The significant accounting policies followed by Mississippi State University are described below to enhance the usefulness of the financial statements to the reader.

(1) Basis of Accounting,

The financial statements have been prepared in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), and following specific guidelines as prescribed by the National Association of College and University Business Officers in the *Financial and Reporting Manual for Higher Education*, and the American Institute of Certified Public Accountants (AICPA) in the Industry Audit Guide, *Audits of Colleges and Universities*.

The accompanying financial statements have been prepared generally on the accrual basis with the following exceptions, which are common practices in colleges and universities:

A. Depreciation on physical plant and equipment has not been provided.
B. The schedule of changes in fund balances is a statement of financial activities of University Funds relating to the current reporting period. It does not propose to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.
C. To the extent that Current Funds are used to finance plant assets, the amounts so provided are accounted for as expenditures, in the case of alterations, renovations, purchases of movable equipment and library books, but are accounted for as mandatory transfers in the case of required provisions for debt amortization and interest.
D. Certain investment income and interest on student loans are recorded only when received.
E. Bond interest expense is recorded only when paid.
F. Gifts, grants and pledges are generally recorded when received or when billable.

Except for (1) non-participating investment contracts such as certificates of deposit and for (2) money market investments that had a remaining maturity at the time of purchase of one year or less, investments are reported at fair value, which is based on quoted market price. Certificates of deposit and money market investments are reported at cost.

Property, buildings and equipment are stated at cost at the date of acquisition or fair market value at date of donation. Capital
improvements made as part of repair and renovation projects are based upon engineering estimates which approximate cost. Merchandise for resale inventories and consumable supply inventories are stated at cost, with cost being determined principally by the first-in, first-out method, except for plant maintenance inventory with cost being determined by the weighted average method.

Library materials are not capitalized to Net Investment in Plant. This action is the result of a recommendation by the chief financial officers of all State of Mississippi Institutions of Higher Learning to reduce the manual effort required to maintain a physical inventory.

All revenues and related expenditures incurred in connection with summer sessions are reported within the fiscal year in which the summer sessions are predominantly conducted. Accordingly, only the revenues and expenditures of the 1999 summer sessions are included in the schedule of changes in fund balances. Revenues and expenditures for the 2000 summer sessions are reported as deferred revenues and expenses on the balance sheet. Restricted Fund revenue is recognized only to the extent expended.

(2) Fund Accounting

In order to insure observance of limitations and restrictions placed on the use of the resources available to the university, the accounts of the university are maintained in accordance with the principles of “fund accounting”. This accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund.

The Current Funds are used primarily to account for transactions which are expended in performing the primary and support objectives of the University, including instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships, fellowships and auxiliary activities.

Current Funds of the University are described below:

A. The Unrestricted General Fund records and accounts for the transactions related to the University's state-appropriated budget as approved by the Mississippi State Legislature and the Board of Trustees of Mississippi Institutions of Higher Learning.
B. The Designated Fund is primarily used to account for transactions related to other unrestricted educational and
general revenues which are administratively designated to a purpose or department.

C. The Auxiliary Fund is used to allow for transactions of substantially self-supporting activities that primarily
provide services for students, faculty and staff. Auxiliary Funds include, but are not limited to, bookstore, food
services, student housing, and intercollegiate athletics.

D. The Restricted Fund is used to account for Current Funds expended for operating purposes but restricted by
donors or other outside agencies as to the specific purpose for which they can be expended.

Other funds of the University are described below:

A. The Loan fund is financed primarily by the federal government and is used to account for loans to students.
Interest is recorded when received. Provisions of the federal loan program stipulate that: 1) the university match
one-ninth of the federal contributions and 2) a portion of the loan principal and interest (maximum of 30% per
year) will be canceled and absorbed by the federal government, if the recipient completes certain employment
requirements.

B. Endowment Funds are subject to the restrictions of donor gift instruments requiring that the principal be
invested in perpetuity and that only the income be utilized.

C. The Plant Funds are used to account for the transactions relating to investment in university properties. They
include: (1) The Unexpended Plant Fund is comprised of amounts which have been appropriated or designated
for land, improvements, buildings, and equipment. (2) The Retirement of Indebtedness Plant Fund represents
bond sinking funds to provide for payment of principal and interest pursuant to terms of bond indentures. (3)
The Renewals and Replacements Plant Fund represents reserves to provide for maintenance and equipment
replacement established primarily pursuant to terms of bond indentures. (4) The Investment in Plant Fund
represents the total of property, buildings, equipment, and long-term debt. The long-term debt is shown as a
deduction from investment in plant. However, since the long-term debt is a liability against Current Funds
revenues, it is not a lien or mortgage upon the property or other assets acquired.

D. The Agency Fund is used to account for assets held by the university as custodian or fiscal agent for others.
Consequently, the transactions of this fund do not affect the statement of changes in fund balances.
(1) Financial Reporting Entity

These financial statements are for Mississippi State University, which is a state supported university, and includes the Mississippi State University Extension Service, the Mississippi Agricultural and Forestry Experiment Station, and the Forest and Wildlife Research Center which are separate state-supported fiscal entities.

(2) State Appropriations - General Operations

Mississippi State University is a state supported university that receives annual appropriations for operations from the State of Mississippi. The laws of the state and the policies and procedures specified by the state for state agencies and institutions are applicable to the activities of Mississippi State University and its components.

(3) Cash and Temporary Investments

The amounts reported as cash and temporary investments in the financial statements include a cash balance of $23,398,530.23 and certificates of deposit and investment securities of $19,362.43 (reported at cost). The university was earning interest on such investments at a rate of 5.65% at June 30, 2000.

(4) Endowment Fund Investment - Land Grant Principal

Endowment Fund investments include the Land Grant Principal Fund $239,789.33. This asset represents the University's claim to the residual principal of federal land-grants which were originally entrusted to the State Treasurer. The state legislature makes an annual appropriation from the State General Fund which approximates 6% interest on this asset.
(5) Notes Receivable

Construction on the Sanderson Center was completed in the summer of 1998. Joe Frank Sanderson made a commitment toward the construction of the Center that consisted of a contractual agreement to contribute the “lesser of 1) six million dollars or 2) a child’s share of Sanderson’s residuary estate after all expenses and taxes.” Mr. Sanderson died on January 4, 1998. The note receivable from the Sanderson Estate is reported at $2,146,475, which is its fair market value as of June 30, 2000.

Notes receivable from students bear interest primarily at 6%. Short term notes receivable are payable by the end of the semester while long-term receivables are payable in installments over a five-to-ten year period, commencing nine months from the date of separation from the university.

<table>
<thead>
<tr>
<th></th>
<th>Unpaid Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2000</td>
<td></td>
</tr>
<tr>
<td>Short-term notes receivable</td>
<td>$ 787,998.61</td>
</tr>
<tr>
<td>Long-term notes receivable</td>
<td>16,969,629.13</td>
</tr>
<tr>
<td>Total Receivable:</td>
<td>$17,757,627.74</td>
</tr>
</tbody>
</table>

(6) Bonds Payable

A. Revenue Bonds

Faculty housing system revenue bonds were issued in the amount of $720,000 at an interest rate of 2.875% payable semiannually. Principal is payable in annual installments ranging from $18,000 to $30,000. The bonds were issued in January 1960 and matured in January 2000. The purpose of the bond issue was for construction of faculty housing. Repayment provisions are provided by revenues from the operation of the faculty housing system. There is no outstanding principal owed on these revenue bonds at June 30, 2000.

Dormitory system revenue bonds, series B, were issued in the amount of $2,288,000 at an interest rate of 3.50% payable semiannually. Principal is payable in annual installments ranging from $52,000 to $98,000. The bonds were issued in June 1963 and mature in December 2001. The purpose of the bond issue was for construction of dormitories. Repayment provisions are provided by revenues from the operation of dormitory system. The outstanding principal owed on these revenue bonds at June 30, 2000, amounted to $120,000.
Dormitory system revenue bonds, series C, were issued in the amount of $2,250,000 at an interest rate of 3.00% payable semiannually. Principal is payable in annual installments ranging from $30,000 to $100,000. The bonds were issued December 1981 and mature in December 2020. The purpose of the bond issue was for renovation of existing dormitories. Repayment provisions are provided by revenues from the operation of the dormitory system. The outstanding principal owed on these revenue bonds at June 30, 2000, amounted to $1,520,000.

Dormitory system revenue bonds, series D, were issued in the amount of $2,038,000 at an interest rate of 3.00% payable, semiannually. Principal is payable in annual installments ranging from $30,000 to $90,000. The bonds were issued in November 1984 and mature in December 2021. The purpose of the bond issue was for construction of student apartments. Repayment provisions are provided by revenues from the operation of the dormitory system. The outstanding principal owed on these revenue bonds at June 30, 2000, amounted to $1,450,000.

Under the above bond indentures, deposits are required to maintain retirement of indebtedness reserves and renewal and replacement reserves. Deposits and transfers have been recorded sufficient to meet all reserve requirements.

B. Third-Party Bonds

The Educational Building Corporation issued $5,460,000 in Revenue Bonds with interest ranging from 2.75% to 5.00% with final maturity in 2008. These bonds were issued for the purpose of refunding the Baseball Stadium Bonds, Series 1985 and the construction of an Intercollegiate Athletic Building. Principal is payable in annual installments ranging from $325,000 to $380,000. Outstanding principal at June 30, 2000, amounted to $3,340,000.

The Educational Building Corporation issued $3,000,000 in Revenue Bonds with interest ranging from 4.50% to 6.15% with final maturity in 2015. These bonds were issued to renovate two existing dormitories for administrative use and install a chilled water loop. Principal is payable in annual installments ranging from $100,000 to $220,000. Outstanding principal at June 30, 2000, amounted to $2,465,000.

The Educational Building Corporation issued $11,920,000 in Revenue Bonds with interest ranging from 3.7% to 5.0% with final maturity in 2016. These bonds were issued for various construction projects. Principal is payable in annual installments ranging from $370,000 to $920,000. Outstanding principal at June 30, 2000, amounted to $10,765,000.
The Educational Building Corporation issued $31,865,000 in Revenue Bonds with interest ranging from 3.75% to 5.25% with final maturity in 2024. These bonds were issued for various construction projects. Principal is payable in annual installments ranging from $460,000 to $2,195,000. Outstanding principal at June 30, 2000, amounted to $31,405,000.

C. Long-term Capital Leases

Leased property with an acquisition value of $9,132,212.56 was held by the University at June 30, 2000, and included a computer system, farm and construction equipment and various items of office equipment. Outstanding principal owed amounted to $4,647,011.34 with final maturity in 2005.

(7) Construction Commitments and Financing

Projects under construction are principally administered by the State Bureau of Buildings, Grounds, and Real Property Management. Funds appropriated by the state legislature for capital projects are deposited with the State Bureau of Buildings, Grounds, and Real Property Management. The State Bureau of Buildings, Grounds and Real Property Management awards contracts on and pays expenditures of these projects. Additions are recognized on university projects appropriated by the state legislature as expenditures on these projects are made.

(8) Compensated Absences

Full-time staff employees and certain faculty administrators earn vacation which ranges from zero to twenty-seven days per year based upon length of continuous employment. As of June 30, 2000, earned vacation pay approximated $16,135,380. These accruals are recorded in the appropriate funds as follows and appropriate adjustments have been made to prior years fund balances.

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current unrestricted general fund balance</td>
</tr>
<tr>
<td>Current designated fund balance</td>
</tr>
<tr>
<td>Current auxiliary fund balance</td>
</tr>
<tr>
<td>Current restricted fund balance</td>
</tr>
<tr>
<td>Total Earned Vacation Pay</td>
</tr>
</tbody>
</table>
(9) Retirement Plan

For the purpose of providing retirement allowances, the institution is covered by the Public Employee's Retirement System of Mississippi. Contributions are made, based upon total annual salaries and wages, by the employee at a rate of 7.25% and the employer at a rate of 9.75%. It is mandated by law that all persons employed after February 1, 1953 shall become members of the retirement system, with the exception of students and certain federal grant employees, as a condition of their employment, provided that such persons are under the age of 60 years at the time of their employment. In addition, all employees are covered by the federal-state agreement for social security coverage. The institution's contribution to such retirement plan totaled $16,853,035.15 for the year ended June 30, 2000.

(10) Foundation

The Mississippi State University Foundation, Inc. is an independent corporation formed for the purpose of receiving funds for the sole benefit of the university. Following is a summary of the foundation's financial condition at June 30, 2000. These amounts are not included in the financial statements of the university.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Receivables</td>
<td>$ 25,465,907</td>
</tr>
<tr>
<td>Investments</td>
<td>127,150,654</td>
</tr>
<tr>
<td>Fixed &amp; Other Assets</td>
<td>5,805,297</td>
</tr>
<tr>
<td>Total</td>
<td>$158,421,858</td>
</tr>
</tbody>
</table>