



**MISSISSIPPI STATE**  
UNIVERSITY™

# CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017







## MANAGEMENT'S DISCUSSION & ANALYSIS

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## 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, 2017, and comparative data for the fiscal year ended June 30, 2016 to aid in the analysis of the financial performance for the institution. The accompanying financial statements, notes and this discussion are the responsibility of management.

### OVERVIEW OF THE INSTITUTION

Mississippi State University (the "University") is ranked as a top 100 research institution based on National Science Foundation expenditures. The University began as The Agricultural and Mechanical College of the State of Mississippi, one of the national Land Grant Colleges established after Congress had passed the Morrill Act in 1862. It was created by the Mississippi Legislature on February 28, 1878, to fulfill the mission of offering training in "agriculture, horticulture and the mechanical arts... without excluding other scientific and classical studies,

including military tactics". In 1887 Congress passed the Hatch Act, which provided for the establishment of the Agricultural Experiment Station in 1888. Two other pieces of federal legislation provided funds for extending the mission of the College: in 1914, the Smith Lever Act called for "instruction in practical agriculture and home economics to persons not attendant or resident," thus creating the state wide effort which led to Extension offices in every county of the State; and, in 1917, the Smith Hughes Act which provided for the training of teachers in vocational education.

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

University Extension Service offers programs and services to the people of the State of Mississippi through campus and county offices and personnel.

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

Mississippi State University offers more than 180 degrees, which includes 15 master's degrees in 58 programs, an educational specialist degree in 8 programs, and doctoral degrees in 35 programs. The University had an enrollment of 21,622 students as of the fall of 2016 and employs 5,019 employees including 1,210 full time faculty and 174 part time faculty.

### STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the University at the end of the fiscal year. This statement reflects the assets, deferred outflows, liabilities, deferred inflows and net position of the University as of the fiscal year ended June 30, 2017, and is prepared under the accrual basis of accounting. Revenues and

## CONDENSED STATEMENT OF NET POSITION

	FY 2017	FY2016	Difference	Percentage
<b>ASSETS AND DEFERRED OUTFLOWS:</b>				
Current Assets	\$202,578,527	\$197,066,370	\$5,512,157	3%
Capital assets, net	991,550,517	946,360,354	45,190,163	5%
Other Noncurrent Assets	169,489,722	141,273,642	28,216,080	20%
<b>Total Assets</b>	<b>\$1,363,618,766</b>	<b>\$1,284,700,366</b>	<b>\$78,918,400</b>	<b>6%</b>
<b>Deferred Outflows</b>	<b>\$130,740,064</b>	<b>\$94,554,801</b>	<b>\$36,185,263</b>	<b>38%</b>
<b>LIABILITIES AND DEFERRED INFLOWS:</b>				
Current liabilities	\$72,450,715	\$69,821,150	2,629,565	4%
Non-Current liabilities	937,043,590	833,058,829	103,984,761	12%
<b>Total Liabilities</b>	<b>\$1,009,494,305</b>	<b>\$902,879,979</b>	<b>\$106,614,326</b>	<b>12%</b>
<b>Deferred Inflows of Resources</b>	<b>\$1,529,728</b>	<b>\$12,528,421</b>	<b>-\$10,998,693</b>	<b>-88%</b>
<b>NET POSITION:</b>				
Invested in Capital Assets, Net of Related Debt	\$671,845,050	\$626,692,777	\$45,152,273	7%
Restricted:				
Nonexpendable -	14,572,283	14,079,875	492,408	3%
Expendable -	32,331,126	33,539,126	(1,208,000)	-4%
Unrestricted	(235,413,662)	(210,465,011)	(24,948,651)	12%
<b>Total Net Position</b>	<b>\$483,334,797</b>	<b>\$463,846,767</b>	<b>\$19,488,030</b>	<b>4%</b>

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 \$19.5 million in fiscal year 2017. Several factors contributed to the modest increase. Total assets grew by almost \$79 million, reflecting the addition of \$45 million in new capital assets along with a rise in the University's deferred outflows due to the

refunding of bonds and a sizable investment loss related to the pension plan. Total liabilities also rose due in large part to the University's pension liability, which showed a sharp increase of over \$88.2 million in fiscal year 2017. The growth of the pension liability is due both to the increase in the unfunded liability of the Public Employees' Retirement System and a rise in the University's proportionate share of that liability. The balance of the growth in total liabilities is due to \$63.3 million in bonds issued to facilitate refundings and renovations. The decrease in the deferred inflows reflects amortization of deferred inflows recognized previously. Although overall net position increased in fiscal year 2017, unrestricted net position decreased 12% due, again, to the continuing rise in the University's pension liability.

## 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 remained essentially unchanged in fiscal year 2017, despite a tuition rate increase of 3.8% and resulting rise in tuition and fees revenue of \$10.2 million. Auxiliary revenue grew by \$4.6 million, largely due to an increase in student housing revenue brought about by the establishment of two new dormitories on campus which opened in fall of 2016. However, the growth in tuition and housing revenue was offset by decreases in federal appropriations and federal grants. There was negligible change in the other operating revenue categories.

Total operating expenses increased by \$31.8 million in fiscal year 2017. The vast majority of the escalation was in the fringe benefits category due to an increase in pension expense of \$27.9 million. This sharp upturn in pension expense is the result of the previously mentioned growth in the unfunded PERS pension liability. The composite total for the other expense categories remained essentially unchanged. Contractual expenses decreased \$10.6 million, but an increase in commodities expenses of \$14.5 million more than offset that. Variances in the other operating expense categories were all five percent or less.

Non-operating and other revenues decreased overall due to a 6% downturn in state appropriations, which equated to \$10.3 million, along with a reduction in gifts and grants of \$4.7 million. Investment income grew \$3.3 million, which helped to offset shrinkage in other non-operating revenues. Other revenues showed a marked increase

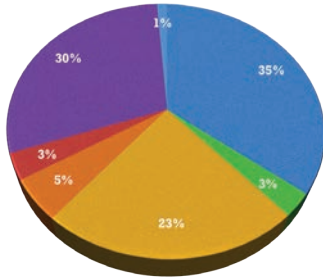
## CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	FY 2017	FY2016	Difference	Percentage
Total Operating Revenues	\$461,467,649	\$462,058,469	(\$590,820)	0%
Total Operating expenses	708,296,814	676,519,937	31,776,877	5%
<b>Operating Loss</b>	<b>(\$246,829,165)</b>	<b>(\$214,461,468)</b>	<b>(\$32,367,697)</b>	<b>15%</b>
Total Net Nonoperating Revenues	234,994,260	251,021,716	(16,027,456)	-6%
<b>Income (loss) Before other Revenues, Expenses, Gains and Losses</b>	<b>(\$11,834,905)</b>	<b>\$36,560,248</b>	<b>(\$48,395,153)</b>	<b>-135%</b>
Other revenues, expenses, gains and losses	31,322,935	11,720,025	19,602,910	167%
<b>Change in Net Position</b>	<b>\$19,488,030</b>	<b>\$48,280,273</b>	<b>(\$28,792,243)</b>	<b>-60%</b>
Net Position - Beginning of Year	463,846,767	415,566,494	48,280,273	12%
<b>Net Position - End of Year</b>	<b>\$483,334,797</b>	<b>\$463,846,767</b>	<b>\$19,488,030</b>	<b>4%</b>



# MANAGEMENT'S DISCUSSION & ANALYSIS

## OPERATING REVENUES, FY 2017



35%	Net tuition and fees	\$161,788,625
3%	Federal appropriations	13,749,480
23%	Federal grants and contracts	105,088,480
5%	State grants and contracts	23,400,465
3%	Nongovernmental grants and contracts	15,908,338
30%	Sales and services	136,057,374
1%	Other	5,474,887
<b>Total Operating Revenues</b>		<b>\$461,467,649</b>

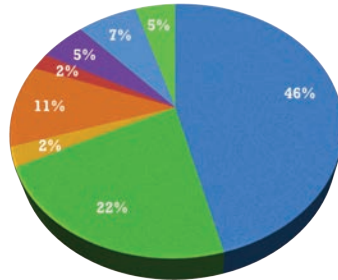
as a result of a Mississippi Department of Transportation grant for the new south entrance to campus totaling over \$10 million and also bolstered by gifts from the Bulldog Club of over \$8 million.

## 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 rose slightly overall, around 2%, in fiscal year 2017.

## OPERATING EXPENSES BY OBJECT, FY 2017



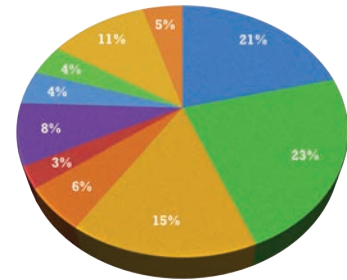
46%	Salaries and Wages	327,227,860
22%	Fringe Benefits	155,380,264
3%	Travel	17,173,618
10%	Contractual Services	73,808,300
2%	Utilities	15,351,664
5%	Scholarships & Fellowships	37,386,022
7%	Commodities	48,871,275
5%	Depreciation	33,097,811
<b>Total Operating Expenses</b>		<b>708,296,814</b>

The University received an additional \$14 million in cash for tuition and fees in 2017, but this was offset by small increases in outflows for payments to suppliers (5%), Utilities (4%), and Scholarships and Fellowships (3%). In addition, some operating activities yielded less inflows than in fiscal year 2016. Cash provided by Grants and Contracts was down 2%, and Sales and Services of Educational Departments was down 3%. Cash provided by Auxiliaries was up \$5.8 million (6%) in large part due to the rise in student housing revenue achieved through the addition of two new dormitories. Cash provided by noncapital financing activities decreased by \$17.5 million reflective of a downturn in state appropriations. Capital expenditures decreased in fiscal year 2017. This, along with the cash influx from a new bond issue of \$63.2 million, resulted in \$93.3 million less in cash used for capital and related financing activities. Cash provided by investing activities showed a slight gain.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2017 and 2016, the University had \$992 million and \$946 million invested in capital assets, net of accumulated depreciation of \$511 million and \$486 million, respectively. Depreciation expense

## OPERATING EXPENSES BY FUNCTION, FY 2017



21%	Instruction	149,215,099
23%	Research	161,543,404
15%	Public service	109,747,316
6%	Academic support	39,596,513
3%	Student services	19,795,269
8%	Institutional support	55,582,209
4%	Operation of plant	30,653,784
4%	Student aid	28,706,743
11%	Auxiliary enterprises	80,358,666
5%	Depreciation	33,097,811
<b>Total Operating Expenses</b>		<b>\$708,296,814</b>

totaled \$33.1 million and \$33 million for fiscal years 2017 and 2016, respectively.

## THE FOLLOWING NEW CONSTRUCTION PROJECTS WERE COMPLETED IN FISCAL YEAR 2017:

- Nusz Hall (Center for America's Veterans)
- Fresh Foods Facility
- Facilities Shop Building

## MAJOR RENOVATIONS WERE COMPLETED FOR:

- Middleton Hall
- Robert Building (U.S. Post Office)
- Montgomery Hall

An upgrade to Nusz Park Softball Stadium and a brand new Soccer Field House were donated to the University by the Bulldog Club, and as of the end of fiscal year 2017, the University was very close to finalizing two very exciting additions to campus. The Old Main Academic Center, which is located in the center of campus will provide 20 new classrooms on the upper level and a 150 space parking garage, and the South Campus Entrance, which will aid traffic flow to and from the southern areas of Starkville. Construction continues on several major projects, including an expansion of Mitchell Memorial Library and a new Meat Science Building.



The University entered into a bond issue of \$63.3 million in fiscal year 2017, which will be utilized to both refund old debt and to fund a major renovation to Dudy Noble Field. The renovation is expected to be complete in time for the start of the 2019 baseball season.

### ENROLLMENT

Total enrollment for the fall 2016 semester was 21,622 students, which was an upturn of 749 students over the fall of 2015 semester when 20,873 students were enrolled. This increase was on par with the 3% increase in enrollment during the previous year. Mississippi residents accounted for 66% of

the total enrollment in fall 2016 and for 67% of total enrollment for fall 2015. Enrollment totals are unduplicated and include all campuses of the University.

### DEGREES AWARDED

A total of 4,541 degrees were awarded in 2016 2017: 3,518 undergraduate and 1,023 graduate. A breakdown by college is shown in the accompanying table. Information from 2015 2016 is included for comparison.

### FINANCIAL SUMMARY AND OUTLOOK

Mississippi State University experienced a strong financial position in FY 2017 and substantial enrollment growth for fall 2015,

fall 2016 and fall 2017. For the third year in a row, enrollment increased resulting in a record 21,884 students during fall 2017. The completion of the multi-million-dollar state-of-the-art Old Main Academic Center and the ongoing construction of the multi-million-dollar expansion of the Mitchell Memorial Library and multi-million-dollar construction of a new parking garage are indications of the continued growth and improvements at MSU.

FY 2017 also presented numerous challenges and opportunities as MSU experienced mid-year appropriation cuts as state revenues fell short of expectations. Mississippi State's leadership continued

## CONDENSED STATEMENT OF CASH FLOWS

	FY 2017	FY2016	Difference	Variance
<b>Cash Provided (used) by:</b>				
Operating Activities	(\$173,991,125)	(\$170,512,874)	(\$3,478,251)	2%
Noncapital Financing Activities	237,151,114	254,636,855	(\$17,485,741)	-7%
Capital and Related Financing Activities	(28,247,397)	(121,577,033)	\$93,329,636	-77%
Investing Activities	3,326,618	1,805,290	\$1,521,328	84%
<b>Net change in cash and cash equivalents</b>	<b>\$38,239,210</b>	<b>\$35,647,762</b>	<b>\$73,886,972</b>	<b>-207%</b>
Cash and Cash Equivalents - beginning of year	108,330,449	143,978,211	(\$35,647,762)	-25%
<b>Cash and Cash Equivalents - end of year</b>	<b>\$146,569,659</b>	<b>\$108,330,449</b>	<b>\$38,239,210</b>	<b>35%</b>



its proactive approach to address funding reductions. Successful efficiency efforts, a tuition increase, and enrollment growth helped offset the appropriation shortfall.

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 for Budget and Planning*

## DEGREES AWARDED, 2016-2017

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	420	98	518
Architecture, Art and Design	87	0	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	65	122
Veterinary Medicine	19	95	114
<b>Total</b>	<b>3,518</b>	<b>1,023</b>	<b>4,541</b>

## DEGREES AWARDED, 2015-2016

	UNDERGRADUATE	GRADUATE	TOTAL
Agriculture and Life Sciences	365	125	490
Architecture, Art and Design	105	0	105
Arts and Sciences	1068	192	1260
Business (Includes Accountancy)	542	146	688
Education	588	242	830
Engineering	549	121	670
Forest Resources	69	49	118
Veterinary Medicine	16	94	110
<b>Total</b>	<b>3,302</b>	<b>969</b>	<b>4,271</b>





**ANNUAL FINANCIAL STATEMENTS**  
(UNAUDITED)  
**FOR THE YEAR ENDED JUNE 30, 2017**

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## STATEMENT OF NET POSITION

ASSETS	June 30	
	2017	2016
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$113,270,613	\$95,075,081
Short term investments	10,550,927	13,093,328
Accounts receivables, net	62,029,420	63,046,353
Student notes receivables, net	4,172,288	3,681,775
Inventories	2,374,348	3,061,903
Prepaid expenses	10,180,931	19,107,930
<b>Total Current Assets</b>	<b>\$202,578,527</b>	<b>\$197,066,370</b>
<b>NON-CURRENT ASSETS:</b>		
Restricted cash and cash equivalents	\$33,299,046	\$13,255,368
Endowment investments	37,122,542	35,693,138
Other long term investments	83,408,839	79,064,221
Student notes receivable, net	15,659,295	13,260,915
Capital Assets, Net	991,550,517	946,360,354
<b>Total Non-Current Assets</b>	<b>\$1,161,040,239</b>	<b>\$1,087,633,996</b>
<b>Total Assets</b>	<b>\$1,363,618,766</b>	<b>\$1,284,700,366</b>
<b>DEFERRED OUTFLOWS:</b>		
Difference between expected and actual experience	\$16,056,978	\$11,276,490
Changes in proportionate share	10,791,874	6,830,389
Contributions subsequent to the measurement date	32,311,407	32,082,720
Changes in assumptions	27,138,299	42,006,774
Difference between projected and actual earnings	38,998,793	-
Resources due to refunding	5,442,713	2,358,428
<b>Total Deferred Outflows of Resources</b>	<b>\$130,740,064</b>	<b>\$94,554,801</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$1,494,358,830</b>	<b>\$1,379,255,167</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$23,816,800	\$27,739,143
Unearned revenues	36,051,652	28,572,773
Accrued leave liabilities-current portion	2,416,263	2,081,145
Long term liabilities-current portion	10,105,000	11,385,000
Other current liabilities	61,000	43,089
<b>Total Current liabilities</b>	<b>\$72,450,715</b>	<b>\$69,821,150</b>
<b>NON-CURRENT LIABILITIES:</b>		
Net pension liability	\$575,770,041	\$487,619,653
Deposits refundable	34,195	40,433
Accrued leave liabilities	23,108,227	24,609,646
Long term liabilities	324,565,000	307,080,000
Other non-current liabilities	13,566,127	13,709,097
<b>Total Non-Current liabilities</b>	<b>\$937,043,590</b>	<b>\$833,058,829</b>
<b>Total Liabilities</b>	<b>\$1,009,494,305</b>	<b>\$902,879,979</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Difference between projected and actual earnings on pension plan		12,528,421
Change in assumptions	1,529,728	-
<b>Total Deferred Inflows of Resources</b>	<b>\$1,529,728</b>	<b>\$12,528,421</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$1,011,024,033</b>	<b>\$915,408,400</b>
<b>NET POSITION:</b>		
<b>Net Invested in Capital Assets</b>	<b>\$671,845,050</b>	<b>\$626,692,777</b>
<b>Restricted for:</b>		
<b>Nonexpendable -</b>		
Scholarships and Fellowships	\$2,394,439	\$2,308,513
Research	4,418,732	4,277,397
Other Purposes	7,759,112	7,493,965
<b>Expendable -</b>		
Scholarships and Fellowships	3,108,546	3,765,626
Research	17,057,300	23,000,368
Capital Projects	855,422	(589,553)
Debt Service	2,133,714	1,223,994
Loans	7,820,051	4,805,869
Other Purposes	1,356,093	1,332,822
Unrestricted	(235,413,662)	(210,465,011)
<b>Total Net Position</b>	<b>\$483,334,797</b>	<b>\$463,846,767</b>

## STATEMENT OF REVENUES, EXPENSES &amp; CHANGES IN NET POSITION

<b>OPERATING REVENUES:</b>		June 30	
	2017	2016	
Tuition and fees:	\$256,899,100	\$235,797,272	
Less scholarship allowances	(91,893,288)	(83,015,641)	
Less bad debt expense	(3,217,187)	(1,144,264)	
Net tuition and fees	161,788,625	151,637,367	
Federal appropriations	13,749,480	18,796,056	
Federal grants and contracts	105,088,480	114,607,542	
State grants and contracts	23,400,465	22,827,101	
Nongovernmental grants and contracts	15,908,338	17,073,111	
Sales and services of educational departments	41,468,676	42,385,659	
Auxiliary enterprises:			
Student housing	30,396,348	25,659,559	
Food services	2,674,689	2,515,379	
Bookstore	711,051	774,036	
Athletics	58,356,367	57,027,145	
Other auxiliary revenues	12,197,579	12,784,128	
Less auxiliary enterprise scholarship allowances	(9,747,336)	(8,805,663)	
Interest earned on loans to students	340,709	249,845	
Other operating revenues, net	5,134,178	4,527,204	
<b>Total Operating Revenues</b>	<b>\$461,467,649</b>	<b>\$462,058,469</b>	
<b>OPERATING EXPENSES:</b>			
Salaries and wages	327,227,860	326,529,375	
Fringe benefits	155,380,264	128,954,126	
Travel	17,173,618	18,044,431	
Contractual services	73,808,300	84,455,126	
Utilities	15,351,664	14,774,791	
Scholarships and fellowships	37,386,022	36,402,278	
Commodities	48,871,275	34,374,765	
Depreciation	33,097,811	32,985,045	
<b>Total Operating Expenses</b>	<b>\$708,296,814</b>	<b>\$676,519,937</b>	
<b>Operating Income (Loss)</b>	<b>\$(246,829,165)</b>	<b>\$(214,461,468)</b>	
<b>NONOPERATING REVENUES (EXPENSES):</b>			
State appropriations	176,101,014	186,393,254	
Gifts and grants	62,924,677	67,684,349	
Investment income	4,086,945	812,542	
Interest expense on capital asset-related debt	(7,002,140)	(3,166,732)	
Other nonoperating revenues	142,970	198,447	
Other nonoperating expenses	(1,259,206)	(900,144)	
<b>Total Net Nonoperating Revenues (Expenses)</b>	<b>\$234,994,260</b>	<b>\$251,021,716</b>	
<b>Income (Loss) Before Other Revenues, Expenses, Gains and Losses</b>	<b>\$(11,834,905)</b>	<b>\$36,560,248</b>	
<b>Other revenues, expenses, gains and losses:</b>			
Capital Grants and Gifts	19,205,537	5,128,863	
State Appropriations Restricted for Capital Purposes	13,142,615	6,876,825	
Other Deletions	(1,025,217)	(285,663)	
<b>Net Increase in Net Assets</b>	<b>\$19,488,030</b>	<b>\$48,280,273</b>	
<b>NET POSITION</b>			
Net Position - Beginning of Year, as adjusted (note)	\$463,846,767	415,566,494	
<b>Net Position - End of Year</b>	<b>\$483,334,797</b>	<b>\$463,846,767</b>	



## STATEMENT OF CASH FLOWS

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		<b>June 30</b>
	<b>2017</b>	<b>2016</b>
Tuition and Fees	\$165,359,021	\$151,305,141
Grants and Contracts	147,831,751	150,592,757
Sales and Services of Educational Departments	41,974,981	43,241,450
Payments to Suppliers	(146,172,450)	(139,353,164)
Payments to Employees for Salaries and Benefits	(440,777,936)	(436,895,695)
Payments for Utilities	(15,351,664)	(14,774,791)
Payments for Scholarships and Fellowships	(37,390,772)	(36,406,529)
Loans Issued to Students and Employees	(6,021,677)	(3,986,296)
Collection of Loans to Students and Employees	3,287,176	3,395,871
Auxiliary Enterprise Charges:		
Student Housing	29,581,317	25,224,852
Food Services	2,747,301	2,461,020
Bookstore	711,051	774,037
Athletics	59,377,325	56,894,819
Other Auxiliary Enterprises	3,232,870	4,468,639
Other Receipts	17,620,581	22,545,015
Other Payments		
<b>Net Cash (Used) by Operating Activities</b>	<b>\$(173,991,125)</b>	<b>\$(170,512,874)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State Appropriations	175,360,012	187,901,576
Gifts and Grants for Other Than Capital Purposes;	62,850,903	67,749,601
Federal Loan Program Receipts	123,422,495	116,050,847
Federal Loan Program Disbursements	(123,660,636)	(116,191,575)
Other Sources	17,911	
Other Uses	(839,571)	(873,594)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>\$237,151,114</b>	<b>\$254,636,855</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from Capital Debt	63,270,000	
Cash Paid for Capital Assets	(45,505,531)	(92,453,488)
Capital Appropriations Received	2,594,557	2,229,296
Capital Grants and Contracts Received	10,716,619	2,456,489
Proceeds from Sales of Capital Assets		229,132
Principal Paid on Capital Debt and Leases	(47,065,000)	(9,725,000)
Interest Paid on Capital Debt and Leases	(14,010,324)	(14,514,128)
Other Source	4,202,177	
Other Uses	(2,449,895)	(9,799,334)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>\$(28,247,397)</b>	<b>\$(121,577,033)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Sales and Maturities of Investments	60,801,340	92,290,332
Interest Received on Investments	3,714,534	2,345,566
Purchases of Investments	(61,189,256)	(92,830,608)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>\$3,326,618</b>	<b>\$1,805,290</b>
Net Increase (Decrease) in Cash and Cash Equivalents	38,239,210	(35,647,762)
<b>Cash and Cash Equivalents - Beginning of the Year</b>	<b>108,330,449</b>	<b>143,978,211</b>
<b>Cash and Cash Equivalents - End of the Year</b>	<b>\$146,569,659</b>	<b>\$108,330,449</b>

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

	2017	June 30	2016
Operating Income (Loss)	\$(246,829,165)		\$(214,461,468)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	33,097,811		32,985,045
Bad debt expense	3,217,188		1,150,223
Changes in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Receivables, Net	(4,246,587)		(6,684,681)
Inventories	687,555		(1,050,151)
Prepaid Expenses	(34,087,416)		(52,218,508)
Increase (Decrease) in Liabilities:			
Accounts Payables and Accrued Liabilities	82,127,345		113,309,993
Unearned Revenue	(9,124,157)		(42,083,710)
Accrued Leave Liability	1,166,301		(1,459,617)
<b>Total Adjustments:</b>	<b>\$72,838,040</b>		<b>\$43,948,594</b>
<b>Net Cash Provided (Used) by Operating Activities:</b>	<b>\$(173,991,125)</b>		<b>\$(170,512,874)</b>
Reconciliation of Cash and Cash Equivalents:			
Current Assets - Cash and Cash Equivalents	113,270,613		95,075,081
Noncurrent Assets - Restricted Cash and Cash Equivalents	33,299,046		13,255,368
<b>Cash and Cash Equivalents - End of Year:</b>	<b>\$146,569,659</b>		<b>\$108,330,449</b>

**NON-CASH TRANSACTIONS:**

1) Unrealized Gain/(Loss) on Fair Value of Investments	\$(469,503)		\$597,548
2) Bureau of Buildings and Grounds Construction-in-Progress	10,548,058		4,647,529
3) Provision for Bad Debts	(3,217,187)		(1,150,223)
<b>Non-Cash Transactions:</b>	<b>\$6,861,368</b>		<b>\$4,094,854</b>







**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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### **NOTE 1:** **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** **NATURE OF OPERATIONS**

Mississippi State University (the University) is a comprehensive, doctoral degree granting university offering to a diverse and capable student body, a wide range of opportunities and challenges for learning and growth; to the world of knowledge, vigorous and expanding contribution in research, discovery, and application; and to the State of Mississippi (the State) and its people in every region, a variety of expert services.

#### **(A) 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.

#### **(B) BASIS OF PRESENTATION**

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

#### **(C) BASIS OF ACCOUNTING**

The financial statements of the University have been prepared on the accrual basis whereby all revenues are recorded when earned and expenses are recorded when an obligation has been incurred.

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University follows all applicable GASB pronouncements. Previously, the University applied all applicable Financial Accounting Standards Board (FASB) Statements and

Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflicted with or contradicted GASB pronouncements. However, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* codified those pre-GASB pronouncements and made it possible for Universities to find all authoritative guidance within the GASB pronouncement framework.

#### **(D) 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.

#### **(E) CASH EQUIVALENTS**

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

#### **(F) SHORT-TERM INVESTMENTS**

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

#### **(G) 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.

#### **(H) 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.

#### **(I) 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.

#### **(J) PREPAID EXPENSES**

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

#### **(K) 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.

#### **(L) 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.

#### **(M) 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.

#### **(N) 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.

#### **(O) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

#### **(P) 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.

#### **(Q) 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.

#### **(R) 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.

#### **(S) 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).

#### **(T) 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.

## NONOPERATING 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.

## (U) 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.

## (V) 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.

## (W) NET POSITION

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

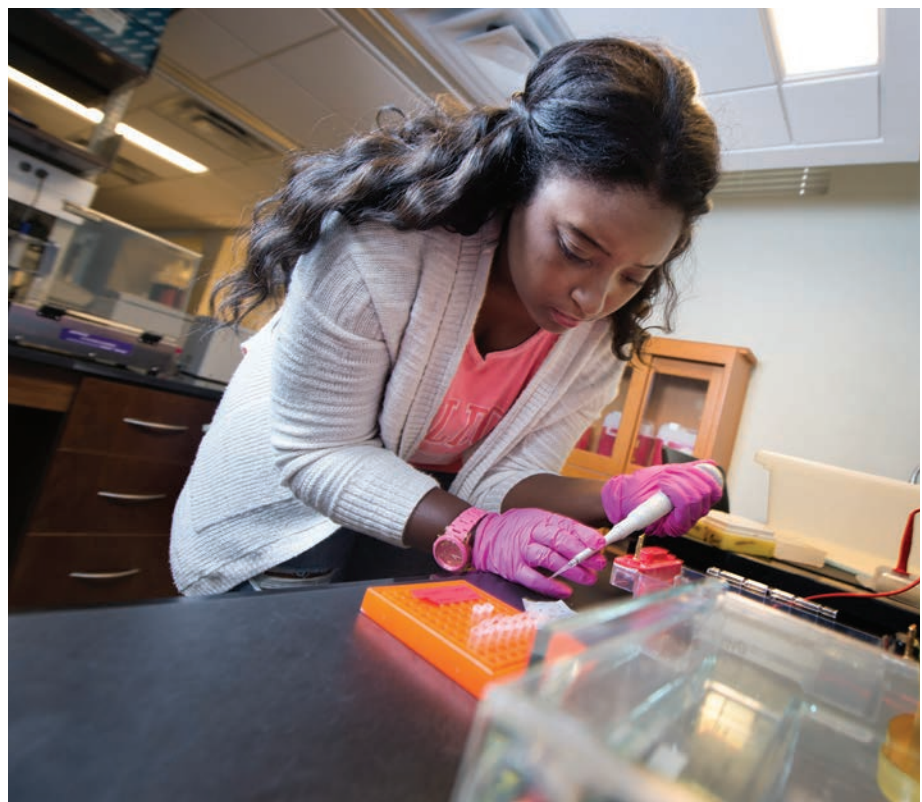
*Net Invested in Capital Assets* reflects the

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

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

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

*Unrestricted* net position represents resources derived from student tuition and fees, state appropriations, sales and services of educational activities, unrestricted gifts and grants, and auxiliary enterprises. While unrestricted net



assets may be designated for specific purposes by action of management or the Board, they are available for use at the discretion of the governing board, to meet current expenses for any purpose. Substantially all unrestricted net assets are designated by the Board for academic and research programs and initiatives and capital programs.

The unrestricted net position balance of -\$236,428,670 at June 30, 2017, includes \$20,350,217 reserved for academic programs and research, \$15,969,992 reserved for capital projects, \$27,459,376 reserved for repairs and maintenance, with \$152,809,171 remaining for other purposes and -\$453,017,426 related to the University's pension liability.

### (X) PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Mississippi (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## 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, 2017 and 2016 is shown below.

#### MISSISSIPPI STATE INVESTMENT POOL

The Mississippi State University Foundation, the University, the MSU Alumni Foundation, and the MSU Bulldog Club, Inc. are participants in a joint venture, the Mississippi State Investment Pool (MSIP), whereby certain assets are pooled for investment purposes. The Foundation is the

investment pool's managing member, manages the assets of the pool, and maintains separate accounts for each participant. Investment income, gains and losses, and expenses of the MSIP are allocated to each participant based on their share of ownership of the MSIP. As of June 30, 2017 and 2016, the University owned an approximate 8.77% and 9.30% 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, 2017 and 2016.

### (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, 2017 and 2016, the University had investments subject to interest rate risk as shown in the tables on page 20.

## FAIR VALUE OF INVESTMENT TYPE

Investment Type	FY 2017	FY 2016
U.S. Government Agency Obligations	\$43,102,545	\$40,044,743
Repurchase Agreements		
U.S. Treasury Obligations	22,212,117	24,767,316
Certificates of Deposit	19,542,117	17,858,835
Corporate Bonds		
Commercial Mortgage Backed Securities		
Collateralized Mortgage Obligations	5,002,353	4,124,336
Municipal Bonds	3,185,094	4,482,526
Mutual Funds		
Asset Backed Securities	1,125,236	1,213,697
Equity Securities 1,019,837	1,019,837	858,334
International Obligations		
Landgrant	239,789	239,789
Mississippi State Investment Pool	35,653,220	34,261,110
<b>Total</b>	<b>\$131,082,308</b>	<b>\$127,850,686</b>



**FY 2017 INTEREST RATE RISK**

Investment Type	Value	Fair Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Agency Obligations	\$44,940,702	\$4,995,200	\$27,035,823	\$12,652,661	\$257,018
U.S. Treasury Obligations	22,212,117	2,816,736	9,498,628	9,896,753	
Corporate Bonds	1,365,696			1,365,696	
Collateralized Mortgage Obligations	5,546,241			997,423	4,548,818
Municipal Bonds	4,072,711		2,671,344	1,401,367	
Asset Backed Securities	5,850,901			5,850,901	
SBA	453,535				453,535
<b>Total</b>	<b>\$84,441,902</b>	<b>\$7,811,936</b>	<b>\$39,205,795</b>	<b>\$32,164,801</b>	<b>\$5,259,370</b>

**FY 2016 INTEREST RATE RISK**

Investment Type	Value	Fair Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Agency Obligations	\$40,044,743	\$2,000,720	\$20,286,261	\$16,728,179	\$1,029,583
U.S. Treasury Obligations	24,767,317	8,006,916	9,311,735	7,448,666	
Collateralized Mortgage Obligations	4,124,336				4,124,336
Municipal Bonds	4,482,526	724,889	2,211,439	1,045,790	500,407
Asset Backed Securities	1,213,697			1,213,697	
<b>Total</b>	<b>\$74,632,617</b>	<b>\$10,732,525</b>	<b>\$31,809,435</b>	<b>\$26,436,332</b>	<b>\$5,654,325</b>

**FY 2017 CONCENTRATION OF CREDIT RISK**

Issuer	Fair Value	Percentage
Mississippi State Investment Pool	\$35,653,221	32.33%
U.S. Treasury Obligations	22,212,117	20.14%
FNDB	12,447,257	11.29%
FHLMC	11,427,134	10.36%
FHLB	10,947,795	9.93%
FFCB	9,014,408	8.17%
<b>Total</b>	<b>\$101,701,932</b>	

**CREDIT RISK**

Credit Rating	FY2017	FY2016
A+		\$605,514
AA	\$2,584,350	3,153,225
AA+	43,899,359	26,647,924
AAA	1,800,896	17,969,787
Rating		
Not Available	26,342,739	26,256,167
<b>Total</b>	<b>\$74,627,344</b>	<b>\$74,632,617</b>

**FY 2016 CONCENTRATION OF CREDIT RISK**

Issuer	Fair Value	Percentage
Mississippi State Investment Pool	\$34,261,111	31.46%
U.S. Treasury Obligations	24,767,315	22.74%
FFCB	15,515,239	14.25%
FNDB	11,302,501	10.38%
FHLB	8,526,907	7.83%
FHLMC	5,990,379	5.50%
<b>Total</b>	<b>\$100,363,452</b>	

**(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, 2017 and 2016, the University had the following investments subject to credit risk. The credit risk ratings listed 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 credit risk. As of June 30, 2017 and 2016, the University had the following issuers holding investments that exceeded 5% of total investments as shown in the table above and to the left of this page.

**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).

### FY 2017 FAIR VALUE MEASUREMENT

	Level 1	Level 2	Level 3	Total
<b>Investment Strategy</b>				
<b>Fixed income</b>				
U.S. Government securities	\$15,669,610	\$49,645,051		\$65,314,662
Certificates of deposit	18,037,447	1,504,670		19,542,117
Other fixed income securities	4,548,818	4,763,865		9,312,683
<b>Total fixed income</b>	<b>\$38,255,875</b>	<b>\$55,913,587</b>	-	<b>\$94,169,461</b>
<b>Equities:</b>				
Common stocks		\$1,019,837		\$1,019,837
<b>Total equities</b>	-	<b>\$1,019,837</b>	-	<b>\$1,019,837</b>
<b>Venture capital</b>				
Mississippi State Investment Pool			\$35,653,221	\$35,653,221
<b>Other short-term investments</b>	-		<b>239,789</b>	<b>239,789</b>
<b>Total investments</b>	<b>\$38,255,875</b>	<b>\$56,933,424</b>	<b>\$35,893,010</b>	<b>\$131,082,308</b>

### FY 2016 FAIR VALUE MEASUREMENT

	Level 1	Level 2	Level 3	Total
<b>Investment Strategy</b>				
<b>Fixed income</b>				
U.S. Government securities	\$38,881,347	\$25,930,713		\$64,812,059
Certificates of deposit	16,349,000	1,509,835		17,858,835
Other fixed income securities	8,606,861	1,213,697		9,820,558
<b>Total fixed income</b>	<b>\$63,837,208</b>	<b>\$28,654,245</b>	-	<b>\$92,491,452</b>
<b>Equities</b>				
Common stocks		858,334		858,334
<b>Total equities</b>	-	<b>\$858,334</b>	-	<b>\$858,334</b>
<b>Venture capital</b>				
Mississippi State Investment Pool			34,261,111	34,261,111
<b>Other short-term investments</b>			<b>239,789</b>	<b>239,789</b>
<b>Total investments</b>	<b>\$63,837,208</b>	<b>\$29,512,579</b>	<b>\$34,500,900</b>	<b>\$127,850,686</b>

The following table includes a rollforward of the amounts for the years ended June 30, 2017 and 2016 for investments classified within Level 3:

	Equities	Diversifying strategies	Other	Total
<b>Fair value at June 30, 2015</b>			\$36,752,530	\$36,752,530
Acquisitions			398,983	398,983
Dispositions			(707,869)	(707,869)
Net realized and unrealized gains (losses)			(2,182,533)	(2,182,533)
<b>Fair value at June 30, 2016</b>	-	-	<b>\$34,261,111</b>	<b>\$34,261,111</b>
Acquisitions			378,269	378,269
Dispositions			(1,385,245)	(1,385,245)
Net realized and unrealized gains (losses)			2,399,086	2,399,086
<b>Fair value at June 30, 2017</b>	-	-	<b>\$35,653,221</b>	<b>\$35,653,221</b>



**ACCOUNTS RECEIVABLE**

Type of Receivable:	2017	2016
Student tuition	\$30,841,669	\$26,160,396
Auxiliary enterprises and other operating activities	4,749,823	4,669,539
Contributions and gifts	72,537	(1,238)
Federal, state, and private grants and contracts	37,040,926	40,579,064
State Appropriations	2,411,375	1,596,757
Accrued Interest	1,114,993	1,136,774
<b>Total Accounts receivable</b>	<b>\$76,231,323</b>	<b>\$74,141,292</b>
Less allowance for doubtful accounts	14,201,903	11,094,939
<b>Net Accounts receivable</b>	<b>\$62,029,420</b>	<b>\$63,046,353</b>

**FY 2017 NOTES RECEIVABLE FROM STUDENTS**

	Interest Rates	June 30, 2017	Current Portion	Non-Current Portion
Perkins student loans	3% to 9%	\$17,001,829	\$3,412,208	\$13,589,621
Institutional loans	0% to 9%	4,722,996	760,080	3,962,916
<b>Total Notes receivable</b>		<b>\$21,724,825</b>	<b>\$4,172,288</b>	<b>\$17,552,537</b>
Less allowance for doubtful accounts		\$1,893,242		\$1,893,242
<b>Net Notes receivable</b>		<b>\$19,831,583</b>	<b>\$4,172,288</b>	<b>\$15,659,295</b>

**FY 2016 NOTES RECEIVABLE FROM STUDENTS**

	Interest Rates	June 30, 2016	Current Portion	Non-Current Portion
Perkins student loans	3% to 9%	\$17,151,648	\$3,471,629	\$13,680,019
Institutional loans	0% to 9%	1,688,876	210,146	1,478,730
<b>Total Notes receivable</b>		<b>\$18,840,524</b>	<b>\$3,681,775</b>	<b>\$15,158,749</b>
Less allowance for doubtful accounts		1,897,834		1,897,834
<b>Net Notes receivable</b>		<b>\$16,942,690</b>	<b>\$3,681,775</b>	<b>\$13,260,915</b>

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, 2017 and 2016 as shown

in the table above. 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.

The schedule shown above is of interest rates and unpaid balances as of June 30, 2017 and 2016.

**NOTE6  
CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2016 and 2015 is presented on page 23.

**ACCOUNTS PAYABLE & ACCRUED LIABILITIES**

	2017	2016
Payable to vendors and contractors	\$11,315,945	\$15,121,251
Accrued salaries, wages and employee withholdings	13,291,193	13,217,899
Accrued interest	(790,338)	(600,007)
<b>Total</b>	<b>\$23,816,800</b>	<b>\$27,739,143</b>

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 are shown in the table on page 23.

**NOTE 7  
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities as of June 30, 2017 and 2016 are shown above.

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

**NOTE 8  
UNEARNED REVENUES**

Unearned revenues as of June 30, 2017 and 2016 are shown to the left on page 24.

**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, 2017 and 2016 are presented on page 23 and 24. Annual requirements to repay outstanding debt are also displayed on page 24 and 25.

**BONDS PAYABLE**

The University has issued bonds to construct, renovate, and improve various campus facilities. As noted in the summary of significant accounting policies, the University established the Mississippi State University Educational Building Corporation (MSUEBC). This nonprofit Mississippi corporation was established in accordance with Section 37-101-61 of the Mississippi Code Annotated,

## FY 2017 CAPITAL ASSETS

	July 1, 2016	Additions	Deletions/Transfers	June 30, 2017
<b>Nondepreciable Capital Assets:</b>				
Land	\$19,453,769	\$2,995,750		\$18,065,050
Construction in Progress	262,140,532	51,201,228	34,597,575	278,744,185
Livestock	1,800,744	75,061	238,472	1,637,333
<b>Total Nondepreciable Capital Assets</b>	<b>\$283,395,045</b>	<b>\$54,272,039</b>	<b>\$34,836,047</b>	<b>\$302,831,037</b>
<b>Depreciable Capital Assets:</b>				
Improvements other than Buildings	\$94,105,801	\$4,478,933		\$98,584,734
Buildings	777,412,503	42,310,461	2,916,036	816,806,928
Equipment	169,306,251	7,568,406	7,021,374	169,853,283
Library Books	108,577,911	5,519,398	136,750	113,960,559
<b>Total Depreciable Capital Assets</b>	<b>\$1,149,402,466</b>	<b>\$59,877,198</b>	<b>\$10,074,160</b>	<b>\$1,199,205,504</b>
<b>Less Accumulated Depreciation for:</b>				
Improvements other than Buildings	\$36,653,810	\$3,779,162		\$40,432,972
Buildings	223,247,978	14,303,812	2,261,956	235,289,834
Equipment	137,296,598	10,560,305	6,650,238	141,206,665
Library Books	89,238,771	4,454,532	136,750	93,556,553
<b>Total Accumulated Depreciation</b>	<b>\$486,437,157</b>	<b>\$33,097,811</b>	<b>\$9,048,944</b>	<b>\$510,486,024</b>
<b>Capital Assets, Net</b>	<b>\$946,360,354</b>	<b>\$81,051,426</b>	<b>\$35,861,263</b>	<b>\$991,550,517</b>

\*\* As of June 30, 2017, capital assets did not include any assets under capital lease.

## FY 2016 CAPITAL ASSETS

	July 1, 2015	Additions	Deletions	June 30, 2016
<b>Nondepreciable Capital Assets:</b>				
Land	\$18,065,050	\$1,388,719		\$19,453,769
Construction in Progress	171,381,463	94,096,109	3,337,040	262,140,532
Livestock	1,752,209	277,666	229,131	1,800,744
<b>Total Nondepreciable Capital Assets</b>	<b>\$191,198,722</b>	<b>\$95,762,494</b>	<b>\$3,566,171</b>	<b>\$283,395,045</b>
<b>Depreciable Capital Assets:</b>				
Improvements other than Buildings	\$91,533,079	\$2,572,722		\$94,105,801
Buildings	771,179,032	6,233,471		777,412,503
Equipment	164,335,705	10,471,829	5,501,283	169,306,251
Library Books	104,578,178	4,223,458	223,725	108,577,911
<b>Total Depreciable Capital Assets</b>	<b>\$1,131,625,994</b>	<b>\$23,501,480</b>	<b>\$5,725,008</b>	<b>\$1,149,402,466</b>
<b>Less Accumulated Depreciation for:</b>				
Improvements other than Buildings	\$32,983,911	\$3,669,899		\$36,653,810
Buildings	208,493,661	14,754,317		223,247,978
Equipment	132,296,912	10,215,305	5,215,619	137,296,598
Library Books	85,116,973	4,345,523	223,725	89,238,771
<b>Total Accumulated Depreciation</b>	<b>\$458,891,457</b>	<b>\$32,985,044</b>	<b>\$5,439,344</b>	<b>\$486,437,157</b>
<b>Capital Assets, Net</b>	<b>\$863,933,259</b>	<b>\$86,278,930</b>	<b>\$3,851,835</b>	<b>\$946,360,354</b>

\*\* As of June 30, 2016, capital assets did not include any assets under capital lease.



## DEPRECIATION

	Estimated Useful Lives	Salvage Value	Capitalization Threshold
Buildings	40 years	20%	\$50,000
Improvements Other Than Buildings	20 years	20%	25,000
Equipment	3-15 years	1-10%	5,000
Library Books	10 years	0%	0



# NOTES TO FINANCIAL STATEMENTS

## FY 2017 LONG-TERM LIABILITIES

Description and Purpose	Original Issue	Annual Interest Rate	Maturity	June 30, 2016	Additions	Deletions	June 30, 2017	Due Within One Year
<b>Bonded Debt</b>								
Dormitory Revenue System	\$2,250,000	3.00%	2021	\$450,000		\$85,000	\$365,000	\$85,000
Student Apartments	2,038,000	3.00%	2022	495,000		75,000	420,000	80,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2018	3,175,000		1,545,000	1,630,000	1,630,000
EBC05 - Revenue Bonds	58,965,000	4.00%-5.00%	2036	0			0	0
EBC07A - Revenue Bonds	6,110,000	4.125%-5.00%	2028	4,305,000		4,015,000	290,000	290,000
EBC09A-1 Revenue Bonds	29,615,000	2.50%-5.25%	2039	26,540,000		24,360,000	2,180,000	700,000
EBC09A-2 Refunding Bonds	17,105,000	2.75%-5.00%	2024	11,910,000		8,260,000	3,650,000	0
EBC11 - Refunding Bonds	54,370,000	2.00%-5.00%	2042	46,545,000		2,120,000	44,425,000	1,150,000
EBC13 - Revenue Bonds	60,470,000	2.00%-5.00%	2044	59,475,000		525,000	58,950,000	540,000
EBC14A - Revenue Bonds	89,810,000	2.00%-5.00%	2044	87,580,000		4,180,000	83,400,000	3,365,000
EBC14B - Revenue Bonds	23,435,000	.29%-4.813%	2044	21,980,000		905,000	21,075,000	915,000
EBC15 - Revenue Bonds	56,010,000	2.00%-5.00%	2045	56,010,000		995,000	55,015,000	1,020,000
EBC17 - Revenue Bonds	63,270,000	2.00%-5.00%	2046	0	63,270,000		63,270,000	330,000
<b>Total Bonded Debt</b>				<b>\$318,465,000</b>	<b>\$63,270,000</b>	<b>\$47,065,000</b>	<b>\$334,670,000</b>	<b>\$10,105,000</b>
<b>Other Long-term Liabilities</b>								
Net Pension Liability				487,619,653	88,150,388		575,770,041	
Accrued leave liabilities				26,690,791		1,166,301	25,524,490	2,416,263
Deposits refundable				40,433		6,238	34,195	
<b>Total Other liabilities</b>				<b>\$514,350,877</b>	<b>\$88,150,388</b>	<b>\$1,172,539</b>	<b>\$601,328,726</b>	<b>\$2,416,263</b>
Federal Portion - Perkins Loans				13,709,097		142,970	13,566,127	
<b>Total</b>				<b>\$846,524,974</b>	<b>\$151,420,388</b>	<b>\$48,380,509</b>	<b>\$949,564,853</b>	<b>\$12,521,263</b>
<b>Due within one year</b>							<b>12,521,263</b>	
<b>Total long-term liabilities</b>							<b>\$937,043,590</b>	

## OUTSTANDING DEBT AMORTIZATION SCHEDULE

FY 2017	Bonded Debt	Interest	Total
2018	\$10,105,000	\$15,669,109	\$25,774,109
2019	10,170,000	15,981,730	26,151,730
2020	11,085,000	15,605,790	26,690,790
2021	11,435,000	13,636,040	25,071,040
2022	11,840,000	13,133,655	24,973,655
2023-2027	58,955,000	57,353,796	116,308,796
2028-2032	59,535,000	44,449,163	103,984,163
2033-2037	65,515,000	29,347,532	94,862,532
2038-2042	65,910,000	14,451,522	80,361,522
2043-2046	30,120,000	1,840,977	31,960,977
<b>Totals</b>	<b>\$334,670,000</b>	<b>\$221,469,313</b>	<b>\$556,139,314</b>

FY 2016	Bonded Debt	Interest	Total
2017	\$11,385,000	\$14,010,324	\$25,395,324
2018	9,775,000	13,678,756	23,453,756
2019	10,195,000	13,330,186	23,525,186
2020	10,565,000	12,956,199	23,521,199
2021	10,995,000	12,528,384	23,523,384
2022-2026	57,305,000	54,930,631	112,235,631
2027-2031	54,540,000	41,993,384	96,533,384
2032-2036	59,705,000	29,052,899	88,757,899
2037-2041	58,500,000	14,947,655	73,447,655
2042-2045	35,500,000	2,626,307	38,126,307
<b>Totals</b>	<b>\$318,465,000</b>	<b>\$210,054,725</b>	<b>\$528,519,726</b>

## UNEARNED REVENUES

	2017	2016
Unearned summer school revenue	\$3,090,427	\$3,109,601
Unearned grants and contract revenue	34,965	98,504
Other	32,926,260	25,364,668
<b>Total</b>	<b>\$36,051,652</b>	<b>\$28,572,773</b>



## FY 2016 LONG-TERM LIABILITIES

Description and Purpose	Original Issue	Annual Interest Rate	Maturity	June 30, 2015	Additions	Deletions	June 30, 2016	Due Within One Year
<b>Bonded Debt</b>								
Dormitory Revenue System	\$2,250,000	3.00%	2021	\$530,000		\$80,000	\$450,000	\$85,000
Student Apartments	2,038,000	3.00%	2022	570,000		75,000	495,000	75,000
EBC98 - Revenue Bonds	31,865,000	3.75%-5.25%	2018	4,640,000		1,465,000	3,175,000	1,545,000
EBC05 - Revenue Bonds	58,965,000	4.00%-5.00%	2036	1,835,000		1,835,000	0	0
EBC07A - Revenue Bonds	6,110,000	4.125%-5.00%	2028	4,570,000		265,000	4,305,000	280,000
EBC09A-1 Revenue Bonds	29,615,000	2.50%-5.25%	2039	27,190,000		650,000	26,540,000	675,000
EBC09A-2 Refunding Bonds	17,105,000	2.75%-5.00%	2024	11,910,000			11,910,000	0
EBC11 - Refunding Bonds	54,370,000	2.00%-5.00%	2042	48,585,000		2,040,000	46,545,000	2,120,000
EBC13 - Revenue Bonds	60,470,000	2.00%-5.00%	2044	59,980,000		505,000	59,475,000	525,000
EBC14A - Revenue Bonds	89,810,000	2.00%-5.00%	2044	89,810,000		2,230,000	87,580,000	4,180,000
EBC14B - Revenue Bonds	23,435,000	.29%-4.813%	2044	22,560,000		580,000	21,980,000	905,000
EBC15 - Revenue Bonds	56,010,000	2.00%-5.00%	2045	56,010,000			56,010,000	995,000
<b>Total Bonded Debt</b>				<b>\$328,190,000</b>	<b>\$0</b>	<b>\$9,725,000</b>	<b>\$318,465,000</b>	<b>\$11,385,000</b>
<b>Other Long-term Liabilities</b>								
Net Pension Liability				\$377,668,592	\$109,951,061		\$487,619,653	
Accrued leave liabilities				25,231,174	1,459,617		26,690,791	2,081,145
Deposits refundable				31,635	8,798		40,433	
<b>Total Other liabilities</b>				<b>\$402,931,401</b>	<b>\$111,419,476</b>	<b>\$0</b>	<b>\$514,350,877</b>	<b>\$2,081,145</b>
Federal Portion - Perkins Loans				13,907,544		198,447	13,709,097	
<b>Total</b>				<b>\$745,028,945</b>	<b>\$111,419,476</b>	<b>\$9,923,447</b>	<b>\$846,524,974</b>	<b>\$13,466,145</b>
<b>Due within one year</b>							<b>13,466,145</b>	
<b>Total long-term liabilities</b>							<b>\$833,058,829</b>	

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



## NOTES TO FINANCIAL STATEMENTS

bonds. Outstanding coupons bear interest at rates ranging from 4.125% to 5.00% with final maturity in August 2027.

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

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

Series 2011 – MSUEBC issued bonds totaling \$54,370,000 in July 2011 (Series 2011) for (i) constructing, furnishing, and equipping new residence halls on the main campus of MSU and (ii) refunding of MSUEBC bonds issued in February 2001 (Series 2001). Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with the final maturity in August 2041. The University defeased \$8,940,000 of the outstanding EBC Revenue Bonds, Series 2001. The balance of the proceeds (\$45,990,000) funded the construction of two new student housing facilities. As a result of the refunding, the University reduced its debt service requirement by \$1,352,050 over the next 15 years and obtained an economic gain of \$954,015.

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

Series 2014A – MSUEBC issued bonds totaling \$89,810,000 in May 2014 (Series 2014A) for (i) refunding of MSUEBC bonds issued in January 2004 (Series 2004), bonds

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

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

Series 2015 – MSUEBC issued bonds totaling \$56,010,000 in April, 2015 (Series 2015) for certain improvements and capital 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 (Series A-1 and Series A-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.

### 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 in the table on page 27.

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, 2017 and 2016 was \$3,706,176 and \$3,690,197, respectively. Beginning with fiscal year 2016, an operating lease with Cooley Center, LLC went into effect for the lease of approximately 36,000 square feet in the Cooley Building. The initial term is for 15 years with 4 optional terms of 5 years

## NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

FY 2017

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$93,851,181	\$46,866,768	\$1,815,707	\$3,946,581	\$234,880		\$2,499,982		\$149,215,099
Research	81,680,945	41,962,963	4,216,996	17,747,167	2,654,513		13,280,819		161,543,404
Public Service	57,638,191	27,391,655	3,498,349	15,758,957	753,935		4,706,230		109,747,316
Academic Support	20,602,173	8,586,113	477,127	6,182,191	202,822		3,546,088		39,596,513
Student Services	10,748,932	4,803,033	411,487	2,618,572	123,101		1,090,144		19,795,269
Institutional Support	21,048,422	5,375,829	255,951	12,384,198	118,838		16,398,972		55,582,209
Operation of Plant	13,515,985	6,488,059	57,697	0	8,087,435		250,460,973		30,653,784
Student Aid	976,257	3,628,333	2,717	-1,524,870	0	\$25,549,363	74,943		28,706,743
Auxiliary Enterprises	27,165,774	10,277,511	6,437,589	16,695,505	3,176,140	11,836,659	4,769,489		80,358,666
Depreciation								\$33,097,811	33,097,811
<b>Total Operating Expenses</b>	<b>\$327,227,860</b>	<b>\$155,380,264</b>	<b>\$17,173,618</b>	<b>\$73,808,300</b>	<b>\$15,351,664</b>	<b>\$37,386,022</b>	<b>\$48,871,275</b>	<b>\$33,097,811</b>	<b>\$708,296,814</b>

FY 2016

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$90,988,049	\$37,018,087	\$1,792,061	\$4,383,215	\$127,633		\$1,695,569		\$136,004,614
Research	81,949,365	35,211,392	4,542,270	20,588,445	2,668,332		8,115,664		153,075,468
Public Service	60,062,975	23,323,626	5,051,704	16,525,048	774,972		3,332,924		109,071,249
Academic Support	20,204,848	6,847,282	549,603	5,420,740	124,702		2,003,282		35,150,457
Student Services	10,727,342	3,975,626	413,468	2,800,280	132,362		626,203		18,675,281
Institutional Support	22,391,344	5,700,910	263,356	16,658,765	128,579		15,962,130		61,105,084
Operation of Plant	13,529,861	5,308,409	47,402		7,658,451				26,544,123
Student Aid	1,022,313	3,746,510	9,364	168,722		\$25,738,514	45,674		30,731,097
Auxiliary Enterprises	25,653,278	7,822,284	5,375,203	17,909,911	3,159,760	10,663,764	2,593,319		73,177,519
Depreciation								\$32,985,045	32,985,045
<b>Total Operating Expenses</b>	<b>\$326,529,375</b>	<b>\$128,954,126</b>	<b>\$18,044,431</b>	<b>\$84,455,126</b>	<b>\$14,774,791</b>	<b>\$36,402,278</b>	<b>\$34,374,765</b>	<b>\$32,985,045</b>	<b>\$676,519,937</b>

and a final optional term of 6 years for a total potential term of 41 years including all optional terms.

### NOTE 11 NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The tables above lists the operating expenses of the University by functional classification for the fiscal year ended June 30, 2017 and 2016.

### NOTE 12 CONSTRUCTION COMMITMENTS AND FINANCING

The University has contracted for various construction projects as of June 30, 2017. Estimated costs to complete various projects for June 30, 2017 and 2016 and the sources of anticipated funding are presented on page 28.

### OPERATING LEASES

	2017	2016
2017		\$3,706,176
2018	3,173,324	3,706,176
2019	3,148,936	3,681,788
2020	3,100,159	3,633,011
2021	3,100,159	3,633,011
2022	3,100,159	
<b>Total Minimum Payments Required</b>	<b>\$15,622,737</b>	<b>\$18,360,162</b>





## NOTES TO FINANCIAL STATEMENTS

### CONSTRUCTION COMMITMENTS AND FINANCING

FY 2017

	Total Costs to Complete	Funded by Federal Sources	State Sources	Institutional Funds	Other
Classroom Bldg with Parking	\$4,506,701		\$29,044	\$4,477,657	
YMCA Renovation	6,773,319		6,761,106	12,213	
Library Expansion	606,106		-	606,106	
Engineering & Science Complex	33,802,880		13,802,880	4,000,000	16,000,000
Music Building	702,500		702,500		
South Campus Entrance (MDOT)	4,632,783		4,144,583	488,200	
New Residence Hall North	234,224			234,224	
MDOT Blackjack Fence Project	354,208	288,000		66,208	
Wise Center Classroom Addition	36,984		36,984		
Preplan Meat Processing Bldg	4,223,355		4,223,355		
Pincote Pavillion Restoration	18,523		18,523		
Pre-Plan ADS/Poultry	14,805,375		14,805,375		
Wetlands Project	2,600,760			2,600,760	
NSPARC Data Center	3,082,557			3,082,557	
Reno Dudy Noble Field	37,189,557				37,189,557
Library Exhibit Project	1,447,471		1,366,458	81,013	
Raspet Renovation ACI Boeing	649,256			649,256	
<b>Total</b>	<b>\$115,666,559</b>	<b>\$288,000</b>	<b>\$45,890,808</b>	<b>\$16,298,194</b>	<b>\$53,189,557</b>

FY 2016

	Total Costs to Complete	Funded by Federal Sources	State Sources	Institutional Funds	Other
Hand Lab Safety Upgrades	\$59,560		\$59,560		
Lee Hall Renovations	142,438		142,438		
Classroom Bldg with Parking	13,990,999			13,990,999	
YMCA Renovation	9,519,211		9,506,311	12,900	
Library Expansion	4,892,016		3,796,144	1,095,872	
Engineering & Science Complex	30,000,000		13,000,000	1,000,000	16,000,000
South Campus Entrance (MDOT)	13,191,000		12,702,800	488,200	
Harned Teaching Lab Renovation	276,227			276,227	
Robert L. Jones Circle Extension	231,647			231,647	
Roberts Building Renovation	186,405			186,405	
Facilities Mgt Shop Building	275,411			275,411	
New Residence Hall North	7,904,053			7,904,053	
MDOT Blackjack Fence Project	355,049	288,000		67,049	
Wise Center Necropsy Renovation	32,884		32,884		
Wise Center Classroom Addition	6,424		6,424		
Preplan Meat Processing Bldg	7,297,476		7,297,476		
Pincote Pavillion Restoration	18,523		18,523		
Pre-Plan ADS/Poultry	10,244,413		10,244,413		
Wetlands Project	2,600,760			2,600,760	
North Hall - CAV	235,246				235,246
NSPARC Data Center	4,494,298			4,494,298	
Reno Dudy Noble Field	39,604,051				39,604,051
Library Exhibit Project	2,563,085		1,366,458	1,196,627	
<b>Total</b>	<b>\$148,121,176</b>	<b>\$288,000</b>	<b>\$58,173,431</b>	<b>\$33,820,448</b>	<b>\$55,839,297</b>

**NOTE 13**  
**PENSION PLAN**

Mississippi State University participates in the following separately administered plans maintained by 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, 2016 and 2015 for fiscal years 2017 and 2016, respectively.

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 board 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](http://www.pers.ms.gov).

**DISCLOSURE UNDER GASB 68**

The pension disclosures that follow for fiscal years 2017 and 2016 include all disclosures for GASB 68 using the latest valuation reports available (June 30, 2016). For fiscal year 2017, the measurement date for the PERS defined benefit plan is June 30, 2016. For fiscal year 2016, the measurement date for the PERS defined benefit plan is June 30, 2015. The University is presenting net pension liability as of June 30, 2016 and 2015 for the fiscal year 2017 and 2016 financials, respectively.

**(A) PERS DEFINED BENEFIT PLAN**  
**PLAN DESCRIPTION**

The Public Employees' Retirement System of Mississippi (PERS) 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% of their annual pay. The institution's contractually required contribution rate for the years ended June 30, 2017 and 2016, 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



**SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE PENSION**

Mississippi State University	2017	2016
Proportionate share of contributions	\$32,477,321	\$31,039,083
Allocation percentage of proportionate share of collective pension amount	3.223346%	3.154475%
Change in proportionate share of collective pension amount	0.068871%	0.043061%

**ASSET ALLOCATION**

ASSETS	Target Allocation	Long-term Expected	Real Rate of Return
U.S. Broad	34.00%		5.20%
International equity	19.00%		5.00%
Emerging markets equity	8.00%		5.45%
Fixed income	20.00%		0.25%
Real assets	10.00%		4.00%
Private equity	8.00%		6.15%
Cash	1.00%		-0.50%
<b>Total</b>	<b>100%</b>		

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**

Mississippi State University	2017	2016
Proportion of the net pension liability	3.223346%	3.154475%
Proportionate share of the net pension liability	\$575,770,041	\$487,619,653

**PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Mississippi State University	2017	2016
1% Decrease (6.75%)	\$738,266,283	\$642,727,267
Current Discount Rate (7.75%)	\$575,770,041	\$487,619,653
1% Increase (8.75%)	\$440,950,832	\$358,909,187

evaluates the assets of the plans based on a five-year smoothed expected return with 20% 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 3.0% 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 years ended June 30, 2017 and 2016 were \$31.9 million and \$32.5 million, respectively. The University's proportionate share was calculated on the basis of historical

contributions. Although GASB 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.

**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, 2017 and 2016 are summarized in the following table to the left.

**NET PENSION LIABILITY**

Mississippi State University's proportion of the net pension liability at June 30, 2017 and 2016 is shown in the table to the left.

**DISCOUNT RATE**

For the years ended June 30, 2017 and 2016, 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 years ended June 30, 2017 and 2016. 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 above and to the left presents Mississippi State University's proportionate share of the net pension liability of the cost-sharing plan for 2017 and 2016, 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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The latest experience study was performed after the June 30, 2016 valuation was complete; it covers the four-year period from July 1, 2012 to June 30, 2016 and was issued on April 18, 2017.

The table below provides a summary of the actuarial methods and assumptions used to determine the contribution rate reported

for PERS for the years ended June 30, 2017 and 2016.

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016 with male rates set forward one year.

#### PENSION EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the years ended June 30, 2017 and 2016, Mississippi State University's proportionate share of pension expense was \$69.9 million and \$46.4 million, respectively, related to the PERS defined benefit plan. Deferred outflows of resources were related to differences between expected and actual experience, differences between projected and actual investment earnings and contributions made after the measurement 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

### ACTUARIAL ASSUMPTIONS

Valuation date	2017	2016
Measurement date	June 30, 2016	June 30, 2015
Actuarial cost method	Market value	Market value
<b>Actuarial assumption:</b>		
Inflation	3.00%	3.00%
Project salary increase	3.75%	3.75%
Investment rate of return	7.75%	7.75%

### DEFERRED OUTFLOWS & INFLOWS OF RESOURCES 2017

Deferred Outflows of Resources						Deferred Inflows of Resources		
Differences between expected and actual experience	Change of assumption	Changes in proportion and differences between Employer contributions and proportionate share of contributions	Contributions subsequent to the measurement date	Differences between expected and actual experience	Total deferred outflows of resources	Net difference between projected and actual investment earnings on pension plan investments	Change of assumption	Total
								deferred inflows of resources
\$16,056,978	\$27,138,299	\$10,791,874	\$32,311,407	\$38,998,793	\$125,297,351	-	\$1,529,728	\$1,529,728

### DEFERRED OUTFLOWS & INFLOWS OF RESOURCES 2016

Deferred Outflows of Resources						Deferred Inflows of Resources		
Differences between expected and actual experience	Change of assumption	Changes in proportion and differences between Employer contributions and proportionate share of contributions	Contributions subsequent to the measurement date	Differences between expected and actual experience	Total deferred outflows of resources	Net difference between projected and actual investment earnings on pension plan investments	Change of assumption	Total
								deferred inflows of resources
\$11,276,490	\$42,006,774	\$6,830,389	\$32,082,720	-	\$92,196,373	\$12,528,421	-	\$12,528,421



## NOTES TO FINANCIAL STATEMENTS

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.

At June 30, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources shown on page 31.

Contributions subsequent to the measurement date of \$31,507,695 and \$32,082,720 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the years ended June 30, 2017 and 2016, respectively.

Other amounts reported as net deferred outflows of resources and net deferred inflows of resources related to pensions as of June 30, 2017, will be recognized in pension expense as shown in the table below.

### (8) 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 IHL System 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 IHL System 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. Mississippi State University's contributions to the ORP for the years ended June 30, 2017 and 2016 were \$14 million and \$13.7 million, respectively, which equaled its required contribution for the period.

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION: JUNE 30, 2017

#### (1) Schedule of Proportionate Share of Net Pension Liability

This schedule presents historical trend information about Mississippi State 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.

#### (2) Schedule of Proportionate Share of the University's Contributions

The required contributions and percentage of those contributions actually made are presented in the schedule. Trend information will be accumulated to display a ten-year presentation.

#### (3) Changes in Assumptions and Benefit Terms

Changes of assumptions: In 2016, the assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

Changes of benefit terms: Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

### NOTE 14 DONOR RESTRICTED ENDOWMENTS

The net appreciation (depreciation) on investments of donor restricted endowments that is available for appropriation for expenditure as of June 30, 2017 and 2016 was \$999,917 and (\$892,730), respectively. These amounts are included in the accompanying statements of net position in "restricted - expendable for other purposes" and "restricted - expendable for scholarships and fellowships."

Most endowments operate on the total return concept as permitted by the Uniform Management of Institutional Funds Act (Sections 79 11 601 through 79 11 617, MS Code, Ann. 1972) as enacted in 1998. The annual spending rate for these endowments is 5% of the three year moving average market value.

### NOTE 15 FEDERAL LOAN PROGRAM DISBURSEMENTS

The University distributed \$123,660,636 and \$116,191,575 for the years ended June 30, 2017 and 2016, respectively, for student loans through the U.S. Department of Education lending programs. These distributions and their related funding sources are included as cash flows from capital and noncapital financing activities in the statements of cash flows.

### NOTE 16 WORKERS' COMPENSATION, UNEMPLOYMENT, AND TORT LIABILITY FUNDS

Several types of risk are inherent in the operation of an institution of higher learning. There are several methods in which the institution can mitigate the risks. One of these methods is the pooling of resources among the institutions. The University and

## DEFERRED OUTFLOWS & INFLOWS OF RESOURCES

Deferred outflow of resources year ended June 30						
	2018	2019	2020	2021	2022	Total
Mississippi State University	24,992,169	24,644,384	19,837,650	14,413,755	9,097,986	92,985,944
Deferred inflow of resources year ended June 30						
	2018	2019	2020	2021	2022	Total
Mississippi State University	439,577	439,577	439,577	210,997	-	1,529,728

the other member institutions have pooled their resources to establish professional and general liability trust funds. Funds have been established for Workers' Compensation, Unemployment, and Tort Liability.

The Workers' Compensation Program provides a mechanism for the institutions to fund and budget for the costs of providing worker compensation benefits to eligible employees. The program does not pay benefits directly to employees. Funds are set aside in trust and a third party administrator is utilized to distribute the benefits to eligible employees. Payments by the University to the Workers' Compensation Fund totaled approximately \$998,335 and \$1,241,729 for the fiscal year ended June 30, 2017 and 2016, respectively.

The Unemployment Trust Fund operates in the same manner as the Workers' Compensation Program. The Fund does not pay benefits directly to former employees. The Unemployment Fund reimburses the Mississippi Employment Security Commission for benefits that the Commission pays directly to former employees. Payments by the University to the Unemployment Trust Fund totaled approximately \$224,662 and \$271,106 for the fiscal year ended June 30, 2017 and 2016, respectively.

The Tort Liability Fund was established in accordance with Section 11 46 of Mississippi State Law. The Mississippi Tort Claims Board has authorized the Board of Trustees of State Institutions of Higher Learning (IHL Board) to establish a fund in order to self insure certain portions of its liability under the Mississippi Tort Claims Act. Effective July 1, 1993, Mississippi statute permitted tort claims to be filed against public institutions. A maximum liability limit of \$500,000 per occurrence is currently permissible. The IHL Board has authorized the Tort Liability Fund to acquire an educator's legal liability policy with a deductible of \$1,000,000. Further, the IHL Board has designated that \$1,000,000 be reserved from the IHL Tort Liability Fund Net Assets to be used towards any future payment of this insurance deductible. The IHL Tort Liability claims pool also purchases insurance premiums for fleet automobile



## CONDENSED COMBINING INFORMATION

Total Current Assets	2017	2016
Total Noncurrent Assets	\$333,885,000	\$317,520,000
<b>Total Assets</b>	<b>\$333,885,000</b>	<b>\$317,520,000</b>
Total Current Liabilities	\$9,940,000	\$11,225,000
Total Noncurrent Liabilities	323,945,000	306,295,000
<b>Total Liabilities</b>	<b>\$333,885,000</b>	<b>\$317,520,000</b>
Total Net Position	\$0	\$0
Total Operating Revenues		
Total Operating Expenses		
<b>Operating Income (Loss)</b>	<b>\$0</b>	<b>\$0</b>
Total Nonoperating Revenues	\$13,984,374	\$14,483,453
Total Nonoperating Expenses	13,984,374	14,483,453
<b>Change in Net Position</b>	<b>\$0</b>	<b>\$0</b>

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 \$838,125 and \$985,054 for the fiscal years ended June 30, 2017 and 2016, respectively.

### NOTE 17 AFFILIATED ORGANIZATIONS

The University has seven affiliated organizations that were evaluated in accordance with GASB Statement No. 61, The Financial Reporting Entity: Omnibus, which the University adopted on July 1, 2012. These organizations were formed exclusively for the benefit of the University and serve to promote, encourage, and assist with educational, scientific, literary, research, athletic, facility improvement, and service activities of the University and its affiliates. These organizations include the Mississippi State University Educational Building Corporation,

Mississippi State University Foundation, Inc., Mississippi State University Alumni Foundation, Inc., Mississippi State University Research Technology Corporation, The Bulldog Club, Inc., The Bulldog Foundation, Inc., and Mississippi State University Alumni Association. These affiliated entities are audited separately and, with the exception of the Mississippi State University Foundation and Mississippi State University Educational Building Corporation, have not been included in these financial statements. Therefore, the financial statements include the operations of the University, the Mississippi State University Foundation, and the Educational Building Corporation. The Mississippi State University Foundation financial statements are presented discreetly following the University's financial statements. In accordance with paragraph 54a of GASB Statement No. 61, the Educational Building Corporation is reported as a blended component unit. Required condensed combining information is presented above.



NOTES TO FINANCIAL STATEMENTS



**MISSISSIPPI STATE**  
UNIVERSITY™

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**  
**JUNE 30, 2017 AND 2016**  
**(WITH INDEPENDENT AUDITORS' REPORT THERON)**

**THE MSU FOUNDATION**  
**P.O. BOX 6149, MISSISSIPPI STATE, MS 39762**  
**[WWW.MSUFUNDATION.COM](http://WWW.MSUFUNDATION.COM)**





**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Financial Statements

June 30, 2017 and 2016

(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, 2017 and 2016, 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, 2017 and 2016, 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  
November 1, 2017



**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Statements of Financial Position

June 30, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash	\$ 3,129,779	2,604,925
Restricted cash	5,572,458	5,695,276
Accrued interest, other receivables and prepaid assets	203,389	261,465
Receivable from MSU Alumni Association	141,336	122,545
Pledges receivable, net (note 3)	39,461,790	38,418,418
Investments (notes 2 and 6)	447,946,013	410,573,276
Present value of amounts due from externally managed trusts	50,228,587	46,924,276
Land, buildings, and equipment (note 4)	8,533,398	8,968,555
<b>Total assets</b>	<b>\$ 555,216,750</b>	<b>513,568,736</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,037,217	1,537,647
Agency payable	5,572,458	5,695,276
Liabilities under split interest agreements	4,990,708	4,865,825
Payable to Mississippi State University	595,766	31,716
<b>Total liabilities</b>	<b>12,196,149</b>	<b>12,130,464</b>
Net assets:		
Unrestricted:		
Net assets attributable to the Foundation	41,665,507	37,520,770
Net assets attributable to noncontrolling interests (note 1(g))	44,286,842	42,419,717
<b>Total unrestricted net assets</b>	<b>85,952,349</b>	<b>79,940,487</b>
Temporarily restricted (note 5)	103,032,871	81,381,257
Permanently restricted (note 5)	354,035,381	340,116,528
<b>Total net assets</b>	<b>543,020,601</b>	<b>501,438,272</b>
<b>Total liabilities and net assets</b>	<b>\$ 555,216,750</b>	<b>513,568,736</b>

See accompanying notes to consolidated financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Statement of Activities

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>21,670,106</u>	<u>(21,670,106)</u>	<u>—</u>	<u>—</u>
Total revenues and support	<u>47,777,415</u>	<u>21,651,614</u>	<u>13,918,853</u>	<u>83,347,882</u>
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	<u>596,002</u>	<u>—</u>	<u>—</u>	<u>596,002</u>
Total program services	<u>32,317,500</u>	<u>—</u>	<u>—</u>	<u>32,317,500</u>
Supporting services:				
General and administrative	3,710,588	—	—	3,710,588
Fund raising	<u>4,031,605</u>	<u>—</u>	<u>—</u>	<u>4,031,605</u>
Total supporting services	<u>7,742,193</u>	<u>—</u>	<u>—</u>	<u>7,742,193</u>
Total expenditures	<u>40,059,693</u>	<u>—</u>	<u>—</u>	<u>40,059,693</u>
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))	<u>(3,572,985)</u>	<u>—</u>	<u>—</u>	<u>(3,572,985)</u>
Change in net assets attributable to the Foundation	<u>\$ 4,144,737</u>	<u>21,651,614</u>	<u>13,918,853</u>	<u>39,715,204</u>

See accompanying notes to consolidated financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Statement of Activities

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contributions	\$ 10,321,315	14,343,881	19,193,333	43,858,529
Net investment income (loss) (note 2)	(4,587,861)	(11,125,017)	1,412,803	(14,300,075)
Change in value of split interest agreements	—	14,463	(1,702,292)	(1,687,829)
Other	4,966,922	68,379	15,585	5,050,886
Net assets released from restrictions	<u>30,004,243</u>	<u>(30,004,243)</u>	<u>—</u>	<u>—</u>
Total revenues and support	<u>40,704,619</u>	<u>(26,702,537)</u>	<u>18,919,429</u>	<u>32,921,511</u>
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	36,763,705	—	—	36,763,705
Contributions and support for Bulldog Club	900,870	—	—	900,870
Contributions and support for MSU Alumni Association	<u>586,900</u>	<u>—</u>	<u>—</u>	<u>586,900</u>
Total program services	<u>38,251,475</u>	<u>—</u>	<u>—</u>	<u>38,251,475</u>
Supporting services:				
General and administrative	3,627,492	—	—	3,627,492
Fund raising	<u>3,898,054</u>	<u>—</u>	<u>—</u>	<u>3,898,054</u>
Total supporting services	<u>7,525,546</u>	<u>—</u>	<u>—</u>	<u>7,525,546</u>
Total expenditures	<u>45,777,021</u>	<u>—</u>	<u>—</u>	<u>45,777,021</u>
Change in net assets before noncontrolling interests and merger with MSU Alumni Foundation	(5,072,402)	(26,702,537)	18,919,429	(12,855,510)
Change in net assets attributable to noncontrolling interests (note 1(g))	1,965,647	—	—	1,965,647
Change in net assets related to merger with MSU Alumni Foundation (note 1(a))	<u>—</u>	<u>8,176,682</u>	<u>5,832,543</u>	<u>14,009,225</u>
Change in net assets attributable to the Foundation	<u>\$ (3,106,755)</u>	<u>(18,525,855)</u>	<u>24,751,972</u>	<u>3,119,362</u>

See accompanying notes to consolidated financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2017 and 2016

	<b>Unrestricted net assets attributable to the Foundation</b>	<b>Unrestricted net assets attributable to noncontrolling interests</b>	<b>Total unrestricted net assets</b>	<b>Temporarily restricted net assets</b>	<b>Permanently restricted net assets</b>	<b>Total net assets</b>
Net assets as of June 30, 2015	\$ 40,627,525	59,352,202	99,979,727	99,907,112	315,364,556	515,251,395
Change in net assets from statement of activities	(3,106,755)	(1,965,647)	(5,072,402)	(26,702,537)	18,919,429	(12,855,510)
Change in net assets related to merger with MSU Alumni Foundation (note 1(a))	—	(14,009,225)	(14,009,225)	8,176,682	5,832,543	—
Proceeds from noncontrolling interests	—	100,000	100,000	—	—	100,000
Payments to noncontrolling interests	—	(1,057,613)	(1,057,613)	—	—	(1,057,613)
Change in total net assets	<u>(3,106,755)</u>	<u>(16,932,485)</u>	<u>(20,039,240)</u>	<u>(18,525,855)</u>	<u>24,751,972</u>	<u>(13,813,123)</u>
Net assets as of June 30, 2016	<u>37,520,770</u>	<u>42,419,717</u>	<u>79,940,487</u>	<u>81,381,257</u>	<u>340,116,528</u>	<u>501,438,272</u>
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	<u>4,144,737</u>	<u>1,867,125</u>	<u>6,011,862</u>	<u>21,651,614</u>	<u>13,918,853</u>	<u>41,582,329</u>
Net assets as of June 30, 2017	\$ <u>41,665,507</u>	<u>44,286,842</u>	<u>85,952,349</u>	<u>103,032,871</u>	<u>354,035,381</u>	<u>543,020,601</u>

See accompanying notes to consolidated financial statements.

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets before noncontrolling interests and merger with the MSU Alumni Foundation	\$ 43,288,189	(12,855,510)
Adjustments to reconcile change in net assets before noncontrolling interests and merger in the MSU Alumni Foundation to net cash provided by (used in) operating activities:		
Depreciation	487,205	500,615
Loss on disposal of land, buildings, and equipment	3,620	—
Realized and unrealized (gains) losses on investments, net	(26,510,767)	22,795,076
Change in value of internally managed split interest agreements	250,956	598,916
Fair value of donated investments	(247,256)	(1,429,677)
Change in accrued interest, other receivables and prepaid assets	58,076	(82,259)
Change in pledges receivable, net	(1,043,372)	(2,986,123)
Change in externally managed trusts	(3,304,311)	(6,693,283)
Change in accounts payable and accrued liabilities	(500,430)	(1,820,743)
Change in payable to Mississippi State University	564,050	(61,691)
Change in receivable from MSU Alumni Foundation	—	225,844
Change in receivable from MSU Alumni Association	(18,791)	17,041
Permanently restricted contributions	<u>(11,480,495)</u>	<u>(15,129,628)</u>
Net cash provided by (used in) operating activities	<u>1,546,674</u>	<u>(16,921,422)</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(55,668)	(133,867)
Purchases of investments	(192,835,761)	(96,301,587)
Proceeds from sales and maturities of investments	<u>182,221,047</u>	<u>98,238,732</u>
Net cash (used in) provided by investing activities	<u>(10,670,382)</u>	<u>1,803,278</u>
Cash flows from financing activities:		
Permanently restricted contributions	11,480,495	15,129,628
New liabilities under split interest agreements	477,336	104,691
Payments to split interest agreement beneficiaries	(603,409)	(632,731)
Proceeds from noncontrolling interests	—	100,000
Payments to noncontrolling interests	<u>(1,705,860)</u>	<u>(1,057,613)</u>
Net cash provided by financing activities	<u>9,648,562</u>	<u>13,643,975</u>
Net increase (decrease) in cash	524,854	(1,474,169)
Cash at beginning of year	<u>2,604,925</u>	<u>4,079,094</u>
Cash at end of year	\$ <u><u>3,129,779</u></u>	<u><u>2,604,925</u></u>

See accompanying notes to consolidated financial statements.



# MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016

### (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.

The Board of Trustees of the State of Mississippi Institutions of Higher Learning (IHL) provides oversight and governance for Mississippi's eight public higher education institutions. In reaction to a number of challenges arising at certain other institutions under its control, the IHL began more than ten years ago to exercise increased scrutiny and oversight of each institution's affiliated organizations. As a part of this effort, IHL expected each institution to reduce the number of affiliated foundations and organizations to the extent possible. As a result of this mandate, during the fiscal year 2015, the Mississippi State University Foundation, Inc. and the Mississippi State University Alumni Foundation, Inc. voted to merge into a single organization, with the Mississippi State University Foundation, Inc. being the surviving corporation. This merger was effected on July 1, 2015, at 12:01 a.m. As the MSU Alumni Foundation's sole asset was a noncontrolling interest in the investment pool discussed in note 1(g), the transaction was recorded in the consolidated financial statements of the Foundation as a decrease to net assets related to noncontrolling interests and an increase to temporarily and permanently restricted net assets.

#### (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

## MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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 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

## MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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 not 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 each fund's inflation-adjusted impact. The Foundation diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are

## MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

### Notes to Consolidated Financial Statements

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authorized by the Foundation's Investment Committee, which oversees its investment program in accordance with an established investment policy.

(ii) *Mississippi State Investment Pool*

The Foundation, the University, and the MSU Bulldog Club, Inc. are participants in a joint venture, the Mississippi State Investment Pool (MSIP), whereby certain assets are pooled for investment purposes. The Mississippi State University Alumni Association, Inc. was added as a participant on March 2, 2015 and MSU Alumni Foundation ceased to participate, effective July 1, 2015, in the MSIP as a result of the merger discussed at note 1(a). The Foundation is the investment pool's managing member, manages the assets of the pool, 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 89% as of both June 30, 2017 and 2016, the Foundation has consolidated the MSIP, reflecting the noncontrolling interests of the other participants in the consolidated financial statements. As of June 30, 2017 and 2016, the Foundation's consolidated financial statements include net assets totaling \$44,286,842 and \$42,419,717, respectively, related to these noncontrolling interests. The Foundation recorded \$3,572,985 and \$(1,965,647) of investment gains (losses) attributable to these noncontrolling interests for fiscal 2017 and 2016, respectively, which is reported in net investment income (loss).

(iii) *Allocation of Investment Strategies*

The Foundation invests in four broad asset classes: global fixed income, global equities, real assets, and diversifying strategies. Global fixed income investments consist of both interest rate sensitive and credit sensitive publicly traded credit securities. Global equities consist of domestic and international equity securities, as well as a number of private equity and hedged equity strategies. The private equity funds employ buyout and venture capital strategies and focus on investments in turn-around and start-up situations. The hedged equity strategies include a long-short equity fund of funds. Real assets include investments in a timber management organization, mid-stream MLPs, and upstream energy investments. Diversifying strategies include a variety of nontraditional investments designed specifically to dampen portfolio volatility. These strategies may include investments in stock, bonds, put or call options, swaps, currency hedges, and other instruments. Private equity, real asset strategies, and diversifying 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.

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#### *(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, 2017 and 2016, 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, 2017 and 2016 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, 2017 and 2016 was \$2,416,888 and \$4,847,904, respectively.

## MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

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#### **(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, 2017 and 2016, 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**

In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2015-07). This ASU eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at NAV per share (or its equivalent) using the practical expedient as discussed in FASB Subtopic 820-10. Retrospective application to all prior periods presented in the notes to the financial statements is required. The Foundation early adopted the ASU as of June 30, 2017 and retrospectively applied the ASU to all periods presented.

The FASB issued ASU No. 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.

#### **(m) Subsequent Events**

The Foundation evaluated all events or transactions that occurred after June 30, 2017, through November 1, 2017, the date the consolidated financial statements were available to be issued. During this period, there were no material subsequent events that required recognition or disclosure recognition in the Foundation's June 30, 2017 consolidated financial statements.

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**(2) Investments**

Investments are summarized as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Short-term investments	\$ 4,970,398	12,662,623
Global fixed income	104,782,601	99,791,850
Global equities	167,391,227	147,058,787
Real assets	57,370,014	51,271,823
Diversifying strategies	84,407,980	69,854,199
Contributed properties held for investment	27,098,091	28,069,571
Cash-surrender value of life insurance	<u>1,925,702</u>	<u>1,864,423</u>
	<u>\$ 447,946,013</u>	<u>410,573,276</u>

Total investments include amounts related to noncontrolling interests (note 1(g)) included within the accompanying consolidated financial statements totaling \$44,286,842 and \$42,419,717 as of June 30, 2017 and 2016, respectively.

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, 2017 and 2016 with an approximate fair value of \$6,291,700 and \$5,773,000, respectively.

The following schedule summarizes net investment income (loss) in the consolidated statements of activities for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Dividends and interest (net of expenses of \$622,734 and \$600,464, respectively)	\$ 9,224,412	8,495,001
Net realized and unrealized gains (losses)	<u>26,510,767</u>	<u>(22,795,076)</u>
	<u>\$ 35,735,179</u>	<u>(14,300,075)</u>

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Notes to Consolidated Financial Statements

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**(3) Pledges Receivable**

Pledges receivable, net, are summarized as follows at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 15,155,335	12,680,121
One year to five years	24,332,145	25,040,731
Over five years	<u>5,920,633</u>	<u>6,688,540</u>
	45,408,113	44,409,392
Less unamortized discount (rates ranging from 1% to 5%)	<u>(4,980,360)</u>	<u>(5,129,317)</u>
	40,427,753	39,280,075
Less allowance for uncollectible pledges	<u>(965,963)</u>	<u>(861,657)</u>
	<u>\$ 39,461,790</u>	<u>38,418,418</u>

**(4) Land, Buildings, and Equipment**

Land, buildings, and equipment are summarized as follows at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land and buildings	\$ 12,147,987	12,147,987
Furniture, fixtures, and equipment	<u>8,566,835</u>	<u>8,541,934</u>
	20,714,822	20,689,921
Less accumulated depreciation	<u>(12,181,424)</u>	<u>(11,721,366)</u>
	<u>\$ 8,533,398</u>	<u>8,968,555</u>

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Notes to Consolidated Financial Statements

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**(5) Net Assets**

Temporarily restricted net assets and permanently restricted net assets at June 30, 2017 and 2016 were available for the following purposes:

	2017		2016	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Specified college programs	\$ 29,855,507	114,546,614	23,579,108	108,408,786
Student financial aid	47,917,351	156,816,084	36,241,617	149,636,756
Research	1,483,789	16,433,426	1,031,166	16,427,654
Faculty and staff support	6,365,253	50,204,435	5,213,478	49,882,310
Facilities	10,803,829	7,015,463	9,529,267	7,005,463
Other	6,607,142	9,019,359	5,786,621	8,755,559
<b>Total</b>	<b>\$ 103,032,871</b>	<b>354,035,381</b>	<b>81,381,257</b>	<b>340,116,528</b>

**(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, 2017 and 2016:

	2017				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Recurring:						
Short-term investments	\$ 4,970,398	—	—	4,970,398	Daily	1
Global fixed income:						
Interest-rate sensitive	93,412,038	11,370,563	—	104,782,601	Daily	1
Total global fixed income	93,412,038	11,370,563	—	104,782,601		
Global equities:						
Domestic	81,576,176	9,402,279	—	90,978,455	Daily	1-3
Non-U.S.	51,824,438	—	—	51,824,438	Daily	1
Total global equities	133,400,614	9,402,279	—	142,802,893		
Contributed properties held for investment	—	—	27,098,091	27,098,091	(1)	(1)
Cash-surrender value of life insurance	—	1,925,702	—	1,925,702	(2)	(2)
	\$ 231,783,050	22,698,544	27,098,091	281,579,685		
Investments at net asset value				166,366,328		
Total investments				\$ 447,946,013		
Present value of amounts due from externally managed trusts	\$ —	—	50,228,587	50,228,587		

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	2016				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Recurring:						
Short-term investments	\$ 12,662,623	—	—	12,662,623	Daily	1
Global fixed income:						
Interest-rate sensitive	59,272,948	11,779,926	—	71,052,874	Daily	1
Credit sensitive	28,738,976	—	—	28,738,976	Daily	1
Total global fixed income	88,011,924	11,779,926	—	99,791,850		
Global equities:						
Domestic	50,985,254	7,941,732	—	58,926,986	Daily	1-3
Non-U.S.	66,648,843	—	—	66,648,843	Daily	1
Total global equities	117,634,097	7,941,732	—	125,575,829		
Contributed properties held for investment	—	—	28,069,571	28,069,571	(1)	(1)
Cash-surrender value of life insurance	—	1,864,423	—	1,864,423	(2)	(2)
	\$ 218,308,644	21,586,081	28,069,571	267,964,296		
Investments at net asset value				142,608,980		
Total investments				\$ 410,573,276		
Present value of amounts due from externally managed trusts	\$ —	—	46,924,276	46,924,276		

(1) Bulldog Forest properties totaling approximately \$20,237,000 and \$19,700,000 at June 30, 2017 and 2016, respectively, may be held in perpetuity or liquidated at the Foundation's discretion. Other properties are for immediate sale.

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

The following table presents the Foundation's activities for the years ended June 30, 2017 and 2016 for contributed properties held for investment classified as Level 3:

	2017	2016
Balance, beginning of year	\$ 28,069,571	30,980,754
Acquisitions	247,256	1,429,677
Dispositions	(1,146,415)	(5,815,100)
Net realized and unrealized gains (losses)	(72,321)	1,474,240
Balance, end of year	\$ 27,098,091	28,069,571

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For the years ended June 30, 2017 and 2016, the changes in present value of amounts due from externally managed trusts classified as Level 3 are as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 46,924,276	40,230,993
Contributions	4,158,535	7,816,516
Terminations	(3,256,559)	—
Change in valuation	<u>2,402,335</u>	<u>(1,123,233)</u>
Balance, end of year	\$ <u>50,228,587</u>	<u>46,924,276</u>

**(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, note receivable, other receivables, accounts payable and accrued liabilities, and payable to Mississippi State University approximate fair value because of the short-term maturity of these instruments.

**(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 nearly 1,400 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

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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 (semi-annually for 2015), 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 portion of the funding mechanism for the operations of the Foundation.

#### **(c) Investment Policy**

The Foundation's investment objectives are to provide an annualized real (adjusted for inflation) rate of return of 5.50% or more in order to preserve, or increase, the purchasing power of endowment capital, while generating an income stream to support activities of the funds held for the colleges and units of

**MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

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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 the MSIP, targets a diversified asset allocation that includes global fixed income, global equities, real assets, and diversifying strategies to achieve long-term objectives within prudent risk constraints.

Endowment net asset composition by type of fund as of June 30, 2017 and 2016:

		<b>2017</b>			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$	(828,814)	42,860,804	292,785,696	334,817,686
Board-designated endowment funds		<u>19,382,126</u>	—	—	<u>19,382,126</u>
Total funds	\$	<u>18,553,312</u>	<u>42,860,804</u>	<u>292,785,696</u>	<u>354,199,812</u>
		<b>2016</b>			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$	(2,568,829)	30,930,493	280,205,092	308,566,756
Board-designated endowment funds		<u>19,749,177</u>	—	—	<u>19,749,177</u>
Total funds	\$	<u>17,180,348</u>	<u>30,930,493</u>	<u>280,205,092</u>	<u>328,315,933</u>

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Changes in endowment net assets for the fiscal years ended June 30, 2017 and 2016:

	<b>2017</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	
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)	<u>1,253,582</u>	<u>23,630,858</u>	<u>(94,011)</u>	<u>24,790,429</u>
Total investment return	<u>2,193,565</u>	<u>26,758,422</u>	<u>(94,011)</u>	<u>28,857,976</u>
Contributions	—	—	8,015,607	8,015,607
Appropriation of endowment assets for expenditure	(793,821)	(15,216,630)	—	(16,010,451)
Change in split interest agreements	—	—	4,659,008	4,659,008
Other	<u>(26,780)</u>	<u>388,519</u>	<u>—</u>	<u>361,739</u>
Endowment net assets, end of year	\$ <u><u>18,553,312</u></u>	<u><u>42,860,804</u></u>	<u><u>292,785,696</u></u>	<u><u>354,199,812</u></u>

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	2016			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 21,010,988	48,813,760	257,042,208	326,866,956
Investment return:				
Investment income	827,238	3,640,584	—	4,467,822
Net appreciation (depreciation) (realized and unrealized)	<u>(4,046,839)</u>	<u>(15,668,374)</u>	<u>1,412,803</u>	<u>(18,302,410)</u>
Total investment return	<u>(3,219,601)</u>	<u>(12,027,790)</u>	<u>1,412,803</u>	<u>(13,834,588)</u>
Contributions	—	—	14,801,649	14,801,649
Appropriation of endowment assets for expenditure	(759,733)	(14,234,163)	—	(14,993,896)
Change in split interest agreements	148,694	202,004	1,115,889	1,466,587
Other	<u>—</u>	<u>8,176,682</u>	<u>5,832,543</u>	<u>14,009,225</u>
Endowment net assets, end of year	\$ <u>17,180,348</u>	<u>30,930,493</u>	<u>280,205,092</u>	<u>328,315,933</u>

**(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 \$828,814 and \$2,568,829 as of June 30, 2017 and 2016, 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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