deferred inflows and deferred amount of debt refunding.

The University has deferred outflows of resources. The deferred outflows of resources are consumption of net assets by the University that are applicable to a future reporting period and include the unamortized amounts for losses on the refunding of bond debt, pension, and OPEB related deferred outflows, and beneficial interests in irrevocable trusts.

(R) NET PENSION AND OPEB LIABILITIES

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, and OPEB and OPEB expense, respectively, information about the fiduciary net position of the University's proportionate share of the liability for pension and OPEB, and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the Public Employees' Retirement System of Mississippi (PERS) and the State and School Employees' Life and Health Insurance Plan (OPEB Plan). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

(S) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

(T) 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.

(U) 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.

(V) 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.

(W) 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).

(X) CLASSIFICATION OF REVENUES AND EXPENDITURES

The University has classified its revenues as either operating or non-operating 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.

NON-OPERATING REVENUES AND EXPENSES

Non-operating revenues have the characteristics of non-exchange transactions. Non-operating revenues include activities that have the characteristics of non-exchange 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 non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use*

Proprietary Fund Accounting, and GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Examples of non-operating expenses include interest on capital asset related debt and bond expenses.

(Y) 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.

(Z) 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.

(AA) 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 -$279,908,290 at June 30, 2018, includes $27,748,528 reserved for academic programs and research, -$925,491 related to capital projects, $32,850,648 reserved for repairs and maintenance, with $179,328,585 remaining for other purposes and -$518,910,560 related to the University's pension and OPEB liability.

NOTE 2

CASH AND INVESTMENTS

(A) POLICIES

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.

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, 2018 is shown on page 20.

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),

FY 2018 FAIR VALUE OF INVESTMENT TYPE

Investment Type	
U.S. Government Agency Obligations	$42,274,873
U.S. Treasury Obligations	23,728,526
Certificates of Deposit	18,376,653
Collateralized Mortgage Obligations	4,874,719
Municipal Bonds	3,093,900
Asset Backed Securities	1,082,917
Equity Securities 1,019,837	1,125,118
Landgrant	239,789
Mississippi State Investment Pool	36,658,020
Total	**$131,454,515**

FY 2018 INTEREST RATE RISK

		Fair InvestmentMaturities (in years)			
Investment Type	**Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
U.S. Government Agency Obligations	$42,274,873	$998,930	$30,973,979	$10,050,504	$251,460
U.S. Treasury Obligations	23,728,526	5,639,114	11,219,700	6,869,712	
Collateralized Mortgage Obligations	5,542,128			1,042,042	4,500,086
Municipal Bonds	3,093,900	504,175	2,589,725		
Asset Backed Securities	415,508			415,508	
Certificates of Deposit	18,376,653	1,965,110	16,411,542		
Total	**$93,431,588**	**$9,107,329**	**$61,194,946**	**$18,377,766**	**$4,751,546**

FY 2018 CONCENTRATION OF CREDIT RISK

Issuer	**Fair Value**	**Percentage**
Mississippi State Investment Pool	$36,658,020	32.81%
U.S. Treasury Obligations	23,728,527	21.24%
FHLB	13,776,562	12.33%
FHLMC	11,958,619	10.70%
FNDB	9,210,158	8.24%
FFCB	8,490,777	7.60%
Total	**$103,822,663**	

FY 2018 CREDIT RISK

Credit Rating	**Fair Value FY2018**
AA	$2,493,240
AA+	40,858,800
AAA	12,148,594
Rating Not Available	19,554,303
Total	**$75,054,937**

whereby certain assets are pooled for investment purposes. The Foundation is the investment pool's managing member, manages the assets of the pool, and maintains separate accounts for each participant. Investment income, gains and losses, and expenses of the MSIP are allocated to each participant based on their share of ownership of the MSIP. As of June 30, 2018, the University owned an approximate 8.45% interest in the assets of the MSIP.

(B) 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, 2018.

(C) 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, 2018, the University had investments subject to interest rate risk as shown above:

(D) 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, 2018, the University had the following investments subject to credit risk.

The credit risk ratings shown above are issued based upon standards set by Standard and Poor's Financial Services.

(E) 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

FY 2018 FAIR VALUE MEASUREMENT

	Level 1	Level 2	Level 3	Total
Investment Strategy				
Fixed income				
U.S. Government securities	$13,325,626	$42,274,873		$55,600,499
Certificates of deposit	16,671,358	1,705,295		18,376,653
Other fixed income securities	4,500,086	14,954,350		19,454,436
Total fixed income	**$34,497,070**	**$58,934,518**	**-**	**$93,431,588**
Equities:				
Common stocks		$1,125,118		$1,125,118
Total equities	**-**	**$1,125,118**	**-**	**$1,125,118**
Venture capital	**-**			**-**
Mississippi State Investment Pool			$36,658,020	$36,658,020
Other short-term investments			**239,789**	**239,789**
Total investments	**$34,497,070**	**$60,059,636**	**$36,897,809**	**$131,454,515**

The following table includes a rollforward of the amounts for the years ended June 30, 2018 for investments classified within Level 3:

	Equities	Diversifying strategies	Other	Total
Fair value at June 30, 2017			$35,653,221	$35,653,221
Acquisitions			61,848	61,848
Dispositions			(1,230,040)	(1,230,040)
Net realized and unrealized gains (losses)			2,172,991	2,172,991
Fair value at June 30, 2018	**-**	**-**	**$36,658,020**	**$36,658,020**

credit risk. As of June 30, 2018, the University had the following issuers holding investments that exceeded 5% of total investments as shown above.

NOTE 3
FAIR VALUE MEASUREMENT

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, enhances comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. The standard establishes a hierarchy of inputs used to measure fair value that prioritizes the inputs into three categories – Level 1, Level 2 and Level 3 inputs – considering the relative reliability of the inputs. 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 (unadjusted) prices in active markets for identical financial assets or liabilities that the government 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 financial asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the financial 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.

NOTE 4
ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2018 as shown on page 22.

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.

NOTE5
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. A schedule of interest rates and unpaid balances as of June 30, 2018 is available on page 22.

NOTE6
CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2018 is presented 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.

FY 2018 ACCOUNTS RECEIVABLE

Type of Receivable:	
Student tuition	$34,638,198
Auxiliary enterprises and other operating activities	5,600,908
Contributions and gifts	75,685
Federal, state, and private grants and contracts	28,361,106
State Appropriations	1,080,438
Accrued Interest	1,151,562
Total Accounts receivable	$70,907,897
Less allowance for doubtful accounts	17,200,425
Net Accounts receivable	**$53,707,472**

FY 2018 NOTES RECEIVABLE FROM STUDENTS

	Interest Rates	June 30, 2017	Current Portion	Non-Current Portion
Perkins student loans	3% to 9%	$15,227,057	$3,289,848	$11,937,209
Institutional loans	0% to 9%	6,485,324	273,864	6,211,460
Total Notes receivable		$21,712,381	$3,563,712	$18,148,669
Less allowance for doubtful accounts		$1,984,867		$1,984,867
Net Notes receivable		**$19,727,514**	**$3,563,712**	**$16,163,802**

FY 2018 UNEARNED REVENUES

	2018
Unearned summer school revenue	$2,771,719
Unearned grants and contract revenue	10,952
Other	11,812,551
Total	**$14,595,223**

FY 2018 CAPITAL ASSETS

	June 30, 2017	Additions	Deletions/Transfers	June 30, 2018
Nondepreciable Capital Assets:				
Land	$22,449,519	$295,000		$22,744,519
Construction in Progress	278,744,186	67,295,671	88,041,356	257,998,501
Livestock	1,637,332	104,087	221,630	1,519,789
Total Nondepreciable Capital Assets	**$302,831,037**	**$67,694,758**	**$88,262,986**	**$282,262,809**
Depreciable Capital Assets:				
Improvements other than Buildings	$98,584,734	$5,633,722		$104,218,456
Buildings	816,806,928	85,827,459		902,634,387
Equipment	169,853,284	15,074,335	8,916,092	176,011,527
Library Books	113,960,560	4,692,490	65,150	118,587,900
Total Depreciable Capital Assets	**$1,199,205,505**	**$111,228,006**	**$8,981,242**	**$1,301,452,269**
Less Accumulated Depreciation for:				
Improvements other than Buildings	$40,432,973	$3,962,169		$44,395,142
Buildings	235,289,835	15,367,792		250,657,627
Equipment	141,206,664	10,815,987	8,180,558	143,842,093
Library Books	93,556,553	4,463,161	65,150	97,954,564
Total Accumulated Depreciation	**$510,486,025**	**$34,609,109**	**$8,245,708**	**$536,849,426**
Capital Assets, Net	**$991,550,517**	**$144,313,655**	**$88,998,520**	**$1,046,865,652**

**As of June 30, 2018, capital assets did not include any assets under capital lease.

FY 2018 DEPRECIATION

	Estimated Useful Lives	Salvage Value	Capitalization Threshold
Buildings	40 Years	20%	50,000
IImprovements other than buildings	20 Years	20%	25,000
Equipment	3-15 Years	1-10%	5,000
Library Books	10 years	0%	0

FY 2018 ACCOUNTS PAYABLE & ACCRUED LIABILITIES

Payable to vendors and contractors	$13,656,055
Accrued salaries, wages and employee withholdings	13,476,147
Other	(451,437)
Total	**$26,680,765**

NOTE 7
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2018 are shown on page 22.

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

NOTE 8
UNEARNED REVENUES

Unearned revenues as of June 30, 2018 are shown to the right on page 22.

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, 2018 are presented on page 24.

BONDS PAYABLE

Annual requirements to repay outstanding debt are shown on page 24.

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

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

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

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

Series 2004 – MSUEBC issued bonds totaling $17,000,000 in January 2004 (Series 2004) for the construction of energy production, management, and storage facilities to enable Mississippi State University to take full advantage of lower cost variable price interruptible (VPI) electrical power rates offered by TVA and the City of Starkville, MS. Outstanding coupons bear interest at rates ranging from 3.50% to 4.60% 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

FY 2018 LONG-TERM LIABILITIES

Description and Purpose	Original Issue	Annual Interest Rate	Maturity	June 30, 2017	Additions	Deletions	June 30, 2018	Due Within One Year
Bonded Debt								
Dormitory Revenue System	$2,250,000	3.00%	2021	$365,000		$85,000	$280,000	$90,000
Student Apartments	2,038,000	3.00%	2022	420,000		80,000	340,000	80,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2018	1,630,000		1,630,000	0	0
EBC07A - Revenue Bonds	6,110,000	4.125%-5.00%	2028	290,000		290,000	0	0
EBC09A-1 Revenue Bonds	29,615,000	2.50%-5.25%	2038	2,180,000		700,000	1,480,000	725,000
EBC09A-2 Refunding Bonds	17,105,000	2.75%-5.00%	2023	3,650,000		0	3,650,000	1,790,000
EBC11 - Refunding Bonds	54,370,000	2.00%-5.00%	2041	44,425,000		39,415,000	5,010,000	1,185,000
EBC13 - Revenue Bonds	60,470,000	2.00%-5.00%	2044	58,950,000		48,280,000	10,670,000	555,000
EBC14A - Revenue Bonds	89,810,000	2.00%-5.00%	2044	83,400,000		3,365,000	80,035,000	3,480,000
EBC14B - Revenue Bonds	23,435,000	.29%-4.813%	2044	21,075,000		915,000	20,160,000	935,000
EBC15-Revenue Bonds	56,010,000	2.00%-5.00%	2045	55,015,000		1,020,000	53,995,000	1,050,000
EBC17- Revenue Bonds	63,270,000	2.00%-5.00%	2046	63,270,000		330,000	62,940,000	280,000
EBC17A - Revenue Bonds	92,075,000	2.00%-5.00%	2044		$92,075,000		92,075,000	205,000
Total Bonded Debt				**334,670,000**	**92,075,000**	**96,110,000**	**330,635,000**	**10,375,000**
Unamortized Bond Premiums				20,277,381	3,016,935		23,294,316	
Total Bonded Debt, Net				**$354,947,381**	**$95,091,935**	**$96,110,000**	**$353,929,316**	**$10,375,000**
Other Long-term Liabilities								
Net Pension Liability				575,770,041		50,118,104	525,651,937	
OPEB Liability				31,763,475		1,517,798	30,245,677	
Accrued Leave Liabilities				25,524,490		2,630,312	22,894,178	$3,014,672
Deposits Refundable				34,195	20,507		54,702	
Total Other liabilities				**$633,092,201**	**$20,507**	**$2,630,312**	**$578,846,494**	**$3,014,672**
Federal Portion - Perkins Loans				13,566,127		245,815	13,320,312	
Total				**$1,001,605,709**	**$95,112,442**	**$98,986,127**	**$946,096,122**	**$13,389,672**
Due within one year							**13,389,672**	
Total long-term liabilities							**$932,706,450**	

OUTSTANDING DEBT AMORTIZATION SCHEDULE

FY 2018	Bonded Debt	Interest	Total
2019	$13,209,268	$15,618,074	$28,827,342
2020	13,959,801	15,238,034	29,197,835
2021	14,178,566	13,264,133	27,442,699
2022	14,348,456	12,756,423	27,104,879
2023	14,545,103	12,228,438	26,773,541
2024-2028	67,005,035	52,414,319	119,419,354
2029-2033	64,314,094	38,984,612	103,298,706
2034-2038	68,720,129	23,969,804	92,689,933
2039-2043	64,914,220	10,502,053	75,416,274
2044-2048	18,734,644	730,502	19,465,145
Totals	**$353,929,316**	**$195,706,394**	**$549,635,710**

FY 2018 OPERATING LEASES

2018	
2019	3,419,199
2020	3,419,199
2021	3,501,303
2022	3,508,767
2023	3,508,767
Total Minimum Payments Required	**$17,357,235**

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.

Series 2015 – MSUEBC issued bonds totaling $56,010,000 in April, 2015 (Series 2015) for certain improvements and capital

NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

FY 2018

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	$94,811,017	$45,731,895	$1,796,728	$4,685,491	$254,145		$1,822,101		$149,101,378
Research	81,391,643	40,824,910	4,292,866.46	19,427,256	2,708,555		10,889,898		159,535,127
Public Service	53,054,868	24,074,162	2,979,214.50	15,110,454	855,108		3,214,451		99,288,258
Academic Support	21,046,124	8,271,012	512,376.09	5,910,364	234,157		2,379,454		38,353,487
Student Services	11,076,608	4,836,619	355,680.89	3,090,407	130,871		748,745		20,238,930
Institutional Support	21,658,856	3,126,172	256,030.00	23,105,397	130,055		15,694,168		63,970,678
Operation of Plant	13,957,754	6,410,237	58,712.68	0	7,079,153		1,414,950		28,920,807
Student Aid	1,023,043	3,694,067	5,151.68	154,197	0	28,938,185	82,197		33,896,840
Auxiliary Enterprises	27,856,272	10,399,113	5,204,348.49	17,644,287	3,406,818	12,577,869	4,222,541		81,311,249
Depreciation								34,609,108	34,609,108
Total Operating Expenses	**$325,876,184**	**$147,368,187**	**$15,461,109**	**$89,127,853**	**$14,798,862**	**$41,516,054**	**$40,468,504**	**$34,609,108**	**$709,225,861**

expenditures, including but not limited to, constructing, furnishing and equipping residence halls and a Center for America's Vets, and demolishing abandoned facilities, and to pay the related costs of the issuance, sale and delivery of the Series 2015 Bonds. Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with final maturity in November, 2044.

Series 2017 – MSUEBC issued bonds totaling $63,270,000 in May 2017 (Series 2017) for (i) refunding of MSUEBC bonds issued in July 2007 (Series 2007A) and bonds issued in May 2009 (SeriesA-1 and SeriesA-2) and (ii) for certain improvements and capital expenditures, including but not limited to, financing the addition and renovation to Dudy Noble Field-Polk Dement Stadium, and to pay the related costs of the issuance, sale and delivery of the Series 2017 Bonds. Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with final maturity in August, 2045. The University defeased $35,680,000 of the outstanding EBC Revenue Bonds (Series 2007A, Series 2009A-1 and Series 2009A-2). 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 $4,472,046 over the next 21 years and obtained an economic gain of $3,364,020. The balance in the escrow account at June 30, 2017 was $38,499,750.

Series 2017A – MSUEBC issued bonds totaling $92,075,000 in December 2017 (Series 2017A) for (i) refunding of MSUEBC bonds issued in July 2011 (Series 2011) and bonds issued in October 2013 (Series 2013) and (ii) to pay the related costs of the issuance, sale and delivery of the Series 2017A Bonds. Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with final maturity in August, 2043. The University defeased $86,005,000 of the outstanding EBC Revenue Bonds (Series 2011 and Series 2013). 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 $5,716,209 over the next 26 years and obtained an economic gain of $4,304,723. The balance in the escrow account at June 30, 2018 was $95,011,278.

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 following is a schedule by year of the future minimum rental payments required under those non-cancelable leases shown to the left on page 24.

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, 2018 and 2017 was $3,173,324 and $3,706,176, respectively.

NOTE 11

NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The table above lists the operating expenses of the University by functional classification for the fiscal year ended June 30, 2018:

NOTE 12

CONSTRUCTION COMMITMENTS AND FINANCING

The University has contracted for various construction projects as of June 30, 2018. Estimated costs to complete various projects for June 30, 2018 and 2017 and the sources of anticipated funding are shown on page 27.

NOTE 13

PENSION PLAN

Mississippi State University participates in the following separately administered plans maintained by the Public Employees' Retirement System of Mississippi (PERS):

PLAN TYPE

- Multiple-employer, defined benefit
- Multiple-employer, defined contribution

PLAN NAME

- PERS Defined Benefit Plan
- Optional Retirement Plan (ORP) Defined
- Contribution Plan

The employees of the University are covered by one of the pension plans outlined above (collectively, the Plans). The Plans do not provide for measurements of assets and pension benefit obligations for individual entities. The measurement date of the Plans is June 30, 2017.

The funding methods and determination of benefits payable were established by the legislative acts creating such plans, as amended, and in general, provide that the funds are to be accumulated from employee contributions, participating entity contributions, and income from the investment of accumulated funds. The plans are administered by separate boards of trustees.

Information included within this note is based on the certification provided by consulting actuary, Cavanaugh Macdonald Consulting, LLC.

A stand-alone audited financial report is issued for the Plans and can be obtained at www.pers.ms.gov.

DISCLOSURES UNDER GASB STATEMENT NO. 68

The pension disclosures that follow for fiscal year 2018 include all disclosures for GASB Statement No. 68 using the latest valuation reports available (June 30, 2017). For fiscal year 2018, the measurement date for the PERS defined benefit plan is June 30, 2017. The University is presenting net pension liability as of June 30, 2017 for the fiscal year 2018.

(A) PERS DEFINED BENEFIT PLAN

PLAN DESCRIPTION

The PERS of Mississippi was created with the purpose to provide pension benefits for all state and public education employees, sworn officers of the Mississippi Highway Safety Patrol, other public employees whose employers have elected to participate in PERS, and elected members of the State Legislature and the President of the Senate. PERS administers a cost-sharing, multiple-employer defined benefit pension plan. PERS is administered by a 10-member Board of Trustees that includes the State Treasurer; one gubernatorial appointee who is a member of PERS; two state employees; two PERS retirees; and one representative each from public schools and community colleges, state universities, municipalities, and counties. With the exception of the State Treasurer and the gubernatorial appointee, all members are elected to staggered six-year terms by the constituents they represent.

MEMBERSHIP AND BENEFITS PROVIDED

Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi (the State), state universities, community and junior colleges, and teachers and employees of the public school districts. Members and employers are statutorily required to contribute certain percentages of salaries and wages as specified by the board of trustees. A member who terminates employment from all covered employers and who is not eligible to receive monthly retirement benefits may request a full refund of his or her accumulated member contributions plus interest. Upon withdrawal of contributions, a member forfeits service credit represented by those contributions.

Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary.

A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0% of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0% compounded for each fiscal year thereafter.

CONTRIBUTIONS

Plan provisions and the board of trustees' authority to determine contribution rates are established by Miss. Code Ann. § 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature.

Policies for PERS provide for employer and member contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. PERS members were required to contribute 9.00% of their annual

CONSTRUCTION COMMITMENTS AND FINANCING

FY 2018

	Total Costs to Complete	Funded by Federal Sources	State Sources	Institutional Funds	Other
Classroom Bldg with Parking	-				
YMCA Renovation	1,268,495		1,268,495		
Library Expansion	-				
Engineering &Science Complex	32,942,687		12,942,687	4,000,000	16,000,000
Music Building	670,990		670,990		
South Campus Entrance (MDOT)	2,032,748		1,544,548	488,200	
MDOT Blackjack Fence Project	354,208	288,000		66,208	
Preplan Meat Processing Bldg	965,699		965,699		
Pincote Pavillion Restoration	1,215		1,215		
Pre-Plan ADS/Poultry	9,892,268		9,892,268		
Wetlands Project	-				
Reno Dudy Noble Field	2,890,074				2,890,074
Library Exhibit Project	585,071		504,058	81,013	
Raspet Renovation ACI Boeing	112,509			112,509	
Bulldog Way	8,838,114	7,000,000	1,444,408	393,706	
Parking Garage North	11,482,278			11,482,278	
Stone Blvd Parking Project	3,194,260			3,194,260	
Central Plant Piping	2,418,143			2,418,143	
Total	**$77,648,759**	**$7,288,000**	**$29,234,368**	**$22,236,317**	**$18,890,074**

pay. The institution's contractually required contribution rate for the year ended June 30, 2018 was 15.75% for each year of annual payroll. Employer contribution rates consist of an amount for service cost; the amount estimated to finance benefits earned by current members during the year; and an amount for amortization of the unfunded actuarial accrued liability. For determining employer contribution rates, the actuary evaluates the assets of the plans based on a five-year smoothed expected return with 20.00% of a year's excess or shortfall of expected return recognized each year for five years. Contribution rates are determined using the entry age actuarial cost method and include provisions for an annual 3.00% cost-of-living increase calculated according to the terms of the respective plan. Contributions from the University are recognized when legally due, based on statutory requirements.

EMPLOYER CONTRIBUTIONS

Mississippi State University's contributions to PERS for the year ended June 30, 2018 were $31.3 million. The University's proportionate share was calculated on the basis of historical contributions. Although GASB Statement No. 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocation on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the University that are not representative of future contribution effort are excluded in the determination of employer's proportionate share. Examples of employer contributions not representative of future contribution efforts are contributions towards the purchase of employee service and employer contributions paid by employees in connection with early retirement.

The table above provides the institution's contributions used in the determination of its proportionate share of collective pension amount reported.

SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE PENSION

Mississippi State University	2018
Proportionate share of contributions	$31,949,171
Allocation precentage of proportiante share of collective pension amount	3.16%
Change in proportionate share of collective pension amount	-0.06%

LONG-TERM EXPECTED RATE OF RETURN

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis, in which best estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 and are summarized in the following table found on page 28.

NET PENSION LIABILITY

Mississippi State University's proportion of the net pension liability at June 30, 2018 is shown on page 28.

DISCOUNT RATE

For the year ended June 30, 2018, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%) for the year ended June 30, 2018. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The table to the right presents Mississippi State University's proportionate share of the net pension liability of the cost-sharing plan for 2018, calculated using the discount rate of 7.75%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate.

ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Mississippi state statute requires that an actuarial experience study be completed at least once in each five-year period. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016.

The table to the righ. provides a summary of the actuarial methods and assumptions used to determine the contribution rate reported for PERS for the year ended June 30, 2018.

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022 with rates set forward one year for males with adjustments.

PENSION EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (UNAUDITED)

For the year ended June 30, 2018, the non-cash impact of GASB Statement No. 68 on fringe benefits was $36.2 million.

Deferred outflows of resources were related to differences between expected and actual experience, changes of assumptions, and contributions made after the measurement

ASSET ALLOCATION

ASSETS	Target AllocationLong-term Expected	Real Rate of Return
U.S. Broad	27.00%	4.60%
International equity	18.00%	4.50%
Emerging markets equity	4.00%	4.75%
Global	12.00%	4.75%
Fixed income	18.00%	0.75%
Real assets	10.00%	3.50%
Private equity	8.00%	5.10%
Emerging debt	2.00%	2.25%
Cash	1.00%	0.00%
Total	**100%**	

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Mississippi State University	2018
Proportion of the net pension liability	3.16%
Proportionate share of the net pension liability	$525,651,937

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Mississippi State University	2018
1% Decrease (6.75%)	$689,428,608
Current Discount Rate (7.75%)	$525,651,937
1% Increase (8.75%)	$389,682,541

PENSION EXPENSE & DEFERRED OUTFLOWS & INFLOWS OF RESOURCES 2018

Total fringe benefits expense	Non-cash change in net pension liability and related defeered inflos and outflows due to GASB 68	Fringe benefits expense excluding non-cash impact of GASB 68
$147,368,187	**(36,166,033)**	**$111,202,154**

ACTUARIAL ASSUMPTIONS

Valuation date	2018
Measurement date	**June 30, 2017**
Actuarial cost method	**Market value**
Actuarial assumption:	
Inflation	3.00%
Project salary increase	3.25%
Investment rate of return	7.75%

DEFERRED OUTFLOWS & INFLOWS OF RESOURCES 2018

Deferred Outflows of Resources						Deferred Inflows of Resources			
Differences between expected and actual experience	Change of assumption	Changes in proportion and differences between Empoyer contributions and proportionate share of contributions	Contributions subsequent to the measurement date	Net difference between projected and actual investments earnings on pension plan investment	**Total deferred outflows of resources**	Net difference between projected and actual investment earnings on pension plan	Change of assumption	Differences between expected and actual experience	**Total deferred inflows of resources**
$7,551,937	$11,683,186	(1,316,7670	$31,045,339	-	**$48,963,395**	$6,748,979	$895,703	$3,835,527	**$11,480,209**

DEFERRED OUTFLOWS & INFLOWS OF RESOURCES

Deferred outflow of resources year ended June 30

	2019	2020	2021	2022	2023	Total
Mississippi State University	18,280,199	586,807	948,651	-	-	17,918,356

Deferred inflow of resources year ended June 30

	2019	2020	2021	2022	2023	Total
Mississippi State University	7,978,352	6,245,895	405,932	10,153,683	-	11,480,209

date. The difference between expected and actual experience with regard to economic and demographic factors is amortized over the average of the expected remaining service life of active and inactive members which is approximately five years. The first year of amortization is recognized as pension expense with the remaining years shown as a deferred outflow of resources.

The tables for deferred outflows and inflows of resources for the University are shown on at the top of page 29:

Contributions subsequent to the measurement date of $31.0 million reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the years ended June 30, 2019.

Other amounts reported as net deferred outflows of resources and net deferred inflows of resources related to pensions as of June 30, 2018, will be recognized in pension expense are shown above.

(B) ORP DEFINED CONTRIBUTION PLAN

The Optional Retirement Plan (ORP) was established by the Mississippi Legislature in 1990 to help attract qualified and talented institutions of higher learning faculty. The membership of the ORP is composed of teachers and administrators of Mississippi State University appointed or employed on or after July 1, 1990, who elect to participate in ORP and reject membership in PERS. The ORP provides funds at retirement for University employees and in the event of death, provides funds for their beneficiaries, through an arrangement by which contributions are made to this plan. The current contribution rate of both the employee and the University are identical to that of the PERS defined contribution plan.

The ORP uses the accrual basis of accounting. Investments are reported at fair value, based on quoted market prices. Employees immediately vest in plan contributions upon entering the plan. The University's contributions to the ORP for the years ended June 30, 2018 were $14.5 million, which equaled its required contribution for the period.

NOTE 14

POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

PLAN DESCRIPTION

In addition to providing pension benefits, the University provides other postemployment benefits (OPEB) such as health care and life insurance benefits to all eligible retirees and dependents. The State and School Employees' Life and Health Insurance Plan (the Plan) is self-insured and financed through premiums collected from employers, employees, retirees and COBRA participants. The Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972) and may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Plan.

The 14-member board is comprised of the Chairman of the Workers' Compensation Commission; the State Personnel Director; the Commissioner of Insurance; the Commissioner of Higher Education; the State Superintendent of Public Education; the Executive Director of the Department of Finance and Administration; the Executive Director of the Mississippi Community College Board; the Executive Director of the Public Employees' Retirement System; two appointees of the Governor; the Chairman of the Senate Insurance Committee, or his designee; the Chairman of the House of Representatives Insurance Committee, or his designee; the Chairman of the Senate Appropriations Committee, or his designee; and the Chairman of the House of Representatives' Appropriations Committee, or his designee. The Board has a fiduciary responsibility to manage the funds of the Plan. The Plan maintains a budget approved by the Board.

MEMBERSHIP AND BENEFITS PROVIDED

The Plan provides for Other Postemployment Benefits (OPEB) as a multiple-employer defined benefit OPEB plan for units of state government, political subdivisions, community colleges and school districts. A trust was created June 28, 2018 for the OPEB Plan and, while no trust was in place for the June 30, 2017 plan year-end, for purposes of comparability for future periods, terminology used herein is based on the plan being a cost-sharing multiple-employer defined benefit OPEB plan. Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between the average cost of providing health care benefits to retirees under age 65 and the average cost of providing health care benefits to all participants when premiums paid by retirees are not age-adjusted.

CONTRIBUTIONS

Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the Plan. Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance will have the full cost of such insurance premium deducted monthly from his state retirement plan check or direct billed for the cost of the premium if the retirement check is insufficient to pay for the premium. If the Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance.

Pursuant to the authority granted by Mississippi Statute, the Board has the authority to establish and change premium rates for the participants, employers and other contributing entities. An outside consulting actuary advises the Board regarding changes in premium rates. If premium rates are changed, they generally become effective at the beginning of the next calendar year or next fiscal year.

Plan participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to the Plan. If the assets of the Plan were to be exhausted, participants would not be responsible for the Plan's liabilities.

Information included within this note is based on the certification provided by consulting actuary, Cavanaugh Macdonald Consulting, LLC.

The audited financial report for the Plan can be found at knowyourbenefits.dfa.ms.gov.

At June 30, 2017, the Plan provided health coverage to 334 employer units.

DISCLOSURES UNDER GASB STATEMENT NO. 75

The disclosures that follow for fiscal year 2018 include all disclosures for GASB Statement No. 75 using the latest valuation report available (June 30, 2017). For fiscal year 2018, the measurement date for the State and School Employees' Life and Health Insurance Plan is June 30, 2017. The University is presenting net OPEB liability as of June 30, 2017 for the fiscal year 2018 financials.

PROPORTIONATE SHARE ALLOCATION METHODOLOGY

The basis for an employer's proportion is determined by comparing the employer's average monthly employees participating in the Plan with the total average employees participating in the plan in the fiscal year of all employers. This allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by an employee.

OPEB EXPENSES

Deferred outflows (inflows) of reserouces year end June 30	
2019	(313,307)
2020	(313,307)
2021	(313,307)
2022	(313,307)
2023	(313,307)
Thereafter	(219,314)
Total Minimum	**(1,785,849)**

OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

At June 30, 2018, the University reported a liability of $30.2 million for its proportionate share of the net OPEB liability (NOL). The NOL was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. At June 30, 2018, the University's proportion was 3.85%.

For the year ended June 30, 2018, the University recognized OPEB expense of $168,719. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources as shown to the right on page 31.

$1.3 million reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NOL in the year ended June 30, 2019.

Deferred outflows of resources and deferred inflows of resources are calculated at the plan level and are allocated to employers based on their proportionate share. Changes in employer proportion, an employer specific deferral, is amortized over the average remaining service lives of all plan participants, including retirees, determined as of the beginning of the respective measurement period. The average remaining service life determined as of the beginning of the June 30, 2017 measurement period is 6.7 years. Employers are required to recognize pension expense based on their proportionate share of collective OPEB expense plus amortization of employer specific deferrals.

OPEB DEFERRED OUTFLOWS & INFLOWS OF RESOURCES 2018

Deferred Outflows of Resources			Deferred Inflows of Resources	
Changes in proportion and differences between employer OPEB benefit payments and proportionate share of OPEB benefit payments	Implicit rate sibsidy	**Total deferred outflows of resources**	Changes of assumptions	**Total deferred inflows of resources**
$ –	$1,289,418	**$1,289,418**	$1,785,849	**$1,785,849**

OPEB ASSUMPTIONS

Valuation date	June 30, 2017
Measurement date	June 30, 2017
Experience study	April 18, 2017
Actuarial assumptions:	
Cost method	Entry age normal
Inflation rate	3.00%
Long-term expected rate of return	NA
Discount rate	3.56%
Projected cash flows	NA
Projected salary increases	3.25% - 18.50%
Healthcare cost trend rates	7.75% decreasing to 5.00% by 2023

OPEB DISCOUNT RATE SENSIIVITY

Mississippi State University proportionate share of NOL 2018	
1% Decrease (2.56%)	31,044,446
Current discount rate (3.56%)	30,245,677
1% Increase (4.56%)	29,650,832

HEALTH CARE COST TREND RATES SENSITIVITY

Mississippi State University proportionate share of NOL 2018	
1% Decrease	27,933,910
Current discount rate	30,245,677
1% Increase	32,884,800

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as shown directly above.

ACTUARIAL METHODS AND ASSUMPTIONS

The net OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions shown on page 31:

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future.

MORTALITY

Both pre-retirement and post-retirement mortality rates were based on the RP 2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, male rates set forward 1 year and adjusted by 106% for males at all ages, and females adjusted to 90% for ages less than 76, 95% for age 76, 105% for age 78 and 110% for ages 79 and greater. Post-disability mortality rates were based on the RP 2014 Disabled Retiree Mortality Table set forward 4 years for males and 3 years for females.

DISCOUNT RATE

The discount rate used to measure the total OPEB liability at June 30, 2017 (measurement date) was based on an average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

LONG-TERM EXPECTED RATE OF RETURN

Since there were no assets in a trust as of the measurement date, there is no projection of cash flows for the plan and no long-term expected rate of return on plan assets.

SENSITIVITY OF NET OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

The table presented above shows the NOL of the University, calculated using the discount rate of 3.56%, as well as what the University's NOL would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current rate:

Sensitivity of Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The table shown above and to the left presents the NOL of the University, calculated using the health care cost trend rates, as well as what the University's NOL would be if it were calculated using a health care cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

NON-CASH IMPACT ON FRINGE BENEFITS EXPENSE

For the year ended June 30, 2018, the non-cash impact of GASB Statement Nos. 68 and 75 on fringe benefits expense was $36.2 million and $168,719, respectively as shown on page 33.

NOTE 15

DONOR RESTRICTED ENDOWMENTS

The net appreciation on investments of donor restricted endowments that is available for appropriation for expenditure as of June 30, 2018 was $1,212,670. 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 16

FEDERAL LOAN PROGRAM DISBURSEMENTS

The University distributed $129,828,073 for the year ended June 30, 2018, 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 17

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

NON-CASH IMPACT ON FRINGE BENEFITS EXPENSE

Year end June 30, 2018

Total fringe benefits expense	Non-cash change in net pension liability and related deferred inflows and outflows due to GASB 68	Non-cash change in net OPEB liability and related deferred inflows and outflows due to GASB 75	Fringe benefits expense excluding non-cash impact of GASB 68 and 75
$ 147,368,187	(36,166,034)	(168,719)	$111,033,434

EDUCATIONAL BUILDING CORPORATION

Total Current Assets	**2018**
Total Noncurrent Assets	$330,015,000
Total Assets	**$330,015,000**
Total Current Liabilities	$10,205,000
Total Noncurrent Liabilities	319,810,000
Total Liabilities	**$330,015,000**
Total Net Position	$0
Total Operating Revenues	
Total Operating Expenses	
Operating Income (Loss)	**$0**
Total Nonoperating Revenues	$13,955,635
Total Nonoperating Expenses	13,955,635
Change in Net Position	**$0**

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 $1,112,727 for the fiscal year ended June 30, 2018.

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 $262.922 for the fiscal year ended June 30, 2018.

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 $273,249 for the fiscal years ended June 30, 2018.

NOTE 18

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 above.

MISSISSIPPI STATE UNIVERSITY™

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1:

NET PENSION LIABILITY

(A) SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

This schedule presents historical trend information about the University's proportionate share of the net pension liability for its employees who participate in the PERS. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the plan. Information related to previous years is not available, therefore, trend information will be accumulated to display a ten-year presentation.

(B) SCHEDULE OF PROPORTIONATE SHARE OF CONTRIBUTIONS TO THE PERS DEFINED BENEFIT PLAN

The required contributions and percentage of those contributions actually made are presented in the schedule. Information related to previous years is not available, therefore, trend information will be accumulated to display a ten-year presentation.

(C) CHANGES IN ASSUMPTIONS AND BENEFIT TERMS (PENSION PLAN)

Changes of assumptions:

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022;
- The wage inflation assumption was reduced from 3.75% to 3.25%;
- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience; and
- The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.
- In fiscal year 2018, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

Changes of benefit terms: Amounts reported for fiscal year 2018 reflect no changes in benefit terms.

NOTE 2:

NET OPEB LIABILITY

(A) SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

This schedule presents historical trend information about the University's proportionate share of the net OPEB liability for its employees who participate in the State and School Employees' Life and Health Insurance Plan. The net OPEB liability is measured as the total OPEB liability less the amount of the fiduciary net position of the plan. Information related to previous years is not available, therefore, trend information will be accumulated to display a ten-year presentation.

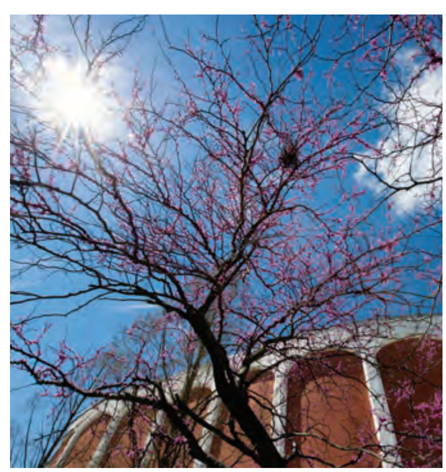
(B) SCHEDULE OF PROPORTIONATE SHARE OF EMPLOYER CONTRIBUTIONS TO THE STATE AND SCHOOL EMPLOYEES' LIFE AND HEALTH INSURANCE PLAN

The required contributions and percentage of those contributions actually made are presented in the schedule. Information related to previous years is not available, therefore, trend information will be accumulated to display a ten-year presentation.

(C) CHANGES IN ASSUMPTIONS AND BENEFIT TERMS (OPEB PLAN)

Changes of assumptions: The SEIR was changed from 3.01% for the prior measurement date to 3.56% to the current measurement date.

Changes of benefit terms: Amounts reported for fiscal year 2018 reflect no changes in benefit terms.



SCHEDULE OF PROPORATION SHARE OF THE NET PENSION LIABILITY

Year end June 30, 2018

	2015	2016	2017	2018
Proportionate share of the net pension liability	3.11%	3.15%	3.22%	3.16%
Proportionate share of the net pension liability	377,668,592	487,619,635	575,770,041	525,642,937
Estimated covered-employee payroll provided by PERS	190,123,441	197,073,543	206,205,213	202,851,879
Proportionate share of the net pension liability as a precentage of its covered employee payroll	199.00%	247.43%	279.22%	259.13%
PERS fiduciary net position as a percentage of the total pension liability	67.00%	61.70%	57.47%	61.49%

SCHEDULE OF PROPORATION SHARE OF CONTRIBUTIONS

Year end June 30, 2018

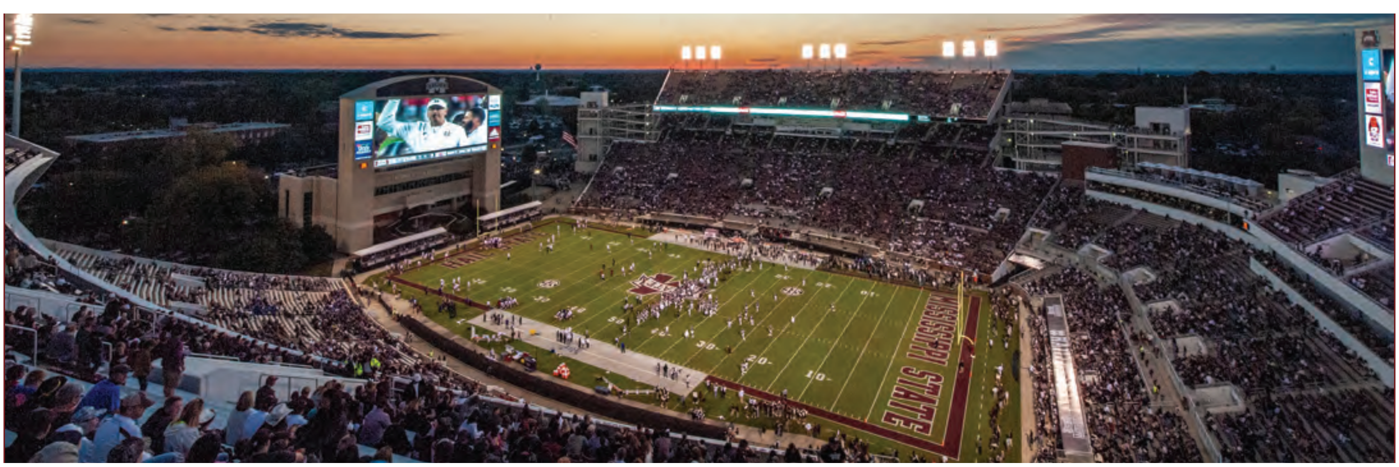
	2015	2016	2017	2018
Proportionate share of contributions	30,812,946	32,082,720	32,311,407	31,045,339
Required contributions	30,812,946	32,082,720	32,311,407	31,045,339
Contribution deficiency (excess)	-	-	-	-
Actual covered-employee payroll	195,627,752	203,699,810	205,151,790	197,113,263
Contribution as a precentage of covered-employee payroll	15.75%	15.75%	15.75%	15.75%

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

June 30, 2018	2018
Proportionate share of the net OPEB liability	3.85%
Proprotionae share of the net OPEB liability	$30,245,677
Covered-employee payroll	$173,188,825
Proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	17.46%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%

SCHEDULE OF PROPORTIONATE SHARE OF EMPLOYER CONTRIBUTIONS

June 30, 2018	2018
Contractually required contributions	$1,683,539
Contributions in relation to the contractually required contribution	$1,190,076
Contribution deficiency (excess)	$493,462
Covered-employee payroll	$173,188,825
Contributions as a percentage of covered-employee payroll	0.69%



MISSISSIPPI STATE UNIVERSITY

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

FOR THE YEAR ENDED JUNE 30, 2018
(WITH INDEPENDENT AUDITORS' REPORT THERON)

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

KPMG

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Mississippi State University Foundation, Inc. (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 31, 2018

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2018 and 2017

Assets		2018	2017
Cash	$	3,096,890	3,129,779
Restricted cash		6,283,364	5,572,458
Accrued interest, other receivables and prepaid assets		74,495	203,389
Receivable from MSU Alumni Association		132,575	141,336
Pledges receivable, net (note 3)		39,924,754	39,461,790
Investments (notes 2 and 6)		480,996,694	447,946,013
Present value of amounts due from externally managed trusts		50,702,847	50,228,587
Land, buildings, and equipment (note 4)		8,097,478	8,533,398
Total assets	$	589,309,097	555,216,750
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	1,822,573	1,037,217
Agency payable		6,283,364	5,572,458
Liabilities under split interest agreements		5,023,829	4,990,708
Payable to Mississippi State University		122,932	595,766
Total liabilities		13,252,698	12,196,149
Net assets:			
Unrestricted:			
Net assets attributable to the Foundation		42,807,487	41,665,507
Net assets attributable to noncontrolling interests (note 1(g))		45,568,476	44,286,842
Total unrestricted net assets		88,375,963	85,952,349
Temporarily restricted (note 5)		118,911,931	103,032,871
Permanently restricted (note 5)		368,768,505	354,035,381
Total net assets		576,056,399	543,020,601
Total liabilities and net assets	$	589,309,097	555,216,750

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support:				
Contributions	$ 7,282,278	15,850,543	13,849,584	36,982,405
Net investment income (note 2)	5,003,295	22,546,499	99,277	27,649,071
Change in value of split interest agreements	—	553,919	758,035	1,311,954
Other	5,529,253	157,988	26,228	5,713,469
Net assets released from restrictions	23,229,889	(23,229,889)	—	—
Total revenues and support	41,044,715	15,879,060	14,733,124	71,656,899
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	27,130,545	—	—	27,130,545
Contributions and support for Bulldog Club	1,752,360	—	—	1,752,360
Contributions and support for MSU Alumni Association	634,539	—	—	634,539
Total program services	29,517,444	—	—	29,517,444
Supporting services:				
General and administrative	3,957,548	—	—	3,957,548
Fund raising	3,881,345	—	—	3,881,345
Total supporting services	7,838,893	—	—	7,838,893
Total expenditures	37,356,337	—	—	37,356,337
Change in net assets before noncontrolling interests	3,688,378	15,879,060	14,733,124	34,300,562
Change in net assets attributable to noncontrolling interests (note 1(g))	(2,546,398)	—	—	(2,546,398)
Change in net assets attributable to the Foundation	$ 1,141,980	15,879,060	14,733,124	31,754,164

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support:				
Contributions	$ 13,536,600	14,401,014	11,900,403	39,838,017
Net investment income (note 2)	7,112,337	28,343,932	278,910	35,735,179
Change in value of split interest agreements	—	512,886	1,827,150	2,340,036
Change in restriction by donor	—	79,019	(79,019)	—
Other	5,458,372	(15,131)	(8,591)	5,434,650
Net assets released from restrictions	21,670,106	(21,670,106)	—	—
Total revenues and support	47,777,415	21,651,614	13,918,853	83,347,882
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	31,477,508	—	—	31,477,508
Contributions and support for Bulldog Club	243,990	—	—	243,990
Contributions and support for MSU Alumni Association	596,002	—	—	596,002
Total program services	32,317,500	—	—	32,317,500
Supporting services:				
General and administrative	3,710,588	—	—	3,710,588
Fund raising	4,031,605	—	—	4,031,605
Total supporting services	7,742,193	—	—	7,742,193
Total expenditures	40,059,693	—	—	40,059,693
Change in net assets before noncontrolling interests	7,717,722	21,651,614	13,918,853	43,288,189
Change in net assets attributable to noncontrolling interests (note 1(g))	(3,572,985)	—	—	(3,572,985)
Change in net assets attributable to the Foundation	$ 4,144,737	21,651,614	13,918,853	39,715,204

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

	Unrestricted net assets attributable to the Foundation	Unrestricted net assets attributable to noncontrolling interests	Total unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total net assets
Net assets as of June 30, 2016	$ 37,520,770	42,419,717	79,940,487	81,381,257	340,116,528	501,438,272
Change in net assets from statement of activities	4,144,737	3,572,985	7,717,722	21,651,614	13,918,853	43,288,189
Payments to noncontrolling interests	—	(1,705,860)	(1,705,860)	—	—	(1,705,860)
Change in total net assets	4,144,737	1,867,125	6,011,862	21,651,614	13,918,853	41,582,329
Net assets as of June 30, 2017	41,665,507	44,286,842	85,952,349	103,032,871	354,035,381	543,020,601
Change in net assets from statement of activities	1,141,980	2,546,398	3,688,378	15,879,060	14,733,124	34,300,562
Payments to noncontrolling interests	—	(1,264,764)	(1,264,764)	—	—	(1,264,764)
Change in total net assets	1,141,980	1,281,634	2,423,614	15,879,060	14,733,124	33,035,798
Net assets as of June 30, 2018	$ 42,807,487	45,568,476	88,375,963	118,911,931	368,768,505	576,056,399

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Change in net assets before noncontrolling interests	$	34,300,562	43,288,189
Adjustments to reconcile change in net assets before noncontrolling interests to net cash (used in) provided by operating activities:			
Depreciation		485,732	487,205
Loss on disposal of land, buildings, and equipment		4,294	3,620
Realized and unrealized gains on investments, net		(25,045,967)	(26,510,767)
Change in value of internally managed split interest agreements		265,008	250,956
Fair value of donated investments		(5,382,970)	(247,256)
Change in accrued interest, other receivables and prepaid assets		128,894	58,076
Change in pledges receivable, net		(462,964)	(1,043,372)
Change in externally managed trusts		(474,260)	(3,304,311)
Change in accounts payable and accrued liabilities		785,356	(500,430)
Change in payable to Mississippi State University		(472,834)	564,050
Change in receivable from MSU Alumni Association		8,761	(18,791)
Permanently restricted contributions		(13,958,199)	(11,480,495)
Net cash (used in) provided by operating activities		(9,818,587)	1,546,674
Cash flows from investing activities:			
Purchases of land, buildings and equipment		(54,106)	(55,668)
Purchases of investments		(325,400,043)	(192,835,761)
Proceeds from sales and maturities of investments		322,778,299	182,221,047
Net cash used in investing activities		(2,675,850)	(10,670,382)
Cash flows from financing activities:			
Permanently restricted contributions		13,958,199	11,480,495
New liabilities under split interest agreements		392,603	477,336
Payments to split interest agreement beneficiaries		(624,490)	(603,409)
Payments to noncontrolling interests		(1,264,764)	(1,705,860)
Net cash provided by financing activities		12,461,548	9,648,562
Net (decrease) increase in cash		(32,889)	524,854
Cash at beginning of year		3,129,779	2,604,925
Cash at end of year	$	3,096,890	3,129,779

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, Inc. and The Bulldog Club, Inc.

(b) Basis of Accounting

The accompanying consolidated financial statements include the Foundation and the Mississippi State Investment Pool in which the Foundation has a controlling financial interest (note 1(g)). 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 net asset 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, and grants 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. Contributions of intellectual property are based on its estimated fair value, considering the characteristics specific to the assets and estimated usage during the term of the agreement. Contributed goods and services are recorded as revenues and expenses in the consolidated statements of activities at estimated fair value.

Income from 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 7(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 consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) 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.

The Foundation's investments are held 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 Measurement

Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, 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 financial 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 financial asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the financial 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.

The Foundation uses net asset value per share (NAV) or its equivalent as a practical expedient to estimate fair value, although NAV in many instances may not equal fair value. The NAV per share or its equivalent was applied to certain investments that do not have readily determinable fair values. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. The fair value hierarchy requires the use of observable market data when available. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The classification of assets and liabilities in the fair value hierarchy is not necessarily an indication of the risks or liquidity, but is based on the observability of the valuation inputs. Therefore, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(g) Investments

(i) 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 the inflation-adjusted impact of each permanently restricted fund. The Foundation diversifies its investments among various asset classes incorporating multiple strategies and managers. Beginning July 1, 2017, investment decisions have been delegated to Perella Weinberg Partners Capital Management LP (PWP), the Foundation’s newly-appointed outsourced chief investment officer. PWP executes investment decisions in accordance with the Foundation’s approved investment policy.

(ii) Mississippi State Investment Pool

The Foundation, the University, the Mississippi State University Alumni Association Inc., and The 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 and maintains separate accounts for each participant. Investment income (loss), 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 controlling financial interest in the MSIP of approximately 90% as of June 30, 2018 and 89% as of June 30, 2017, the Foundation has consolidated the MSIP, reflecting the noncontrolling interests of the other participants in the consolidated financial statements. As of June 30, 2018 and 2017, the Foundation's consolidated financial statements include net assets totaling $45,568,476 and $44,286,842, respectively, related to these noncontrolling interests. The Foundation recorded $2,546,398 and $3,572,985 of investment gains attributable to these noncontrolling interests for fiscal 2018 and 2017, respectively, which is reported in net investment income.

(iii) Allocation of Investment Strategies

The Foundation invests in five broad asset classes: global fixed income, global equities, real assets, absolute return strategies, and private capital. Global equities consist of domestic and international equity securities. Global fixed income investments consist of both interest rate sensitive and credit sensitive publicly traded credit securities. Real assets include upstream energy investments, real estate, and timber investments. Absolute return strategies include hedge fund investments. The private capital funds employ buyout and venture capital strategies. Private capital, real asset strategies, and absolute return strategies often require the estimation of fair values by the fund managers in the absence of readily determinable fair 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.
Short-term investments consists of cash held by the investment pool, held primarily for capital calls and reinvestments.

(iv) 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, then 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 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, 2018 and 2017, 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, 2018 and 2017 rates ranged from approximately 1% to 5%). 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. The Foundation's estimated remainder interests in 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 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 fair value measurements.

Contribution revenue attributable to split interest agreements for the years ended June 30, 2018 and 2017 was $1,135,097 and $2,416,888, 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, 2018 and 2017, there were no material uncertain tax positions.

(k) Liquidity

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

(l) Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* in August 2016. ASU 2016-14 changes how not-for-profit entities report net asset classes and expenses and disclose liquidity and availability of financial assets in their financial statements. The new standard permits early adoption and is effective for annual reporting periods beginning after December 15, 2017. The Foundation will implement the provisions of ASU 2016-14 as of July 1, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 provides a single model for recognizing revenue arising from contracts with customers and supersedes current revenue recognition guidance. This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of goods or services and will replace existing revenue recognition guidance in U.S. GAAP when it becomes effective. This ASU will become effective for the Foundation beginning in fiscal year 2020. The guidance permits entities to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Foundation is currently evaluating the impact the adoption will have on its financial statements and related disclosures. The Foundation has not yet selected a transition method, nor has it determined the effect ASU 2014-09 will have on its ongoing financial reporting.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 requires the lessee to recognize assets and liabilities for leases with lease terms of more than twelve months. For leases with a term of twelve months or less, the Foundation is permitted to make an accounting policy election by class of underlying asset to recognize lease assets and lease liabilities. Further ASU 2016-02 requires a finance lease to recognize both an interest expense and an amortization of the associated expense. Operating leases generally recognize the associated expense on a straight line basis. ASU 2016-02 requires the Foundation to adopt the standard using a modified retrospective approach and adoption beginning in fiscal year 2021. The Foundation is currently evaluating the impact that ASU 2016-02 will have on its financial position, statement of activities, and cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230). ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash and restricted cash. Therefore, amounts generally described as restricted cash should be included with cash when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2018, using a retrospective transition method to each period presented. The Foundation is currently evaluating the impact that ASU 2016-18 will have on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* which provides assistance in determining if a transaction should be accounted for as a contribution or as an exchange, as well as providing guidance in determining whether a contribution is conditional. The guidance should be applied on a modified prospective basis, although a retrospective application is permitted. The new standard is effective for the Foundation for the fiscal year 2020. The Foundation is currently evaluating the impact on the consolidated financial statements and related disclosures and has not yet determined the impact of the new standard.

(m) Subsequent Events

The Foundation evaluated all events or transactions that occurred after June 30, 2018 through October 31, 2018, the date the consolidated financial statements were available to be issued. During this period, the Foundation formed a subsidiary limited liability company (LLC), Maroon Air, LLC, to hold aviation assets and conduct flight operations on behalf of the Foundation. There were no other material subsequent events that required recognition or disclosure recognition in the Foundation's June 30, 2018 consolidated financial statements.

(2) Investments

Investments are summarized as follows as of June 30, 2018 and 2017:

	2018	2017
Short-term investments	$ 2,664,509	4,970,398
Agility Comprehensive Solutions Feeder Fund LP	329,806,753	—
Global fixed income	3,695,315	104,782,601
Global equities	2,591,037	142,802,893
Real assets	37,582,149	57,370,014
Absolute return strategies	57,813,117	100,072,930
Private capital	11,543,325	8,923,384
Contributed properties held for investment	33,335,253	27,098,091
Cash-surrender value of life insurance	1,965,236	1,925,702
	$ 480,996,694	447,946,013

Total investments include amounts related to noncontrolling interests (note 1(g)) included within the accompanying consolidated financial statements totaling $45,568,476 and $44,286,842 as of June 30, 2018 and 2017, respectively.

The MSIP has invested in a limited partnership interest in the Agility Comprehensive Solutions Feeder Fund LP, a Delaware limited partnership (the Fund). The Fund invests all or substantially all of its investable assets, on an investment-by-investment basis, either (i) directly through a "master fund/feeder fund" structure, or (ii) indirectly through Agility Comprehensive Solutions Offshore Fund Ltd., a Cayman Islands exempted company, in Agility Comprehensive Solutions Fund LP., a Delaware limited partnership (the "Master Fund"). Perella Weinberg Partners Agility Comprehensive Solutions Fund GP LP serves as general partner of the Fund. The Fund, through the Master Fund, invests in five broad asset classes with approximate allocation percentages at June 30, 2018: global equities (65%); global fixed income (18%); absolute return strategies (7%); real assets (8%) and private capital (2%).

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, 2018 and 2017 with an approximate fair value of $6,263,248 and $6,291,700, respectively.

The following schedule summarizes net investment income in the consolidated statements of activities for the years ended June 30, 2018 and 2017:

		2018	2017
Dividends and interest (net of expenses of $938,121 and $622,734, respectively)	$	2,603,104	9,224,412
Net realized and unrealized gains		25,045,967	26,510,767
	$	27,649,071	35,735,179

(3) Pledges Receivable

Pledges receivable, net, are summarized as follows at June 30, 2018 and 2017:

		2018	2017
Unconditional promises expected to be collected in:			
Less than one year	$	23,889,272	15,155,335
One year to five years		16,662,471	24,663,778
Over five years		5,318,000	5,589,000
		45,869,743	45,408,113
Less unamortized discount (rates ranging from 1% to 5%)		(4,993,241)	(4,980,360)
		40,876,502	40,427,753
Less allowance for uncollectible pledges		(951,748)	(965,963)
	$	39,924,754	39,461,790

(4) Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows at June 30, 2018 and 2017:

		2018	2017
Land and buildings	$	12,147,987	12,147,987
Furniture, fixtures, and equipment		8,587,404	8,566,835
		20,735,391	20,714,822
Less accumulated depreciation		(12,637,913)	(12,181,424)
	$	8,097,478	8,533,398

(5) Net Assets

Temporarily restricted net assets and permanently restricted net assets at June 30, 2018 and 2017 were available for the following purposes:

	2018		2017	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Specified college programs	$ 37,010,356	121,934,823	29,855,507	114,546,614
Student financial aid	53,551,853	163,133,239	47,917,351	156,816,084
Research	2,010,046	16,409,831	1,483,789	16,433,426
Faculty and staff support	7,095,668	50,787,429	6,365,253	50,204,435
Facilities	12,766,039	7,020,463	10,803,829	7,015,463
Other	6,477,969	9,482,720	6,607,142	9,019,359
Total	$ 118,911,931	368,768,505	103,032,871	354,035,381

(6) Fair Value Measurement

The following tables summarize the Foundation's financial instruments by major category in the fair value hierarchy as of June 30, 2018 and 2017:

	2018				
	Level 1	Level 2	Level 3	Investments at NAV	Total
Recurring:					
Short-term investments	$ 2,664,509	—	—	—	2,664,509
Agility Comprehensive Solutions Feeder Fund LP(1)	—	—	—	329,806,753	329,806,753
Global fixed income:					
Interest-rate sensitive	3,695,315	—	—	—	3,695,315
Global equities:					
Domestic	2,591,037	—	—	—	2,591,037
Real assets:					
Real estate funds(2)	—	—	—	17,318,444	17,318,444
Natural resources(3)	—	—	—	20,263,705	20,263,705
Total real assets	—	—	—	37,582,149	37,582,149
Absolute return strategies(4)	—	—	—	57,813,117	57,813,117
Private capital(2)	—	—	—	11,543,325	11,543,325
Contributed properties held for investment(5)	—	—	33,335,253	—	33,335,253
Cash-surrender value of life insurance(6)	—	1,965,236	—	—	1,965,236
Total investments	$ 8,950,861	1,965,236	33,335,253	436,745,344	480,996,694
Present value of amounts due from externally managed trusts	$ —	—	50,702,847	—	50,702,847

	2017				
	Level 1	Level 2	Level 3	Investments at NAV	Total
Recurring:					
Short-term investments	$ 4,970,398	—	—	—	4,970,398
Global fixed income:					
Interest-rate sensitive	93,412,038	11,370,563	—	—	104,782,601
Global equities:					
Domestic	81,576,176	9,402,279	—	—	90,978,455
Non-U.S.	51,824,438	—	—	—	51,824,438
Total global equities	133,400,614	9,402,279	—	—	142,802,893
Real assets:					
Real estate funds(2)	—	—	—	17,215,365	17,215,365
Natural resources(3)	—	—	—	40,154,649	40,154,649
Total real assets	—	—	—	57,370,014	57,370,014
Absolute return strategies(4)	—	—	—	100,072,930	100,072,930
Private capital(2)	—	—	—	8,923,384	8,923,384
Contributed properties held for investment(5)	—	—	27,098,091	—	27,098,091
Cash-surrender value of life insurance(6)	—	1,925,702	—	—	1,925,702
Total investments	$ 231,783,050	22,698,544	27,098,091	166,366,328	447,946,013
Present value of amounts due from externally managed trusts	$ —	—	50,228,587	—	50,228,587

(1) The MSIP has elected a 10% withdrawal option, which enables the MSIP to receive withdrawals, with 5 days notice, of 10% of its capital account balance at the Fund's previous fiscal year end. In addition, the MSIP may make a withdrawal from its capital account, in whole or in part, as of any fiscal quarter end, upon at least 90 days' prior written notice to the general partner. Further, approximately $20,500,000 is held in a side pocket arrangement at June 30, 2018, with up to a 10-year lockup period and 1-3 year extensions.

(2) These funds have initial 10-year terms or 12-year terms, unless extended or dissolved sooner in accordance with the limited partnership agreements. Future commitments to these funds approximate $8,100,000 and $10,600,000 at June 30, 2018 and 2017, respectively. Private capital and real estate funds 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) At June 30, 2018, the MSIP invests in four natural resource investments, which have terms ending in 2019, 2022, 2025 and 2026. Investments with lockup periods are subject to one or more one to two-year extensions. Future commitments to these funds approximate $10,300,000 and $5,500,000 June 30, 2018 and 2017, respectively.

(4) Generally, MSIP's investments in absolute return strategies (or hedge funds) allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually with the majority requiring 60 days to 12 months notice after the initial lock up period, which may be from one to three years. At June 30, 2018 and 2017, the Foundation had no absolute return strategy investments for which an otherwise redeemable investment was not redeemable.

(5) Bulldog Forest properties totaling approximately $27,806,000 and $20,237,000 at June 30, 2018 and 2017, respectively, may be held in perpetuity or liquidated at the Foundation's discretion. Other properties are for immediate sale.

(6) 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 canceled.

The following table presents the Foundation's activities for the years ended June 30, 2018 and 2017 for contributed properties held for investment classified as Level 3:

	2018	2017
Balance, beginning of year	$ 27,098,091	28,069,571
Acquisitions	5,442,782	247,256
Dispositions	(250,000)	(1,146,415)
Net realized and unrealized gains (losses)	1,044,380	(72,321)
Balance, end of year	$ 33,335,253	27,098,091

For the years ended June 30, 2018 and 2017, the changes in present value of amounts due from externally managed trusts classified as Level 3 are as follows:

	2018	2017
Balance, beginning of year	$ 50,228,587	46,924,276
Contributions	881,325	4,158,535
Terminations	(1,771,645)	(3,256,559)
Change in valuation	1,364,580	2,402,335
Balance, end of year	$ 50,702,847	50,228,587

(a) Pledges 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 the MSU Alumni Association, 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.

(c) Liabilities under Split Interest Agreements

Liabilities include the present value of projected future distributions to the annuity or trust beneficiary and are determined using appropriate discount rates at the date of contribution.

(7) Endowment

The Foundation's endowment consists of approximately 1,500 individual donor-restricted endowment funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, 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 annually, is 4% of the investment pool's average unit value over the 36-month period ending September 30 of the previous year. 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 major 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 donor-specified purposes for 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 employs 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 PWP, targets a diversified asset allocation that includes global equities, global fixed income, absolute return, real assets, and private capital to achieve long-term objectives within prudent risk constraints.

Endowment net asset composition by type of fund as of June 30, 2018 and 2017:

		2018			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(709,680)	48,438,113	307,077,627	354,806,060
Board-designated endowment funds		19,670,908	—	—	19,670,908
Total funds	$	18,961,228	48,438,113	307,077,627	374,476,968

		2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(828,814)	42,860,804	292,785,696	334,817,686
Board-designated endowment funds		19,382,126	—	—	19,382,126
Total funds	$	18,553,312	42,860,804	292,785,696	354,199,812

Changes in endowment net assets for the fiscal years ended June 30, 2018 and 2017:

		2018			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	18,553,312	42,860,804	292,785,696	354,199,812
Investment return:					
Investment income		1,176,028	427,708	—	1,603,736
Net appreciation/depreciation (realized and unrealized)		72,266	20,431,569	34,275	20,538,110
Total investment return		1,248,294	20,859,277	34,275	22,141,846
Contributions		—	—	12,276,543	12,276,543
Appropriation of endowment assets for expenditure		(844,278)	(15,281,968)	—	(16,126,246)
Other		3,900	—	1,981,113	1,985,013
Endowment net assets, end of year	$	18,961,228	48,438,113	307,077,627	374,476,968

		2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	17,180,348	30,930,493	280,205,092	328,315,933
Investment return:					
Investment income		939,983	3,127,564	—	4,067,547
Net appreciation/depreciation (realized and unrealized)		1,253,582	23,630,858	(94,011)	24,790,429
Total investment return		2,193,565	26,758,422	(94,011)	28,857,976
Contributions		—	—	9,081,959	9,081,959
Appropriation of endowment assets for expenditure		(793,821)	(15,216,630)	—	(16,010,451)
Other		(26,780)	388,519	3,592,656	3,954,395
Endowment net assets, end of year	$	18,553,312	42,860,804	292,785,696	354,199,812

(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 $709,680 and $828,814 as of June 30, 2018 and 2017, respectively.

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

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